

# **South African Retail Firms in Zambia**

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#### **1. Introduction**

This survey encompassed the evaluation of South African retail firms in Zambia. While all retail firms from South Africa were found to be generating some positive effect on the Zambian economy, the degree and nature of the effects varies from firm to firm. The overall effects include the transfer of knowledge, contribution to economic development, employment creation and benefits to businesses related to the retail sector. These effects will be described later in the paper.

Section two will put forward the general theories of FDI in relation to South African investment in Zambia followed by section three, which discusses the economic situation of Zambia. Section four will go on to discuss the retail sector and the various incentives provided in this sector, if any. The South African retail firms in Zambia will form the core of section five. Finally, a conclusion will follow in section six.

#### **Objectives and Terms of Reference**

##### **Objective:**

The Zambian retail sector has been in a phase of significant development, primarily driven by the opening up of the Zambian economy. The main objective of the research was to ascertain the impact of the South African Retail firms on the retail sector in Zambia, through a survey of South African companies operating in Zambia.

##### **Terms of Reference:**

##### **The project involved:**

1. A survey of South African firms already established and continuing to invest in the retail sector in Zambia. This survey was in the form of an open-ended

questionnaire. This was done in order to elicit as much information as was possible from the respondents.

2. Analysis of the responses of these respondents and the identification of major issues within the same context.
3. Drawing of preliminary conclusions from the survey findings regarding the South African firms and their future in Zambia.
4. Submitting an initial report which will be followed by the presentation and final report later.

### **Methodology Employed**

An open-ended questionnaire was developed. This questionnaire was targeted specifically at South African firms. The same questionnaire was however used for interviewing indigenous Zambian companies. This was done for comparison and objectivity purposes. Interviews were then held with:

- South African firms in the retail sector
- Zambian counterparts in the retail sector
- Key government ministries
- The chamber of commerce and industry
- Zambian Consumers

This was done in order to:

1. Capture as much information as necessary from all parties concerned
2. Compare the responses from both South African and Zambian firms in the retail sector
3. Get independent views and comments from the consumers

The first section of the questionnaire (Section One-The respondent) sought to ascertain the respondent's background in relation to their levels of education, position in the firm and experience in the retail sector.

The second section (Section Two-The Firm) sought to elicit information about the particular firm. This section looked at issues like how many years the firm has been operating in Zambia (in the case of SA firms), number of workers employed, skill levels of workers, training issues, size and market share of the firm, branches and main activities as well as expansion plans etc.

The third section (Section Three-Retail Sector Environment) was primarily concerned with the retail sector environment in general. Here questions pertaining to incentives in the retail sector, barriers to operation, taxes, general operating environment as well as profit and capital repatriation were posed.

Thirty-three questionnaires were answered in addition to the one-on-one interviews held with key ministries and individual customers. The information collected from questionnaires and brochures was then analyzed and a report prepared.

The study focused specifically on the food, footwear, furniture & household requisites and clothing sectors in Zambia.

## 2. Foreign Direct Investment in Relation to the Retail Sector

Before a discussion of the South African retail firms in Zambia is venture into, it is necessary to define and discuss the various theories of foreign direct investment (FDI) and what drives this investment (FDI). This is done to put the reader in a proper perspective with regard to SA retail firms in Zambia.

### Definition of Foreign Direct Investment

There are mainly two types of foreign investment: portfolio (indirect) investment and foreign direct investment (FDI). Portfolio investment entails the buying of a stake in an enterprise by a foreign equity investor which normally has a short time horizon. This type of investment is viewed as a form of credit to an agent abroad. Foreign direct investment on the other hand involves more than just the purchase of shares or securities. It involves an investment made for the purpose of acquiring an ongoing interest in an enterprise operating in a country other than the investor's home country. FDI can take two forms:

- *Greenfield investment*, where the foreign investor establishes a new venture in the host country<sup>1</sup>, and
- *Acquisition*, which is the purchase of all or part of an existing firm or project in the host country by the foreign investor<sup>2</sup>

For statistical purposes, foreign investment is defined as an investment in which the investor holds 25% or more of the equity of an enterprise abroad, that is usually

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<sup>1</sup> The SA retail firms interviewed have undertaken greenfield investments in Zambia.

<sup>2</sup> Danziger (1997)

enough to enable the investor to influence the company's management and control of the investment<sup>3</sup>.

Therefore, a foreign direct investment is made for the purposes of specific projects and not into the capital market as is the case with a portfolio investment. In addition the investor normally provides the package of business and technical know-how for the project, which involves a long-term commitment. Portfolio investment on the other hand, involves a short-term investment made through the capital market with no entrepreneurial commitment.

### **Theories of Foreign Direct Investment**

There are many theories of FDI but for the purpose of clarity, only a few will be dwelled on. These theories are the capital arbitrage theory, the intangible assets theory, the internalization theory, and the industrial organization theory.

#### **Capital Arbitrage Theory**

According to this theory, international capital mobility is attributable to different rates of return on capital between countries. This theory states that capital will gravitate from a capital rich country to a capital scarce country, in response to the higher rates of return available in the capital scarce country. In this case, the investor is an arbitrageur of capital. Profits are pursued by moving equity capital from countries with low rates of return to countries with high rates of return till the rates are equalized.

