

# ZAMBIA

**AFRICA'S NEW FRONTIER FOR  
INVESTMENTS AND PROFITS**



Second Edition, 2009



# AFRICA



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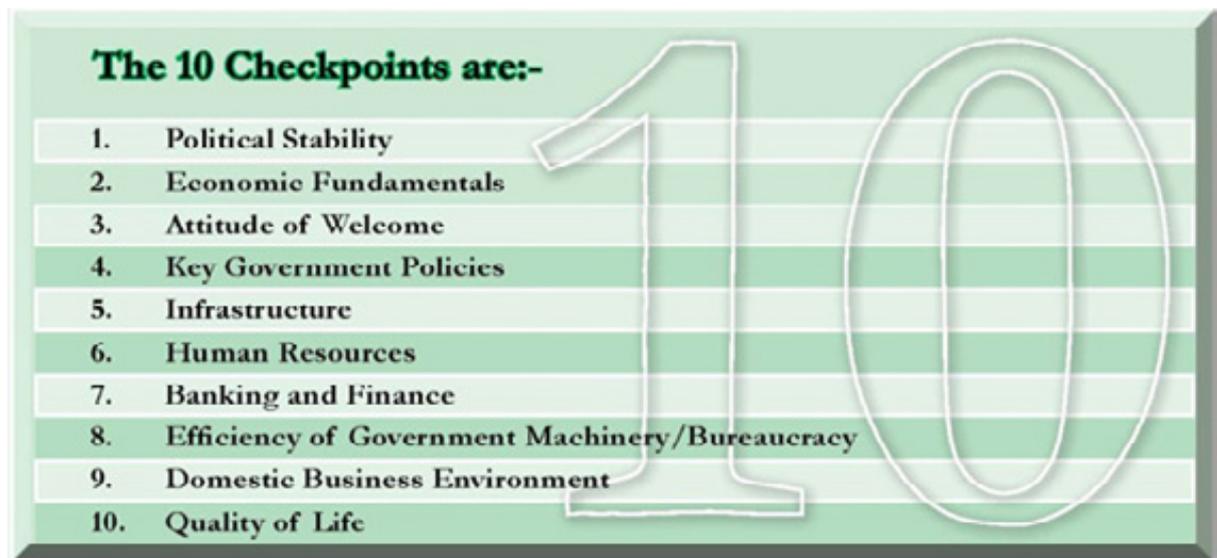
# ZAMBIA

## AFRICA'S NEW FRONTIER FOR INVESTMENTS AND PROFITS

### *A NOTE FROM THE EDITORIAL TEAM*

The publication is structured with the foreign investor in mind who has little knowledge of Zambia. However, domestic investors will also benefit from this publication.

Investors looking at any country as a base for investments will be examining that nation based on what we have called the 10 checkpoints for an INVESTMENT DECISION.



Over and above the basic business opportunities such as raw materials, availability of market etc, it is these that determine whether or not investors will be attracted to invest in a country. In this context, tax incentives, although also important for attracting investors, only become considered if investors are happy with the status of the 10 checkpoints indicated above.

This publication examines all these issues from the viewpoint of the investor and is a road map, as it were to profitability that could make Zambia a dynamic emerging economy, and possibly a type of Switzerland or Singapore in Africa.

Lastly, Zambia Development Agency (ZDA) would like to thank Japan International Cooperation Agency (JICA) and JJ International Consultants (JJIC) for the tremendous support it has given in the gathering and verifying much of the information that is in this publication.

### **Zambia Development Agency (ZDA)**



## REPUBLIC OF ZAMBIA

### OFFICE OF THE MINISTER OF COMMERCE, TRADE AND INDUSTRY

It is the private sector that are the engine of economic growth in any country and this is true of modern Zambia.

The Government of the Republic of Zambia taking a leaf from all successful, dynamic economies and especially those from emerging Asia has decided that the responsibility of Government is to create the necessary economic and investment environment that will foster the dynamic growth of the private sector, and consequently the domestic economy.

