



*Abstract: Food processing is important to the Zambian economy and entails a set of options for local firms to grow and create employment given the growth potential the country possesses in agriculture. This policy brief summarizes the findings of a study of 38 Zambian owned firms in the food processing industry. The study, which is the first of its kind in Zambia, reveals that a major part of the interviewed firms find that they have performed above industry average the last five year. A minor part states performance below industry average. Close to 80% of the firms views government and business associations to provide insufficient support to the sector. In conclusion, various ways forward are suggested.*

## **Introduction: Agriculture and development**

Development in agriculture is closely linked to economic development, food security and poverty reduction. Agriculture was a priority to most developing countries at independence in order to secure sufficient food supplies for the nations. However, agriculture was often viewed as a 'backward' sector deducting profits to be utilised in a 'modern' manufacturing sector. Developing country governments often took control of these processes through state ownership of key parts of the agricultural value chain (handling supplies and farmers extension services to agriculture, procurement, selling and distribution of crops). In addition, price ceilings were enforced on a number of products.

During the 1980s and 1990s the developing country governments were forced to give up the control and hand over responsibility to private sector actors. Still, some governments

maintained control of some parts of the agricultural value chain. In addition, priorities shifted towards infrastructure, and to some extent health and education, leaving farmers with substantial unmet challenges.

At the turn of the millennium agriculture started to come back into fashion, viewed as 'agribusiness' emphasizing the farm as a business and linking agricultural produce to processing and manufacturing. In many cases this has provided options for large-scale local farmers to grow and prosper, while some local and foreign processors and retailers have taken a key role in organizing the agricultural supply chain. However, the weak role of the local private sector in many countries has meant that small- and medium-scale local firms have had difficulties in exploiting the options.

## **Agriculture and development in Zambia**

Though the Zambian economy was dominated by mining at the time of independence in 1964, agriculture also played an important role in terms of employment and food security. The development in the Zambian agricultural sector has been closely linked to other political and economic developments in the country. Agriculture (and processing of agricultural products) was for a long time perceived as a way to feed the masses in the urban areas. In order to facilitate this process, the agricultural policy in the years preceding multiparty Presidential and General elections in 1991 comprised comprehensive controls over pricing, marketing and financing. Meanwhile, it encouraged the

concentration of resources on the production and sale of maize.

Agriculture and agro-processing are important in the Zambian economy (contributing with 40 percent of GDP, 12 percent of exports earnings, and 67 percent of employment, respectively).

The food processing industry has been characterized by large monopolies in meat production, maize, sugar and milk, but is now undergoing change as the business environment has been opened up making new local and foreign companies enter the industry. Still, the former monopolies continue to have a major presence in some sub-sectors (meat, sugar).

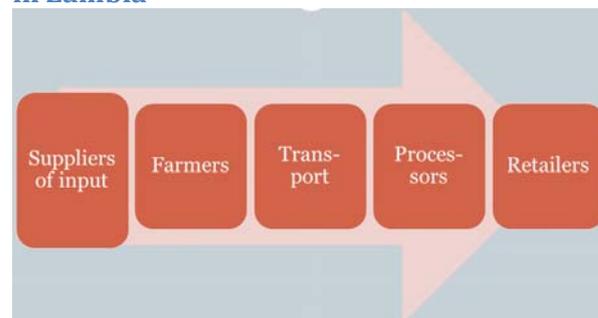
This policy brief presents the findings from the Successful African Firms in Institutional Change (SAFIC) project's survey of 38 Zambian owned food processors. The food processors operate in grain milling, dairy, edible oils, juices, jams and sauces. The food processors are mainly located in Lusaka and the Central Province. A few reside in Southern and Eastern Provinces of Zambia. The SAFIC project focuses on the challenges that Zambian-owned enterprises experience in their quest for success both vis-à-vis the other players in the sector (retailers, large supermarket chains etc.) and vis-à-vis the Zambian state (IGC, 2013)<sup>i</sup>.