#### **The Intangible Assets Theory**

This theory stipulates that the possession of intangible assets by investors results in FDI. These intangible assets consists of technology, cost-minimizing productive efficiency, patented processes, registered trade marks, designs, brand names and production secrets. The acquisition of these assets involves some initial investment

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<sup>3</sup> IMF, FIAS (1997)

costs but once acquired, are normally capitalized and the resulting marginal cost to the investor is almost nil. As such, these assets can be exploited over long periods of time without depleting their utility.

The investor owning such assets is considered to have a competitive advantage over other firms in the same industry. Therefore, the intangible assets theory emphasizes that investors owning such assets engage in FDI because of market imperfections.

### **The Internalization Theory**

This theory involves the bringing together under the same ownership and control of the same activities linked together by markets. This theory advocates that the investor firm is an organization for allocating resources without exchange of ownership. The theory argues that although the firm can do business in either the home country market or host country market, through co-ordinating its activities through a set of efficient external goods and factor markets, the firm, in most cases will internalize its operations as they are inefficiencies associated with operating outside the host country. These inefficiencies manifest because of difficulties encountered when organizing intangible assets, personal skills and intermediate products. Thus, internalization enables the investor to bypass these inefficiencies or replace them with its own internal efficient sets of markets.

### **The Industrial Organization Theory**

This theory explains the occurrence of FDI as a function of oligopolistic market structures. The theory stipulates that the advantage held by international investors lies in the stable structural characteristics of the industries in which they operate. Oligopoly with differentiated products based on patented technology or advertising, protected by registered trademarks, usually explain horizontal as well as vertical FDI. Thus, the reason investors undertake a foreign operation is to take advantage of imperfections in industrial and technology rental markets. Ownership and control of foreign operations enables the investor to generate monopoly profits by removing any form of competition. In addition, imperfections in rental markets for firm specific

advantages imply that the investor cannot exploit such advantages in full without establishing and controlling its own foreign operations.

### **Effect of FDI on Host Economies**

Though it is often argued that host economies benefit significantly from FDI, there are also costs associated with FDI. Thirwall<sup>4</sup> (1989) stipulated that even if FDI entails benefits like employment creation, taxes, enhanced technologies and so on, FDI also imply costs in terms of:

- Widening the gap between the urban and rural sectors of the economy as most Multinational Companies locate in urban areas;
- Encouraging forms of consumption that are deemed inappropriate for the particular host economies' development;
- Introducing inappropriate technology which often slows down development of indigenous capital goods
- Avoiding the effects of domestic policies as MNCs tend to have easy access to foreign capital markets and
- Having a negative impact on the host governments' balance of payments especially if the country experiences problems with foreign exchange availability

But from experience, it has been found that the benefits of FDI outweigh the costs in most instances. The benefits, according to the WTO,<sup>5</sup> are normally in form of competition, innovation, savings and capital formation that accompanies FDI. Danziger<sup>6</sup> (1997) adds that the mere presence of an internationally competitive firm (MNC) raises the performance and productivity of host country firms. He goes on to summarize the benefits accruing from FDI as:

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- The increase in jobs created.
- The increase in tax revenue for the host country government (income tax, withholding tax, turnover tax, import and export as well as property tax etc).
- The improvement in domestic production resulting from the generation of employment and capital inflows.
- The easing of balance of payment problems by substituting imports with domestically produced goods from MNCs.
- Skill transfers as most MNCs conduct on the job training for staff.
- The transfer of new technology often referred to as diffusion.
- The backward and forward linkages created by MNCs through contracts.
- The provision of finance and technical know-how for capital infrastructure.

### **Determinants of FDI**

Research has shown that the direction, level and form of foreign investment are determined by two groups of factors: the source-country factors and the host-country factors respectively. Source-country factors are concerned with the initial decision to undertake an investment whilst host-country factors determines the final destination of the investment.

### **Source-Country Determinants**

These factors are both proactive and reactive. Firms in some cases are pushed to relocate due to rising production costs, and in other instances investment decisions maybe a deliberate, proactive strategy to take advantage of market opportunities, serve existing customers better, or capitalize on a unique ownership advantage in relation to technology or marketing know-how<sup>7</sup>.

### **Securing Market Access**

MNCs decide to invest in other countries to secure preferential access to their customers' markets. Export oriented apparel manufacturers come to mind in that

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MNCs tend to invest heavily in countries that can assure an adequate multi-fibre arrangement (MFA) quota.

### **Staying Ahead of Rivals**

Most times, the decision to invest rests on the desire to keep competitors or rivals out of a specific market. The fierce investment strategy employed by Coca-Cola Corporation in targeting markets to keep out PepsiCo has been cited as a case in point.

### **Lowering Production Costs**

Investing in labor intensive industries such as textile and apparel firms is the only way that MNCs maintain competitiveness. Rising labor costs and hence declining labour productivity usually force these types of firms to relocate.

### **Securing Access to Raw Materials**

Reliable and easy access to raw materials also plays a role in the MNCs's decision to invest. This explains why firms engaged in extractive operations like mining and oil exploration invest in risky locations like Angola<sup>8</sup>.

### **Non-Business Factors**

These are factors like weather, crime and proximity to other markets. These factors can also force MNCs to relocate and invest elsewhere.

### **Host Country Determinants**

Host country determinants normally come into the investment decision once the other determinants (source-country determinants) have been taken into consideration.