During the last two decades, Asia and especially the ASEAN economies have become the virtual role models of successful development, pulling their nations and peoples out of the vicious cycle of poverty.

The fact that the Japanese Government through Japan International Cooperation Agency (JICA), as part of their Tokyo International Conference on African Development (TICAD) Agenda is prepared to make Zambia a possible pioneering role model of a sustained programme of action of macro and micro economic endeavour is most welcomed.

The Government of Zambia is committed to work with JICA and other cooperating partners and international organizations, with similar ideals and sustained programmes, to ensure that this visionary work indeed succeeds.

Zambia welcomes domestic and foreign investors to make Zambia their profit center in Africa, either by themselves or in joint collaboration with those who have the management and technological skills to manifest success.

Thank You.

A handwritten signature in black ink, appearing to read 'Felix Mutati', written over a horizontal line.

**Hon. Felix Mutati**

Minister of Commerce, Trade and Industry



*Zambia and some of her surrounding neighbours*

## INTRODUCTION

<b>Location:</b>	Located in the Southern African Sub-region, Zambia is a landlocked country bordered by the Democratic Republic of Congo, Tanzania, Angola, Namibia, Malawi, Mozambique, Zimbabwe and Botswana. The mean altitude rises about 1200 meters above sea level and the country is situated between latitude 8 and 18 degrees East and longitude 22 and 34 degrees South
<b>Capital City:</b>	Lusaka
<b>Land Surface:</b>	752,614 Km <sup>2</sup>
<b>Climate:</b>	<p>Zambia's geographical position and high altitude provides the country with sub-tropical vegetation and climatic conditions. There are three distinct seasons:</p> <ul style="list-style-type: none"><li>🌺 A warm-wet season (November to April)</li><li>🌺 A cool-dry season (May to August)</li><li>🌺 A hot-dry season (September to October)</li></ul>
<b>Population:</b>	12.1 million, 55% living in urban areas (one of the highest urbanisation rates in sub-Saharan Africa). About 46% of the population are between 15 and 64 years of age. The annual population growth rate is 2.5%
<b>Independence:</b>	24 <sup>th</sup> October 1964 (from the United Kingdom)
<b>Adult Literacy:</b>	68% (2008)
<b>Spoken Languages:</b>	English (official language), Other main vernacular languages are Bemba, Nyanja, Tonga and Lozi. There are about 70 other indigenous languages and dialects throughout Zambia
<b>Religion:</b>	Christianity comprises the largest faith group. Minority faith groups are Muslims and Hindus. The republican constitution recognizes Zambia as a Christian Nation
<b>Natural Resources:</b>	Copper, colbalt, coal, emeralds, gold, water, wildlife, forestry and hydropower

## 1. POLITICAL STABILITY



*Recent Presidential By Elections October 2008*

Zambia practices a system of multiparty democracy with Members of Parliament and the President, who is also Head of State, elected every five years. There is a stable legal environment governed by the rule of law. The major political parties include the Movement for Multi Party Democracy (MMD), Patriotic Front (PF), the United Party for National Development (UPND), Forum for Democracy and Development (FDD) and United National Independence Party (UNIP).



*Downtown Lusaka, throbbing with activity*

The Zambian Constitution provides for separation of powers between the Executive (Cabinet), Legislature (Parliament) and Judiciary (Courts). **The country has had no conflict of any kind since independence in 1964**, is stable politically, peaceful and is considered to have the friendliest people in the Southern Africa Sub-region.



*Cabinet Office*

What also makes Zambia unique is that all its elections have always been free of violence and the last election on the 28<sup>th</sup> of September 2006 and the Presidential By-Election of 30<sup>th</sup> October 2008 are testament of that legacy.

The African Union and the Common Market for Eastern and Southern Africa (COMESA) highly praised Zambia's 28<sup>th</sup> September 2006 tripartite elections.

