

Suppliers to the mines in Zambia



SAFIC WORKSHOP

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The SAFIC supplier to the mines study I



- **Commodities and development**
 - Historical cases: Canada, Australia
 - Current cases: Chile, Norway, Botswana
- **Commodities and no development**
 - Poverty, inequality, civil wars...
- **Commodity super cycle**
-> renewed focus
 - Linkages are key



The SAFIC supplier to the mines study II



- Mapping exercise (2012-2013):
 - 69 companies in Lusaka, Central, Copperbelt and North-Western Provinces.
- Survey of 44 Zambian owned suppliers to the mines
 - Copperbelt and 'new' Copperbelt provinces
- Focus: challenges Zambian-owned enterprises experience in their quest for success vis-à-vis mines & state

(Well-known) Background

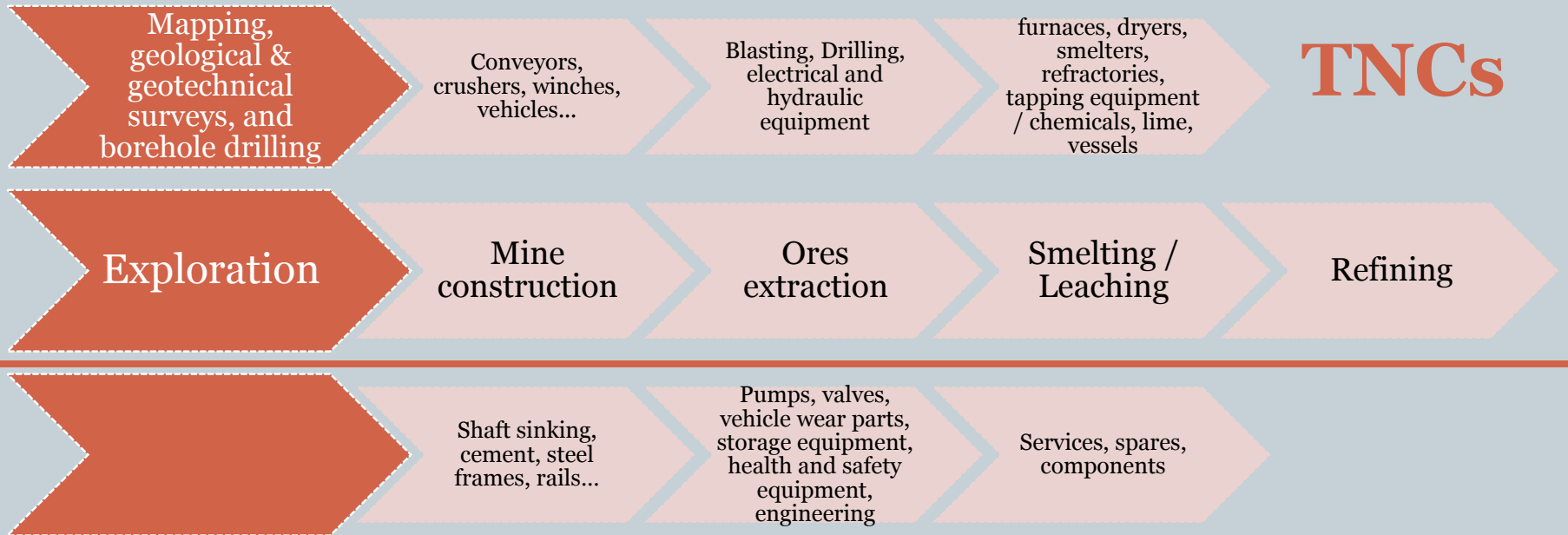


- Copper prod. makes up:
 - 70-78 % of Zambia's foreign exchange earnings
 - 70 % of total exports
- 6-9% growth rates for a decade
- Commodity boom → appreciation of the Kwacha
 - 5000 kwacha per USD in late 2004 to 3000 per USD in mid-2008
 - Other exports squeezed out
- Hardly any linkages to local companies