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<sup>8</sup> CPI 1997

### **Political and socio-economic stability**

Political and socio-economic stability of the country is one of the most important factors considered by foreign. Political and socio-economic factors include the political situation of the country as well as the business labor relations. It is widely acknowledged that foreign investors generally undertake investments in regions where they think that investments are not at risk because of political and socio-economic instabilities.

### **Favorable Foreign Investment Policies**

Investment policies implemented by the host countries play a key role in the potential investor's decision to invest. Thus FDI gravitates to regions with positive foreign investment policies. These policies should be able to provide transparency, stability and predictability as well as fairness. Wells<sup>9</sup> underlines this assertion pointing out that the main features of a good investment regime is investment protection and guarantees against expropriation, nationalization, ability to freely repatriate capital and profits, among other things.

### **Adequate Infrastructure**

Basic infrastructure has to be in place as this is also one of the major determinants in this category. Basic infrastructure includes provision of electricity, water, telecommunication services and a good transport network together with industrial sites.

### **Good Supply of Skills**

Easy access to a low cost trainable labor force is also an important consideration especially for labor intensive industries. CPI<sup>10</sup> cited Malaysia as a case in point. They stated that the lack of production workers in Malaysia had significantly deterred 'hard disk manufacturers' from locating in Malaysia.

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<sup>9</sup> Wells (1999)

<sup>10</sup> CPI (1997)

### **Lack of Red Tape and Streamlined Procedures**

The ease with which business activities are conducted plays a role in determining FDI inflows especially for smaller investors. Bureaucratic and time-consuming procedures to receive licenses and other transactions usually raise costs for potential investors.

### **Competitive Investment Incentives**

Finally, one of the most important considerations for the investors is the availability of a set of competitive incentives. These incentives include low effective income tax rates, deductions or credits for investment and accelerated depreciation allowances etc. It is noted that countries providing most of these incentives usually attract more investment than their counterparts.

The factors mentioned above were summed up by Alexander <sup>11</sup> who stated that international activity is explained by restricted market opportunities in the domestic environment. He went on to advocate that this may take regulations within domestic markets. He pointed out that larger retailers in this situation will then be faced with three options: vertical integration, product diversification or international expansion (retailers opt for international expansion in most cases). Alexander summed up the main factors as shown in table 1 below.

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<sup>11</sup> Alexander N (1997) International Retailing.

**Table 1: Push and Pull factors behind internationalization**

Boundary	Push	Pull
Political	Unstable structure, restrictive regulatory environment, anti-business culture dominant, consumer credit restrictions	Stable structure, related regulatory environment, pro-business culture dominant, relaxed consumer credit regulations
Economic	Poor economic conditions, low growth potential, high operating costs, mature markets, small domestic markets	Good economic conditions, high growth potential, low operating costs, developing markets, property investment potential, large market, favorable exchange rates, depressed share prices
Social	Negative social environment, negative demographic trends, population stagnation or decline	Positive social environment, positive demographic trends, population growth
Cultural	Unfamiliar cultural climate, heterogeneous cultural environment	Familiar cultural reference points, attractive cultural fabric, innovative business/retail culture, company ethos, homogeneous cultural environment
Retail Structure	Hostile competitive environment, high concentration levels, format saturation, unfavorable operating environment	Niche opportunities, company owned facilities, 'me too' expansion, favorable operating environment

### **3. The Zambian Economic Situation**

Having discussed various theories of FDI and the effects of FDI on host economies, the paper will now dwell on the discussion of the general scenario of the Zambian economy so as to ascertain how the economy in general affects the firms in the retail sector.

The Zambian economy has been renowned for having rich mineral deposits, some of which are yet to be exploited. The economy is mostly dependent on mineral production and exports (copper accounts for about 90% of the economy's foreign exchange earnings). As Zambia is dependent on copper earnings, it is vulnerable to world price fluctuations in that whatever happens on the world copper market affects the country directly - Copper prices have fluctuated thus affecting foreign exchange earnings for the country. In addition, Zambia, as an oil importing country is affected terribly as the oil price increases impacts on the balance of payments as well as foreign exchange earnings.

There have been significant changes in the economy since the introduction of multi-party politics in 1992. Zambia changed from being an import-substitution economy to a market based economy in which the public sector plays a passive role. This shift to a market based economy has necessitated an extensive liberalization program that

resulted in the privatization of more than 200 state-owned enterprises, leaving the economy at the mercy of market forces. The privatization of state owned enterprises has led to the Zambian economy having a weak manufacturing base and this is a cause for concern.<sup>12</sup> This has resulted in high unemployment leading to increases in poverty, diseases and crime.

### **Performance of the Economy**

The economy, though stable, suffered tremendously from the unstable exchange rates as well as balance of payments. This was mainly attributed to the withholding of pledged donations by the international community in reaction to the slow privatization of the copper mines. However, the agriculture sector recorded an increase of 13.7% in real value added in 1999. Its share in total domestic goods increased in real terms from 16.4% to 18.3 % in 1999 respectively.

Other sectors contributing to the overall increase in domestic output were the manufacturing, transport, trade and financial intermediaries sectors. The manufacturing sector continued its trend of increasing output since 1996 reaching an increase of 2.8% in 1999. The mining sector on the other hand continued to exert a pull-down effect on the overall real-value added.