### The Zambian Food Processing value chains

The food processing chains are basically consisting of five steps or processes beginning with delivery of input, continuing to production of food items, transport, processing and ending with consumption. All parts of the chains are located in Zambia with one or two exceptions. However, import of food processed outside Zambia does also take place to a large extent. Figure 1 illustrates the typical food processing value chain (see below).

Suppliers of input (seeds, fertilizers, pesticides etc.) constitute the first part of the food processing value chain. Here a number of large firms, foreign and local) sell to the farmers. The Zambian state has also had a significant presence through subsidies to maize farmers in the form of input packages.

**Figure 1: The Food processing value chains in Zambia**



Farmers then use the inputs and cultivate the land. Large farmers to an increasing extent use irrigation to ensure sufficient supply of water, while subsistence farmers often are reliant on the rain water.

To the extent that farmers do not bring their produce to the market, intermediate companies transport the crops to the processors and/or the retailers. Processors and retailers sometimes perform this task.

The food processors transform the raw materials into final products, while ensuring proper packaging. In some sub-sectors (meat and sugar), a high level of concentration is found, while concentration is much lower in others (like maize, ground nuts, edible oils, sauces and jams).

Finally, foreign retailers and supermarket chains (e.g. Shoprite, Spar, and Pick & Pay) handle the sales of the food products to the end consumer. The foreign firms have moved in and now control a major part of the sales. The firms also exercise substantial control on the rest of the chains (farmers and food processors) often and to an increasing extent based on particular standards. A major part of the products are imported.

As the state monopolies have been gradually abolished in the 1990s and 2000s, this has opened up the sub-sectors to smaller firms, local as well as foreign. The entry of the foreign supermarkets has also altered the balance of power in the chains. Nevertheless, the former state-owned enterprises have maintained dominant roles in each their sub-sector. Today, Zambef, Zam-Sugar, and National Milling

continue to have substantial market shares in their sub-sectors.

This combination of major reshuffling of the value chains has provided opportunities and challenges to the Zambian food processors. They now have to deal with a growing number of foreign firms and numerous standards which are imposed by the retailers/supermarkets located in Zambia.

### Zambian Food processors

Zambian-owned food processors operate in all kinds of sub-sectors (maize, edible oils, dairy, sauces, jams, snacks, fish, beverages and more).

The 38 food processing companies surveyed also differ in terms of sector, number of employees, turnover etc. About half of the companies were in grain milling (maize flour), about 25% were producing edible oils and dairy products and the remainder 25% were in sauces, jams, snacks, juices and other.

The suppliers include both small, medium and large-scale enterprises (number of permanent employees range from 11-600 most of whom are males) and yearly turnover (2012) range from Kwacha 800,000 to 2.6 billion Kwacha (with a mean turnover of 39 million Kwacha).

They also differ in terms of self-perception of performance: About half of the surveyed firms perceive that they perform above industry average, some 40 per cent perceive that they perform at industry average, and the rest feel that they perform below or well below industry average.

It is thus apparent that the local food suppliers in Zambia constitute a quite heterogeneous group where quite a number manage to grow despite the changing institutional environment while others struggle to keep afloat. Despite these differences they point to similar factors explaining growth and constraining it, respectively. Accordingly, the three most important factors explaining growth of the surveyed firms are in order of importance: 'The vision and leadership of the owner', 'Highly skilled and specialized employees', and 'A strong brand'. In contrast the three most important

factors constraining growth of the companies are: 'High cost of capital', 'High input costs', and 'Political interference in business'.

The high cost of capital is also reflected in 'starting capital' as well as 'operational capital' where only 13 percent of the companies mentioned that formal financial institutions were the most important source of capital when the company was founded (the most important ones being personal savings and 'family/friends'). Only 40 per cent of the companies perceive banks to be the most important source of operational capital (the rest is made up of personal savings, supplier credit, private money lenders, and lease finance).