The Copper value chain I

Within Zambia

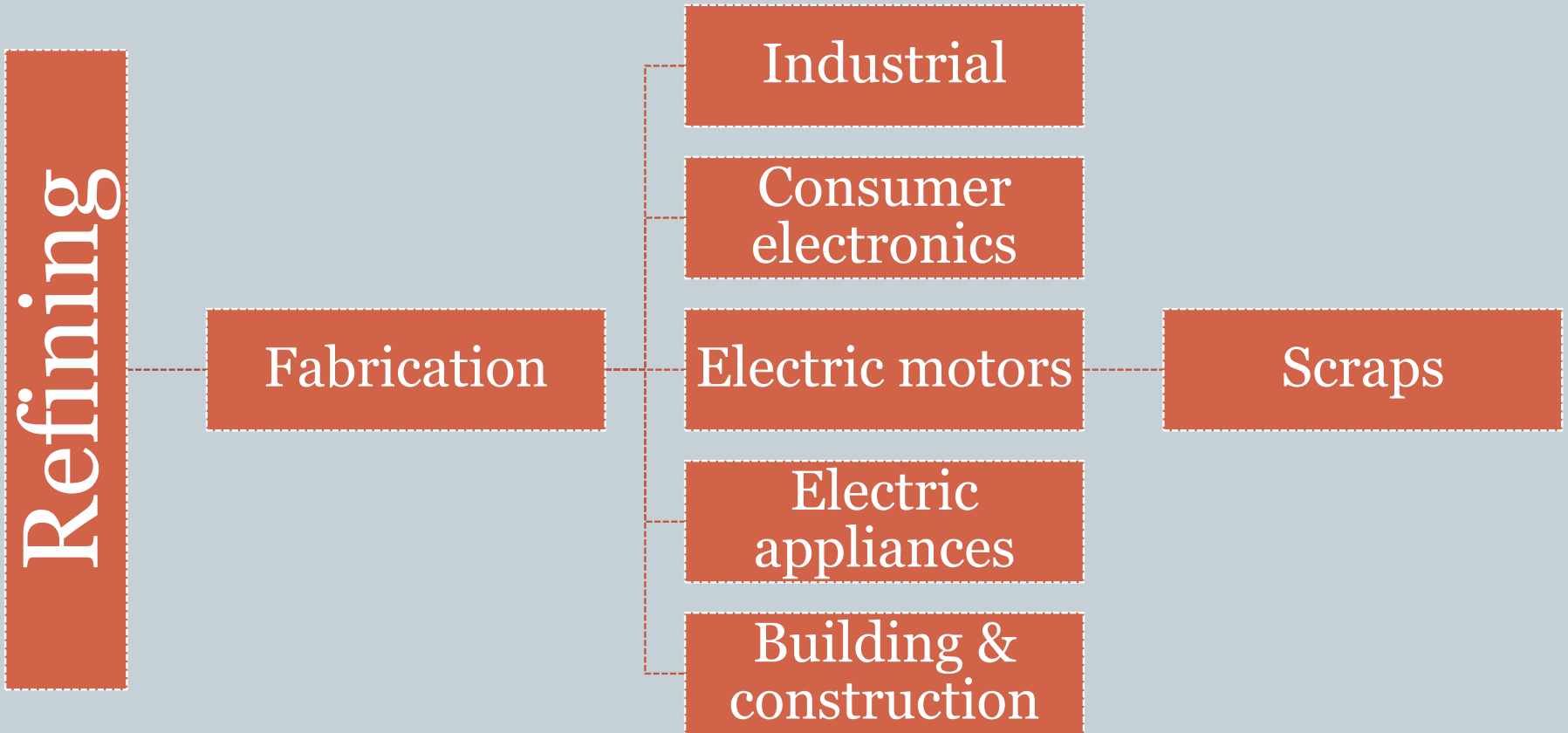
International, capital- and skills intensive OEMs



National, lower capital- and skills intensiveness,

The Copper Value Chain II

Outside Zambia



Suppliers to the mines: Great potentials



- Extensive supplier databases, e.g.
 - Lumwana's database include roughly 1000 companies
 - Mopani's > 1400
 - Konkola: 4-5000
- Huge sums spent in Z
 - Services, equipment, consumables
 - ✦ Explosives, cement, roofing, hoses, cables etc.
 - 50-60 % spent in companies located in Z



- Great potential for development and linkage creation

Suppliers to the mines: Reality



- Chamber of Mines rep (2012):

- *'...the reality [now] is that even the most basic supplies to the mines such as boots and overalls are imported'*