The sharp reductions in government spending has affected spending on health services, education and training. This has greatly affected the GDP growth. Annual GDP growth rate which was 1.0% between 1981 and 1990 reached a significant 6.5% in 1996, but started a downward spiral reaching -1.8% in 1998 before picking up to 2.4% in 1999<sup>13</sup>. This dismal performance can be attributed to the international

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<sup>12</sup> ZACCI (2000)

<sup>13</sup> Ministry of Information and Economic Development, 2000.

community's withdrawal of donor support. Table 2 below highlights the macroeconomic indicators in Zambia.

**Table 2: Macro Economic Indicators - Zambia**

<b>Year</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
GDP @ 1997 Prices (K million)	2,174	2,322	2,122	2,030	2,161	2,412	2,365	-
GDP growth rate (%)	-1.7	6.8	-8.6	-2.4	6.5	3.5	-1.8	2.4
Sectoral contribution to GDP								
Agriculture	12.5	19.7	17.5	16.1	19.5	15.7	19.1	
Mining & Quarrying	7.7	6.6	6.0	5.6	5.9	-	-	-
Manufacturing	30.2	26.1	26.1	26.5	25.5	22.6	-	-
Inflation	165.1	138.3	38.3	46.0	35.2	18.6	30.6	20.6
Exchange Rate (K/US\$)	172.2	600.4	6873	878.9	1213.1	1336	1904	2407
Interest Rates (Lending)	55.9	115.6	70.7	45.4	53.6	46.6	31.8	38.4
Bop Surplus (+)/deficit (-)	-237	-160	-242	-264	-150	-127	-282	

Source: Bank of Zambia and Ministry of Finance & Economic Development

### **Private Sector Development**

Since 1992, the government has continued to pursue economic policies aimed at facilitating sustainable growth in the economy and at the same time ensuring the effective transfer of economic activities to the private sector. Among the economic policies introduced are structural adjustment programs (SAPs). These programs

(usually supported by the IMF) are primarily directed at macro-economic stabilization – reduction of balance of payments (bop) and budget deficits, introduction of tight monetary policy and adoption of realistic currency exchange rates. The purpose of these measures is to open up the economy to private investment, both domestic and foreign, permitting investors subject to the discipline of market forces, to operate more cost-effectively and increase output.

The withdrawal of the government from the economy, though deemed necessary, has not led to a surge in private investment as expected, either domestic or foreign – as evidenced by the reduction in the value of investment pledges<sup>14</sup>. This dismal scenario can be attributed to the following:

- Little domestic capital formation taking place outside of the government sectors
- Poor institutional capacity in key ministries, debilitated infrastructure and factories as well as low levels of skills
- Rising prices coinciding with falling levels of real output

To further compound the problem, most MNC's that have been operating in Zambia for decades are relocating to neighboring countries – Malawi and Zimbabwe. These MNCs are citing the high costs of operation in Zambia compared to other countries in the region. The other reason is that the shortages of foreign exchange and the resulting instability of the economy is impacting on their operations as well. This is due to the fact that the Zambia economy is donor driven and this impacts heavily in terms of balance of payments, debt, foreign exchange and general stability of the economy. Companies coming to mind are: Dunlop, LeverBrothers, Colgate and Rickett & Colman (relocated to Zimbabwe) and Rothmans (relocated to Malawi). One can imagine the impact these relocations are having on the economy. One economist retaliated that Zambia is now risking de-industrialization.

The government argued that though there has been little economic growth in the economy, achievement has been attained in other areas. Inflation which was in the region of 46.0% in 1995 dropped to 18.6% in 1997 and finally 20.6% in 1999. Interest rates (commercial lending rates) which had reached a high of 47.7% in 1995 declined to 37.2% in 1997. Interest rates decreased further to 30.2% in 1998 but increased to a high of 42.6% in 1999 and 43.2% as of January 2000 as shown in table 2 above.

Even though the economy experienced hardships, the private sector performed favorably save for the constraints imposed by the prolonged privatization of ZCCM's main asset packages and the attendant cash-flow problems it created for all companies and institutions associated with it. Furthermore, civil wars in neighboring countries also impacted on the private sector<sup>15</sup>.

The importance of the private sector in Zambia can be ascertained using the performance of the privatized companies. Since the start of the privatization program more than 238 companies have been privatized. These companies were in bad shape before privatization: over half of the companies were performing badly and most of the companies were making huge losses. After being privatized, most companies have started to make profits; levels of capital expenditure are being undertaken; dividends are going up and export earnings are remaining stable. Table 3 below highlights the privatization status in Zambia as of 1999.

**Table 3: Privatization Program Status**

	Dec 1994	Dec 1995	Dec 1996	Dec 1997	Dec 1998	Dec 1999
Completed privatization deals (cumulative)	15	60	189	213	224	234
Negotiations completed (per annum)	-	12	4	8	6	2
Heads of Agreement Signed (per annum)	-	30	5	2	6	2

<sup>14</sup> The value of investment pledges in 1999 only amounted to US\$153.3 million, down from US \$1,026 million in 1998.

<sup>15</sup> Civil wars contributed to operating costs because of re-routing the goods and the resulting costs incurred from that.

Companies/Units Privatized (cumulative)	15	102	194	223	236	238
Companies Under Negotiation (per annum)	4	24	6	33	20	16
Companies Under Preparation (per annum)	32	12	53	25	16	26
Commercialization of Government Departments	-	-	-	31	31	31
<b>Total Working Portfolio</b>	<b>52</b>	<b>210</b>	<b>253</b>	<b>312</b>	<b>303</b>	<b>311</b>

Source: Zambia Privatization Agency, Ministry of Finance and Economic Development, 2000.