**Table 1: Business strategies**

Strategy	Description
<b>Cost reduction</b>	Being able to sell at lower cost than competitors
<b>Differentiation</b>	Selling products at a premium due to a unique product and marketing characteristics
<b>Export</b>	Using export markets to grow

Despite their differences in terms of sector, size and performance, the surveyed firms stick to similar strategies in order to be (come) successful (see table 1). Most importantly, they adopt a cost reduction strategy. Then comes a differentiation strategy and thirdly an export strategy.

Even though export markets are (slowly) growing the food processors sell the vast majority of their products in the home market. Consequently, about 2/3 of the surveyed firms sell to supermarkets and a similar number to 'independent retailers.

They all buy and large supply to the domestic market. Nearly 80 per cent of the firms only supply to companies located in Zambia, while about 20% of the companies export. In terms of export, the main markets are neighbouring DRC and Zimbabwe.

About half of the firms seek to stay competitive through inventing new processes or products. A similar number upgrade processes or products. The majority of companies comply with either

‘mandatory’ or ‘voluntary’ standards of the sector.

### The institutional environment

The companies do not operate in a vacuum. During the interviews they all point to the changing institutional environment as the most challenging aspect of doing business in the food processing sector in Zambia.

Many firms find that government regulation and enforcement is inadequate, that infrastructure is inadequate and that government support is either insufficient or totally lacking (see table 2). The surveyed firms, however, also notice that institutions form a driver of firm development. This is especially the case for personal linkages, national government bodies, and business associations (see table 2).

**Table 2: institutional drivers and barriers for company development and growth**

Institutional drivers	Institutional barriers
Personal linkages/ networks	Insufficient/lacking government support
Adequate government regulation and enforcement	Inadequate infrastructure
Business associations	Inadequate government regulation and enforcement

The Ministry of Agriculture and the Ministry of Commerce, Trade and Industry are the most important government authorities in relation to the food processing. The aims of these ministries are to promote the growth of the agricultural, manufacturing and service sectors in Zambia. The Millers Association and the Zambia Dairy Processors Association are also of importance.

The lion’s share (about 80%) of the companies are members of business associations, but surprisingly nearly ¾ of the companies state that they do not benefit from any incentives/policies set in motion by these associations.

Linked hereto nearly 70% of the companies state that they do not know of any relevant support programs/schemes that could help them develop their companies. This is despite the fact that various programmes do exist. In addition, 1/3 had received trade incentives.

### Policy recommendations

Given the importance of agriculture and food processing it is crucial to build sustainable value chains, whether local or global. In order to do so, companies and institutions have to collaborate.

Specifically, the Government of Zambia has to draft an industrial policy that first of all, ensures to reserve certain products required by the retailers and end consumers to be supplied locally. Second, the policy needs to build capacity among the framers and the food processors in order for them to meet the quality standards required by the retailers, including improving reliability, lead times and efficiency. It is suggested that such this policy is drafted and implemented by a special unit within the Ministry of Agriculture and the Ministry of Commerce, Trade and industry.

In line with international experiences, it is important that all incentives schemes are time-limited, competitive and based strictly on performance. The idea is to pick ‘winners’, which in the medium-term will be able to ensure sustainable value chains – not to support all food processors nor all farmers.

This policy should also assist business associations play a more active role in providing relevant information to their members, building mutual trust between key stakeholders, and facilitating joint activities. This would enable local food processors to collaborate more intensively and thereby learn and in the longer run become more competitive.

### References

IGC (International Growth Center). (2013). *Enterprise Map of Zambia*. IGC, London, UK.

<sup>i</sup> The survey only includes food processors with more than five employees that have been in existence for more than five years and have majority Zambian ownership. The survey is based on a mapping exercise conducted in 2012-2013, which identified close to 100 companies in Lusaka, Central, Southern and Eastern Provinces. Almost ¼ turned out to be less than five years of age, while another ¼ were foreign owned.