- Database dormant

- Suitcase-traders

- Local vendors import 80% of goods, spares & equipment

- Transnational OEMs

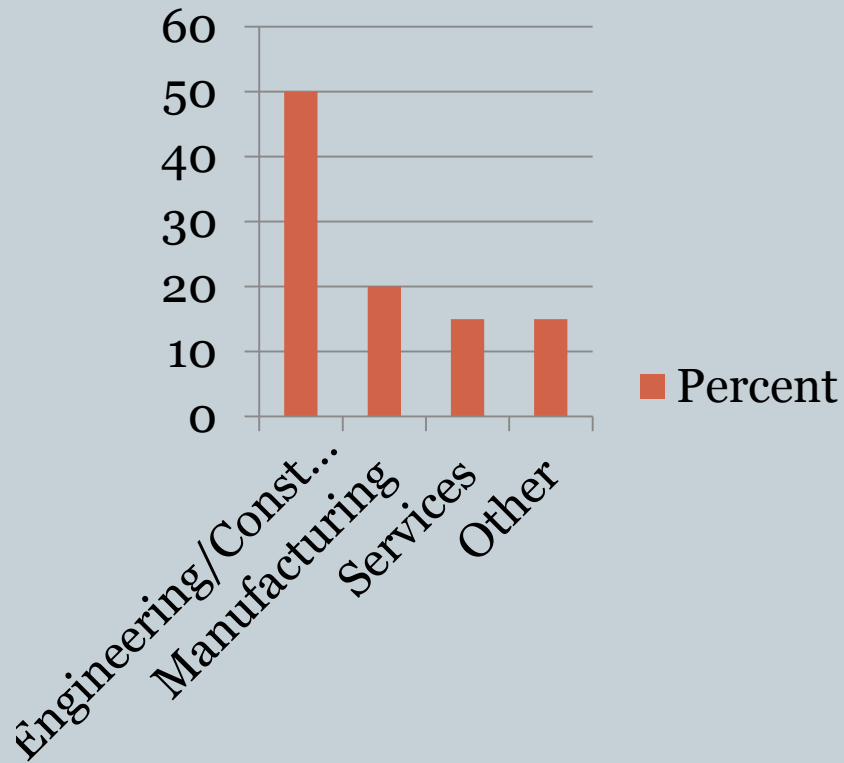
- Financial crisis:

- Mining houses reorganised supply chains to cut costs → SMEs forced out

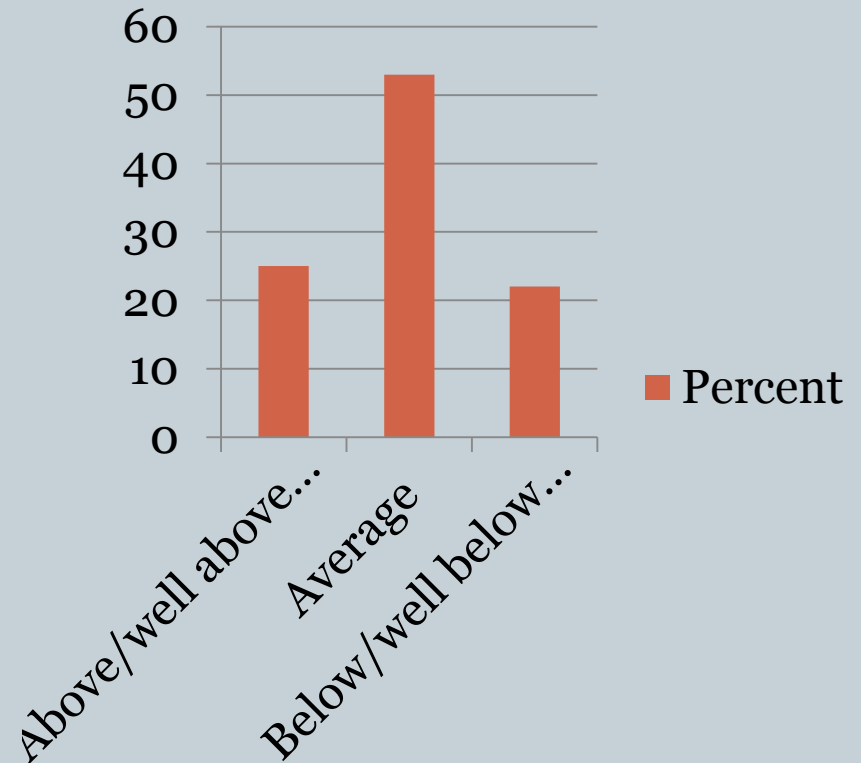
- Suppliers sought to diversify their markets