### **Investment and Export Promotion**

Investment promotion in Zambia has paid off handsomely over the past five years (1994 - 1999). It has resulted in US\$1.4billion worth of capital expenditure and 25,000 jobs. South Africa has steadily risen in importance with regard to FDI. During the period 1993 to 1999, South Africa has been the second largest investor in Zambia, after the United Kingdom. South Africa made investments amounting to US\$239 million (19% of total investment pledges).

The major investors from South Africa include Avmin Limited, Engen, Sun International, South African Breweries, Shoprite Checkers, Bonnita and FoodCorp. These companies have taken advantage of the business opportunities in Zambia by using new technology and products. The South African companies have spent massive amounts on investment (Manda Hill Complex, the US\$20 million shopping center). Table 4 below shows the top twenty South African investors in Zambia.

**Table 4: Top Twenty SA Investors in Zambia**

Sector	Name	Pledge Investment (US\$ million)
Agriculture	Senzile Limited	2.86
	Mkango Ranching Limited	2.87
Construction	Stanley Mining Services	4.33
	Manda Hill Developments	25.0
Engineering	Elmar Engineering	4.42
Manufacturing	Milkwood Limited	3.96
	Zambia Oxygen Limited	4.99
	Kafironda Limited	7.73
	Unimills Limited	11.0
	National Milling Company	12.2
Mining	Louvet Distillers Limited	16.7
	Maamba Collieries Limited	5.53
Services	Africa Retail Properties Limited	3.83
	Africa Supermarkets Limited	7.60

Tourism	Engen (Z) limited	5.00
	Pep Stores Limited	4.71
	Eco Tourism Development	4.80
	Sun International Limited	45.6
Transport	Presto Investment Limited	4.83
	Conan Investment Limited	13.5

Source: Zambia Investment Centre, 2000

Despite the aggressive promotion program in 1999, the value of investment pledges only amounted to US \$153.3 million, down from US \$1,026 million in 1998. The services sector accounted for a larger share of the investment pledges (42.8%) whilst the manufacturing and agriculture sectors accounted for 21.4 % and 20.0% respectively. Mining and tourism accounted for only 6.7% and 5.8%. This reduction in the value of pledges resulted from the reduction of pledged investment in the mining and energy sectors. These sectors normally attract huge capital investments. As such, there was a reduction in the number of jobs created from 6,253 in 1998 to 5,136 in 1999. Table 5 below shows the investment pledges in 1998 and 1999 respectively.

**Table 5: Investment pledges: 1998 and 1999**

Sector/Sub-sector	No. of Projects	'98 pledged employment	Value in US \$'000	No.of Projects	'99 pledged employment	Value in US \$'000
Agriculture	25	2,011	43,420.3	20	925	30,624.6
Manufacturing	45	1,866	113,853.1	46	2,269	32,785.1
Tourism	26	752	92,273.4	18	336	8960.3
Construction	10	373	33,018.7	6	102	1,988.6
Transport	3	19	14,795.7	1	36	1,360.0
Mining	1	0	245,000.0	4	908	10,221.0
Fisheries	1	41	90.0	1	11	57.0
Service	24	1,162	483,173.6	25	507	65,643.1
Health	3	29	526.4	1	42	1,600.0
<b>Total</b>	<b>138</b>	<b>6,253</b>	<b>1,026,151.</b>	<b>122</b>	<b>5,136</b>	<b>153,270.0</b>

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### **The General Investment Environment in Zambia**

Since 1992, the government has been taking measures to bring about a sustainable economic climate for attracting both foreign and local investment. The government in trying to influence investment flows started to pursue an outward-oriented trade regime with emphasis on reducing tariffs and lifting most export controls. The government did away with foreign exchange regulations and allows 100% repatriation of profits and dividends. In addition Zambia has joined most international organizations and has signed agreements providing protection of foreign investments.

The government passed an Act of Parliament (Investment Act No. 39 of 1993) with regard to investment attraction. This was in recognition of the fact that FDI contributes to the primary goals of Zambia's economic policy: job creation and improvement of the quality of life for the people. In addition, the government has recognized that foreign capital, in whatever form, is vital as it supplements domestic savings for financing domestic investment as well as cushioning shocks to the current account in times of foreign reserve problems. Thus, some of the incentives provided by the Act include:

- Duty free exemption for agricultural and mining machinery;
- 5% customs duty on other capital machinery;
- Duty exemptions on raw material imports of organic and inorganic chemicals, iron, steel, rubber and plastics;
- 25% duty on final products;
- 15% income tax on non-traditional exports;
- Tax of 30% on listed companies (normal tax is 35%);
- 100% profit repatriation;
- No foreign exchange controls; and
- Guarantee against compulsory acquisition of property.

Other incentives offered for agricultural purposes include:

- Full tax allowance for outlay on land development, conservation and other costs;
- Substantial rate of depreciation allowing farm machinery to be rapidly written off against tax
- Special development allowances for growing certain crops such as tea, coffee and citrus fruits;
- Repatriation of a proportion of after-tax profits; and
- Farm improvement allowance of 100% for expenditure on farmland<sup>16</sup>.