“

***AU observer mission said in a statement released in Lusaka that the elections of 2006 were conducted in a transparent, free and fair manner and people were able to express their will without any fear of intimidation. The general administration of the elections by the Electoral Commission of Zambia was both systematic and well organized.***

”

Another distinctive political characteristic of Zambia is the fact that although there are many diverse tribes, all co-exist in harmony: “Unity amidst diversity”.

***Quote from the Corporate World:***

“

***In comparison to many countries, the political situation in Zambia is stable and consistent***

”

**Daniel Nel, Managing Director, Barclays Zambia Plc.  
(Investing in Zambia: 2006)**

## Religious Harmony



Throughout the centuries, religion has tried to foster peace and harmony. However in today's world, some countries have chosen to interpret and practice religion in a way that it appears to be a destabilizing force, and in some countries a source of conflict. Zambia can be proud of its religious harmony.

### *Harmonious co-existence of churches, Hindu temple and mosque in Lusaka*

One outstanding symbol of religious harmony is this prominent symbol in the heart of the capital Lusaka. A Hindu Temple and a Mosque, stand side by side, and have churches as neighbours ... a silent testimony of **"Unity in diversity"**.

**This is Zambia: ONE ZAMBIA ONE NATION.**



Commenting on religious freedom in Zambia, Father Keaney, parish priest of the St. Ignatius Church in Lusaka said,

***"One of the blessings that all churches in Zambia experience is the level of freedom and independence in expression of faith."***

He also said, having lived in Zambia since 1973, he has not felt or experienced any hindrance from the government or any other religious group. He also mentioned during interview, that Zambia is one of the countries in the world that has people from different religious backgrounds and with great freedom to worship.

***"Zambia has freedom to worship, even though the country is a Christian Nation. The Government of Zambia allows all religions to follow their own faith and flourish in the country. There is full harmony among all religions in the country. Here, all religious communities participate in the economic growth of the country. No religion has any bias from the society."***

**Rashid Limbada – Chairman Makeni Islamic Society Trust**

## 2. ECONOMIC FUNDAMENTALS

### Economic Background

On attainment of independence in 1964, Zambia inherited, a strong economy, which has remained predominantly dependent on copper mining. The immediate post-independence years were characterized by an economic boom due to high revenues earned from copper production, representing one of Africa's best performing economies. With increased State involvement in enterprises from the mid 1970, the economy of the country took an unfavourable and downward trend.



*Zambia forging ahead – Priority for Infrastructure*

### Economic Empowerment

The country's political turnaround from one-party socialist to a multiparty democracy in 1991 was accompanied by fundamental change in economic re-orientation.

The Zambian Government embarked on drastic economic reforms whose immediate priority was stabilization of major macroeconomic indicators, encouraging the private sector and the State withdrawing from running enterprises.

## Key Macroeconomic Indicators

INDICATORS	2002	2003	2004	2005	2006	2007	2008
Inflation (%) (end of period)	26.7	17.2	17.5	15.9	8.2	8.9	16.6
Exchange rate (K per US\$)	4,310	4,710	4,780	4,520	3,600	3,830	4,880
Interest rate (%)	50.0	45.3	36.9	27.6	27.9	24.4	26.9
GDP at Market Prices (K'bn)	2,702.0	2,846.3	2,999.2	3,153.5	3,356.8	3,563.7	3,769.8
GDP growth rate (%)	3.0	5.1	5.4	5.2	6.2	6.2	5.8
GDP per capita (K)	260,138	264,930	270,450	275,830	284,507	293,054	300,966
<b>Sectoral Contribution to GDP (%):</b>							
Agriculture	15.2	15.2	15.0	14.2	13.7	12.9	12.2
Manufacturing	10.7	10.9	10.9	10.6	10.6	10.2	10.1
Mining	7.9	7.7	8.4	8.6	8.7	8.5	8.4
Tourism	2.3	2.4	2.4	2.5	2.8	2.9	2.9
Construction	6.0	6.9	7.9	9.1	9.8	11.1	11.0