The surveyed suppliers to the mines at a glance

Sectoral distribution



Self-perception of performance



Factors explaining and constraining growth



Factors explaining growth

- ‘The vision and leadership of the owner’
- ‘Highly skilled and specialized employees’
- ‘Ability to produce at low cost’

Factors constraining growth

- ‘High cost of capital’
- ‘Unfair competition from foreign firms’
- ‘High input costs’

Market & business strategies

Market

- 76% sell > 50 % of products/services to TNCs
- 15% sell > 50% of sales to non-mining companies
- Supply low-value goods and services to mines
 - Repair and maintenance of capital goods

Business strategies to be(come) successful

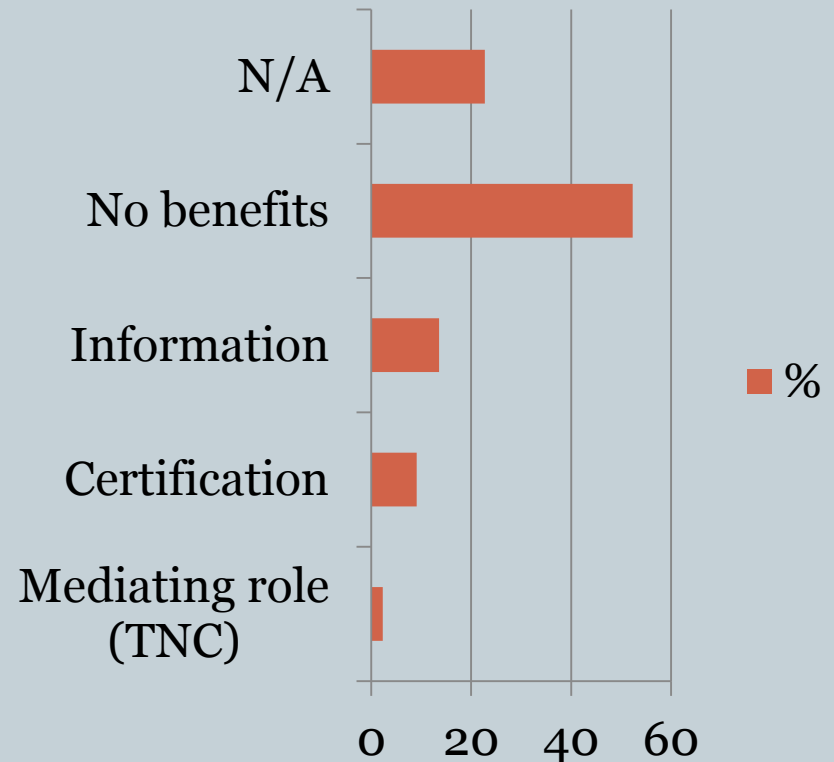
Strategy	Description
Differentiation	Selling products at a premium due to unique product and marketing characteristics
Cost reduction	Being able to sell at lower cost than competitors
Niche	Providing specialized inputs for small market niche
Business collaboration	Collaborate with other firms in industry through industry associations to influence regulations and prices

Role of institutions

Institutional drivers and barriers for growth

Institutional drivers		Institutional barriers	
Personal networks	linkages/	Inadequate regulation and enforcement	government
Government bodies		Insufficient/lacking government support	
Business associations		Corruption	

Business Association benefits



Booming economy with no structural transformation: the way forward



- **Aim:** sustained economic prosperity
- **Mean:** linkage creation
- **How:** via industrial policies regulating
 - **Entry:** Screening of investments proposals (ZDA), exclusion of TNCs from certain (sub)sectors, and restriction on foreign involvement
 - **Operations:** Involvement of local personnel in admin positions, certain level of local content in firm's activities, and technology transfer
 - **Finance:** Restriction on remittance of profits, level and methods of taxing profits
 - **Incentives:** Encouragement of foreign investments

Booming economy with no structural transformation: the way forward



- **Purpose:**
 - Reserve certain products/services to Zambian-owned firms
 - Develop capacities among local suppliers
- **Time-limited, competitive and performance-based incentive schemes**
 - Not support all suppliers
- **Must seek to come at no extra cost for the mines**
 - Quality standards
 - Reliability
 - Efficiency