These incentives have accounted to some extent for the increased inflow of FDI in Zambia. The investments in turn have helped the Zambian economy in terms of:

- Reducing Zambia's trade imbalances;
- Enhancing Zambia's export earnings;
- Employment generation
- Technology transfers;
- Stimulation of increased Zambian local production to supply foreign firms;
- Alleviating foreign exchange scarcity through increased exports;
- Broadening the export base; and
- Strengthening and modernizing the Zambian economy.

### **The Retail Sector in Zambia**

According to Forfas<sup>17</sup>, the retail sector plays an important role in sustaining competitiveness in the economy by keeping prices low and increasing productivity. Forfas reports that internationalizing the retail sector helps in that innovation, quality and competitiveness is enhanced as evidenced by the development of larger sized outlets, variations in formats to location and demographic needs as well as the growth of symbol.

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<sup>16</sup> The complete Business & Investment Guide to Zambia 2000

<sup>17</sup> Forfas 1999, The dynamics of the retail sector in Ireland

This above scenario is exactly the case in the retail sector in Zambia after the liberalization of the economy. Liberalization has helped internationalize the sector as more and more MNC's are being encouraged to invest.

The retail sector before liberalization was subject to monopolistic and oligopolistic manipulation, by mostly Indians who owned almost 75% of all retail operations<sup>18</sup>. But since liberalization, this has changed dramatically as MNCs have implied stiff competition in the retail sector. Competition is thus proving healthy to consumers in terms of prices and quality. It must be underlined that most Indian shop owners have changed careers altogether (most of them have turned to farming) as they cannot compete.

### **Caveat**

It must be pointed out that there are no incentives in the Zambian retail sector except for retail firms importing equipment and machinery. As such, most firms investing in this sector retaliate that it is mostly profits and expansion motives and not incentives which attract them. In addition, the government does not interfere with the operation of retail firms. The only impediments to firms' operations, according to firm's interviewed, are the delays at border posts (in terms of goods clearance) and fluctuating exchange rates.

Therefore, a high level of competition in the retail sector has proved to be ultimately good for the consumers and for competitiveness as consumers have more options in terms of shopping. However, the major challenge for the Zambian retailers is how to respond to the increasing flow of international retailers. Most of the Zambian retailers interviewed have started to adapt to the stiff competition and are changing their attitudes - in terms of quality service, care as well as price.

Zambian retailers have now started to strategically reposition their business and to be more efficient. Almost all the Zambian retailers interviewed retaliated that they are not that much concerned or threatened by the presence of the big South African

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<sup>18</sup> Retail operations in this case refers to the clothing, food and footwear sectors

MNC's. In fact, Zambian retailers claim that they are enjoying the competition, as their goods are more superior<sup>19</sup>. Others are claiming that their lines of business are different from the South African ones.

As a result of liberalization and the consequential multinationalisation of the sector, notable changes have been observed, some of which are:

- Relatively low growth in retail spending, thus generating substantial competition between retail firms
- Small percentage of income earners as the formal sector is small, thus causing a lot of competition for firms who need to capture a large percentage of the income
- A shift in the determinant of consumer demand from price consciousness to value for money as they face a variety of choices
- The development of a more international outlook and a greater awareness of international brands.

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<sup>19</sup> Imports are from Italy, UK, USA, France and Asia

#### **4. South African Retail Firms in Zambia**

There are 13 South African retail companies in Zambia. This number is set to increase as more and more companies from South Africa are looking to expand into Zambia. One such company is Truworths. These companies are mostly involved in retail operations. Of the 13 companies present in Zambia, five are involved in furniture and household requisites, another five are involved in clothing and footwear operations and the rest are involved in the food sector

Of these companies, the oldest in terms of establishment in Zambia is Shoprite and Pep, which have been operating for four years, and the youngest company (Game) has been operating for less than a year (6 months). Table 6 below shows the number of SA retail firms and types of activities in Zambia.

#### **Table 6: SA Retail Firms in Zambia**

<b>Company</b>	<b>Years in Zambia</b>	<b>Type of Activity</b>
Ellerines	<1	Furniture & Household requisites
Guys & Girls	<1	Clothing and Footwear
Steers	>1	Food products
Shoprite	4	Grocery/food products
Pep	4	Clothing and Footwear
Nandos	1	Food products
Carnival Furnitures	<1	Furniture & Household requisites
Game	<1	Clothing/household requisites
Smart Centre	3	Clothing and footwear
Supreme Furnitures	2	Furniture & Household requisites
Barnetts	<1	Furniture & Household requisites
Dunns	4	Clothing and footwear

### **Motives for Investing in Zambia**

All SA retail firms interviewed retaliated that profit was the main motive behind their investments. The second driving factor cited by the SA firms was the expansion motive followed by the political stability of the country, the ease with which capital and profits can be repatriated as well as the geographical position (Shoprite). The above motives were alluded to by the respective firms bearing in mind the already existing incentives in Zambia (listed in the previous section).

### **Product Range**

South African retailers in Zambia have aligned themselves to international norms in terms of product range. Alexander (1997) stated that international retailers seek to retain their merchandise range to that of domestic markets as much as possible. He

cited the larger UK retailers and argued that they retained the same products in other international markets.

This is the case for South African retail firms in Zambia. However, most retailers retaliated that they will have to adjust to local conditions in Zambia. This is especially true for the firms involved in the clothing arena, as Zambians have a taste for imported and expensive clothing and shoes. But as of now, most of the retailers engage in exactly the same activities as those performed in South Africa.