Source: Bank of Zambia, Central Statistics Office, Ministry of Finance and National Planning

The elements of economic reforms that were implemented included:

- 🌟 Abolition of price controls
- 🌟 Removal of exchange rate and bank interest rate controls
- 🌟 Abolition of foreign currency controls in total
- 🌟 100% repatriation of net profits
- 🌟 Privatisation of state-owned enterprises
- 🌟 Promotion and facilitation of both local and foreign direct investment
- 🌟 Promotion of exports
- 🌟 Development of the capital market through the Lusaka Stock Exchange

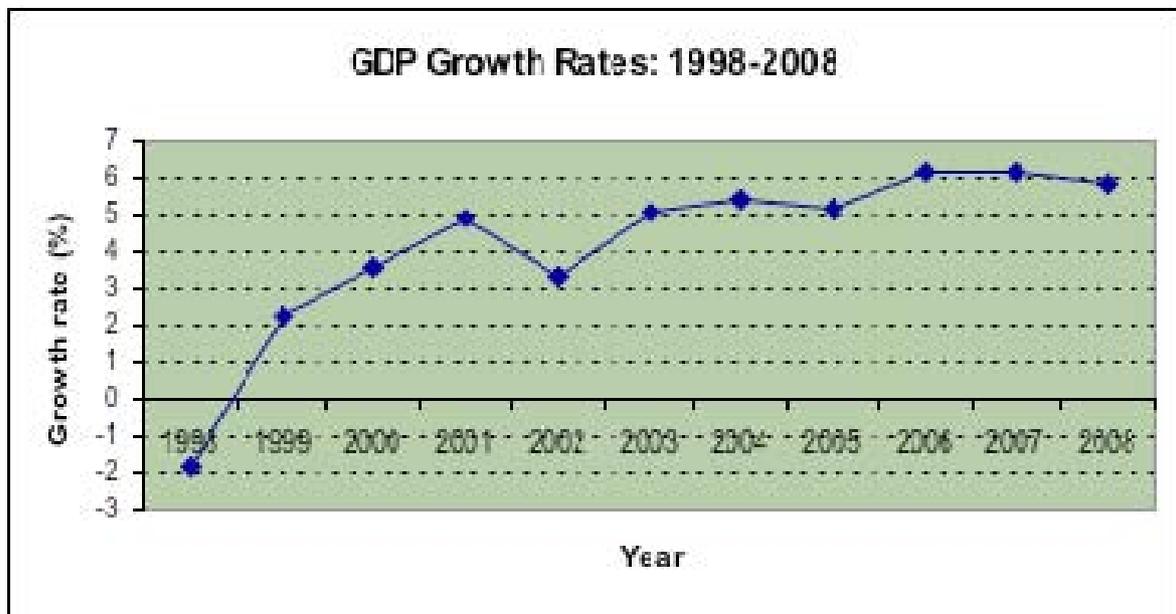
The Government put in place measures to diversify the economy from the traditional (copper and cobalt production) to non-traditional production and exports (products and exports other than copper and cobalt).

The non traditional products began to exhibit a positive and favourable performance in value terms in the country's balance of payments, notably over the period 2000-2005. The export of these products more than doubled their value increasing from US\$210.8 million in 2000 to US\$923.2 million in 2007.

Zambia reached the Highly Indebted Poor Country (HIPC) completion point in April 2005. Having attained the final stage of the HIPC process, the country has received substantial debt relief which has seen a reduction in Zambia's external debt stock. The total external debt stock, which was estimated at US\$7.2 billion, reduced to US\$1,093 million by end of 2008.

## Inflation

The Government's fiscal discipline has contributed to significant declining trends in inflation rates. In 2006 year-end inflation stood at 8.2%, the lowest since the liberalization of the economy in 1991. In 2007 inflation was recorded at 8.9% at the end of the year. Towards end of 2008, Zambia too was affected by the world financial crises and the inflation rate edged upwards to 16.6% by end of 2008. However, the Zambian economy and its financial discipline enabled the nation to remain viable, and by September 2009 the inflation rate had reduced to 13%.