### **Format**

All South African retail firms surveyed have adopted the same format as is the case in South Africa. South African stores in Zambia are located everywhere and the in-store layout are the same as in South Africa with no major differences in all stores visited. The only difference was in store sizes, as space does not allow hypermarket type stores. The spaces are not big enough especially for retail firms like Nandos and Steers/Debonairs.

### **Prices**

The retail firms surveyed all confirmed that prices are determined in South Africa. But a markup is effected which reflects the cost of transportation, customs duties and vat as well as other imputed costs. The prices were however not very different from the South African counterparts in general (when one enters the store and compares). In some instances, prices in Zambia are better than those of the same products in South Africa and in others instances, South Africa prices, especially food prices are better than Zambian prices for the same firms. This can be attributed to the fact that food prices in Zambia are exorbitant.

### **Location**

All South African retail firms have their main branches in the capital city (Lusaka). In addition, all SA firms except Nandos, Game, Ellerines and Carnival Furnitures' have more than one branch. These branches are strategically located in high-density areas

in terms of spending potential. Those retail companies with the most branches (Shoprite and Pep) have branches in all the nine provinces of Zambia and these shops are normally located in provincial cities. All the retail firms interviewed are set on opening more branches. Table 7 below shows the number of branches of individual firms in Zambia.

**Table 7: Number of Branches in Zambia**

Company	No. of branches	Company	No. of branches
Shoprite	18	Dunns	3
Supreme Furnitures	17	Pep	19
Smart Centre	4	Ellerines	1
Game	1	Guys & Girls	3
Carnival Furnitures	1	Steers	5
Nandos	1	Barnetts	1

Total No. of Branches in Zambia are 74

### **Distribution**

As is common knowledge, distribution issues rest on the firm as an entity. The nature of distribution mostly depends on the company, product range as well as its level of vertical integration. South African retail firms, especially Shoprite argued that distribution efficiency was the main cornerstone of their operation in Zambia, as most of their products are fresh products. This has necessitated them to acquire their own transport system in order to avoid unnecessary delays. In addition, most retailers with own transport retaliated that it is much cheaper than hiring. Other companies argued that they find it cheaper to hire, as they don't have the capacity to acquire their own transport.

### **Promotion/Advertising**

Contrary to inherent expectations that new firms on entering the new market will be faced with problems in the promotion arena, South African firms do not experience

any problems. This is mainly because of the publicity, which they encountered, as well as the curiosity of the Zambian consumers to try out new alternatives.

This makes it easy for these MNCs to promote their products. In addition to the publicity, these retailers are faced with many choices when it comes to promoting their products. They may use television, radio, billboards, newspapers and even the Public Address (PA) systems from their shop entrances in certain circumstances<sup>20</sup>. All the South African retailers interviewed favor the television channel and radio since these two are believed to be the most effective. In addition, billboards are relied upon by especially the furniture shops like Carnival City and Ellerines. Other firms pointed out that they don't advertise so much as they are already household names.

Besides advertising, some companies hold weekly sales promotions in order to attract more customers and, this acts as indirect advertising for these respective companies.

## **5. Implications of the South African Retail Firms**

### **Implications of Retail Change**

The Zambian consumers' are/will be the ultimate beneficiaries from the changes in the retail sector. This will be possible if no collusion is experienced especially from the large MNC's. In addition, all parties concerned will feel a significant impact. The South African investment will continue to have an impact on the economy in terms of:

- Employment generation
- Technology transfer
- Stimulation of local production
- Supply of goods and services
- Promotion of non-traditional exports
- Modernizing the retail sector

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<sup>20</sup> Pep employs this strategy to attract customers in Zambia. They have been sued as of March 2000 for pollution and unfair practices by neighboring shops.

### **Implications for Consumers**

Consumers have started benefiting from changes in the sector as retailers have invested in:

- innovative formats (Manda Hill),
- wider product ranges
- improved services and
- different types of promotion sales and credit facilities.

The consumers are also benefiting from increased competition and internationalization of retail sector in that prices are being influenced as a result of the stiff competition in the sector.

### **Implications for Retailers**

The changes in the retail sector are definitely posing both opportunities and threats for Zambian retailers. Zambian retailers have to maintain a focus on competitiveness, cost structures, levels of investment and innovation, among other things. They need to reorient themselves so as to take advantage of the existing opportunities. Retailers will need to:

- Increase their use of modern technology as business is now time and technology dependent
- Continue to source high quality goods
- Develop new store formats as is the case with MNCs
- Diversify into new business and new markets
- Develop new and improved customer services

### **Implications for Employment/Human Capital Investment**

South African MNC's in the retail sector have impacted positively on employment creation in the retail sector. The 12 South African companies in Zambia have employed a total of 1963 people. This is in addition to the 600 people employed by

Stocks and Stocks<sup>21</sup>. Of the 1963 people employed by the South African retailers, 0.8% are expatriates, 12.8% are part-time and 86.4% are full-time. This number (1963) excludes the perceived 15 or so people likely to be employed by Woolworth's when it finally opens in May. As can be seen on the table, Shoprite, Supreme Furnishers and Pep have accounted for more than 50% of the total jobs created by South African firms.

All SA firms interviewed have implemented in-house (on-the-job) training programs for their employees. They argued that this is one of the most direct ways to accelerate development as on-the-job training offers a more direct and cost-efficient way of fulfilling skilled manpower needs.