### International agencies and media report positively:-

Growing foreign investor confidence in Zambia is reflected in positive reports in the foreign media

#### **Financial Times, July 31 2006** **Foreign Investors Think small**

Sudden interest in emerging markets such as Zambia is indicative of the constant search for high yield and a willingness to go far to get it.



According to a report this month by the International Monetary Fund (IMF), foreign holdings of Zambian Government securities – primarily by hedge funds – rose from a negligible amount to US\$ 150 million during 2005, mostly in the last quarter. By May this year, this figure had risen by 50%.



### Foreign Debt

Zambia is one of the countries in the world that had been highly indebted to multilateral as well as other financial institutions such as the World Bank and IMF.

 In April 2005, Zambia successfully reached the completion point of the Heavily Indebted Poor Countries (HIPC) initiative. The HIPC Initiative, is a debt relief scheme created in 1996 where international agencies such as the World Bank and the IMF agree to provide limited debt relief for the poorest countries, if they can achieve an accepted standard of financial discipline, with the goal of bringing the countries to a “sustainable” level of debt.

 Having attained the HIPC process, the country started benefiting from 100% debt relief from both the bilateral and multilateral institutions.

The Government’s total external debt stock was estimated at US\$1,093.5 million by the end of 2008.

This is a strong reflection of the FINANCIAL DISCIPLINE that Zambia has imposed on itself to be able to join the dynamic growth economies of the globalized world.

## Future Growth Prospects

Zambia has articulated its long term development objectives in the National Long Term Vision 2030. Part of this vision is enshrined in the Fifth National Development Plan (FNDP) 2006 – 2010, with its theme of “Broad Based Wealth and Job Creation through Citizenry Participation and Technological Advancement”. The broad macroeconomic objectives for the Plan period 2006 to 2010, are to accelerate pro-poor economic growth, to sustain a viable balance of payments and external as well as domestic debt position, and to reduce and stabilize inflation.

## International Trade and Balance of Payments

- a) Traditional exports of copper and cobalt.
- b) Non traditional export products include ferrous scrap, refined sugar, copper wires, cables and rods, cotton lint, semi-precious/precious stones, cotton yarn, burley/flue cured tobacco, petroleum products, fresh vegetables, fresh flowers, gold, coffee, cement and fuzzy cotton seed and cotton lint. Other significant export products are fertilisers, hydrated lime, paprika, tea, coal, maize, soya beans, skin leather, asbestos pipes/sheets, groundnuts, honey, mixed beans, mushroom, fresh eggs and day old chicks, paper, aluminium wires and cables, sorghum, clothing and blankets.

Zambia mainly imports crude oil, foodstuff, chemicals, machinery and raw materials. Zambia’s supermarkets and stores hold a huge variety of imported household and consumer products and this is one indication of the potential for import substitution that must be investigated by investors.