Some of the companies like Steers and Guys & Girls send their staff for six or more months to undergo intensive training in South Africa. Shoprite has gone further by providing study loans for courses related to the organization. 55% of the companies are managed by Zambians whilst the other 45% are managed by expatriates (Pep, Game, Shoprite, Nandos and Ellerines). However, those companies with expatriate staff retaliated that the expatriates were there to provide some technical support and will be leaving as soon as the companies are fully operational. This is especially with regards to Game. Table 8 below shows the distribution of employees by company.

**Table 8: Distribution of Employees by Company**

Company	Full-time	Part-time	Expatriates
Shoprite	726	182	8
Steers	70	3	-
Guys & Girls	11	8	-
Ellerines	15	1	1
Nandos	40	-	1
Dunns	18	-	-
Pep	203	-	3

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<sup>21</sup> Stocks and Stocks is a South African Company which constructed Manda Hill and is responsible for the maintenance, repairs and security issues

Supreme Furnitures	536	-	-
Smart Centre	15	-	-
Game	38	57	3
Carnival Furnitures	13	-	-
Barnnets	11	-	-
<b>Total</b>	<b>1696 [86.4%]</b>	<b>251 [12.8%]</b>	<b>16 [0.8%]</b>

### **Management and Multinationalisation**

The South African companies interviewed (55%) have employed local Zambians to manage their businesses. These managers have extensive experience in the retail sector as most of them were previously working for retail firms. This has made it easier for the South African companies as managers use their knowledge of the Zambian market in their day to day operations. But, there is one obstacle to these managers operations: they are not independent to make decisions without the approval of the South African parent companies. Decisions are made in South Africa and in some cases (Shoprite, Game and Nandos) South African personnel are sent to oversee and direct businesses.

With regards to product and equipment sourcing, 98% of the managers interviewed responded that they source their products and equipment from South Africa, except in certain cases like those of fresh groceries (Shoprite). This point to the fact that South African firms would like to maintain the same standards and at the same time do not regard Zambia as an efficient and cheap production location.

### **Wages and Salaries**

Wages and salaries paid to the workers are very different from the wages paid to their South African counterparts. All the staff interviewed responded that there are differences in wages and salaries. Others revealed that not only are the employment conditions different but that the Zambian staff are overworked and exploited in that one task performed by a Zambian is performed by two or more people in South

Africa. In other words, the Zambian labour, made to work extra hard, are paid lower wages and salaries for the same task performed by the South African counterparts.

### **Indirect Implications**

#### **Social Development and Poverty Alleviation**

The extent to which SA retail firms have contributed to the overall social development and poverty alleviation was difficult to measure, given the short operation period of these respective companies.

But in the five years of operation, SA firms have helped increase employment opportunities (especially for women) and worker's welfare, and provided the much-needed infrastructure (Manda Hill).

Of the 13 companies interviewed, five have employed a total of 251 (12.8%) part-time employees. In addition, all 13 companies pay their workers more than the host country counter-parts in most instances except in a few cases where no substantial evidenced was provided.

#### **Transfer of Knowledge**

For the South African firms, the transfer of technology and managerial ability to their operations is viewed as essential to the proper implementation and profitability of their investments. Thus, all SA firms retaliated that they train a select group of workers. Five of the firms have even gone to the extent of bringing expatriate staff to facilitate the transfer of knowledge.

It is envisaged that technology transfers by SA retail firms will impact on the Zambian retail sector by:

- Contributing to efficiency by breaking supply bottlenecks
- Introducing new know-how by demonstrating new technologies and training workers who will in turn take up employment in local firms
- Transferring techniques for inventory and quality control and standardization to the local supplies and distribution channels and
- Forcing local firms to increase their managerial efforts or to adopt some of the marketing techniques used by SA retail firms.

### **Demonstration Effects**

The 13 SA firms have been acting as role models for other multinational companies as they are some of the first companies to venture into the Zambian market since liberation. This is underlined by the recent opening of Woolworths (May 2000) following the success of other SA firms in Zambia.

In addition, Zambia's image in terms of providing an acceptable foreign direct investment (FDI) environment has been enhanced. This has become an important showcase for the government in its efforts to attract more investment.

Furthermore, the Zambian government has benefited massively from the SA retail firms contribution to revenues. The SA retail firms pay more than US \$12 million in taxes and duties. The government is also benefiting in that the tax base has been expanded as employees of these companies are subject to tax.

### **Implications for Backward and Forward linkages**

The construction of Manda Hill and many other shops by the South African companies has created backward and forward linkages vis a vis contracts with:

- Construction companies
- Manufacturing companies
- Hardware and electrical suppliers
- Transport companies
- Electricity/telecommunication companies

- Financial services

## **6. Concluding Remarks**

This paper centered on the discussion of the SA retail firms and their effect on the retail sector in Zambia. The focus of the paper was on the likely implications of these SA retail firms in terms of employment creation, technology transfer, competition enhancement and modernizing the economy.

A tentative conclusion of the paper is that SA retail firms will help in promoting economic development by contributing to competition and innovation in the retail sector. However, the exact effect of these SA retail firms on the economy is difficult to ascertain as it is too early to do that.

It is reasonable to assume however that the entry of SA retail firms will lead to the overall improvement of the retail sector.