***Booming construction activity***

### Breakdown of Sector Contribution to GDP

KIND OF ECONOMIC ACTIVITY	2002	2003	2004	2005	2006	2007	2008
<b>Agriculture, Forestry and Fishing</b>	<b>15.2</b>	<b>15.2</b>	<b>15</b>	<b>14.2</b>	<b>13.7</b>	<b>12.9</b>	<b>12.2</b>
Agriculture	6.9	7.1	7.2	6.5	6.3	5.8	5.3
Forestry	5.4	5.4	5.3	5.2	5	4.9	4.8
Fishing	2.9	2.7	2.6	2.4	2.3	2.2	2.2
<b>Mining and Quarrying</b>	<b>7.9</b>	<b>7.7</b>	<b>8.4</b>	<b>8.6</b>	<b>8.7</b>	<b>8.5</b>	<b>8.4</b>
Metal Mining	7.7	7.6	8.2	8.3	8.5	8.4	8.3
Other mining and quarrying	0.1	0.1	0.2	0.3	0.1	0.1	0.1
<b>PRIMARY SECTOR</b>	<b>23.1</b>	<b>22.9</b>	<b>23.4</b>	<b>22.8</b>	<b>22.3</b>	<b>21.4</b>	<b>20.6</b>
<b>Manufacturing</b>	<b>10.7</b>	<b>10.9</b>	<b>10.9</b>	<b>10.6</b>	<b>10.6</b>	<b>10.2</b>	<b>10.1</b>
Food, Beverages and Tobacco	6.4	6.6	6.6	6.5	6.7	6.8	6.8
Textile, and leather industries	1.8	1.8	1.7	1.5	1.4	1.1	0.9
Wood and wood products	0.8	0.9	0.8	0.8	0.8	0.8	0.9
Paper and Paper products	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Chemicals, rubber and plastic products	0.9	0.9	1	0.9	0.9	0.9	0.9
Non-metallic mineral products	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Basic metal products	0	0	0	0	0	0	0
Fabricated metal products	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Electricity, Gas and Water</b>	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>
Construction	6	6.9	7.9	9.1	9.8	11.1	11
<b>SECONDARY SECTOR</b>	<b>19.5</b>	<b>20.6</b>	<b>21.3</b>	<b>22.3</b>	<b>23.1</b>	<b>23.9</b>	<b>23.5</b>
Wholesale and Retail trade	18.7	18.8	18.8	18.3	17.5	16.9	16.6
Restaurants, Bars and Hotels	2.3	2.4	2.4	2.5	2.8	2.9	2.9
Transport, Storage & Communications	6.1	6.1	6.1	6.5	7.4	8.3	9.2
Rail Transport	0.4	0.4	0.4	0.3	0.3	0.2	0.2
Road Transport	2.9	2.9	2.8	2.9	2.9	2.9	3.1
Air Transport	1	1	1.2	1.2	1.5	1.8	1.9
Communications	1.7	1.8	1.8	2.1	2.8	3.5	4
Financial Institutions and Insurance	7.9	7.7	7.6	7.5	7.3	7.1	7.1
Real Estate and Business services	9.5	9.4	9.3	9.1	8.8	8.6	8.4
Community, Social & Personal Services	7.7	7.4	7.1	7.5	7.7	8.1	8.8
Public Administration & Defence/ Public sanitary services	4	3.9	3.7	3.7	3.2	3.4	3.4
Education	2.3	2.2	2.1	2.4	3.1	3.3	3.9
Health	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Recreation, Religious, Culture	0.3	0.3	0.3	0.4	0.5	0.5	0.6
Personal Services	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Taxes on Products	10	9.3	8.5	8	7.3	6.9	6.9
<b>TOTAL G.D.P. GROWTH</b>	<b>3.3</b>	<b>5.1</b>	<b>5.4</b>	<b>5.2</b>	<b>6.2</b>	<b>6.2</b>	<b>5.8</b>

Source: Central Statistics Office

### Sectoral Description

#### Mining:

Zambia is the world's fourth largest producer of copper and holds six percent of the world's known reserves thereof. Copper and cobalt, as the country's traditional exports account for well over 70 percent of export earnings. These include gold and gemstones (eg emeralds, aquamarine, topaz, opal, agate and amethysts). Zambia produces over 20% of the world's emeralds.

**Agriculture:**

Although the agricultural sector employs more than half of the total labour force, only 15 percent of the arable land is under cultivation. It is because of this potential that the government encourages investment in commercial farming.

**Manufacturing:**

The main manufacturing activities in Zambia are the Food, Beverages and Tobacco sub-sector. The government has prioritized in introducing policies to stimulate economic growth and specifically in the manufacturing sector. The main emphasis has been on food processing and textile production. The growth potential in other industries is vast. Support measures designed to aid manufacturing enterprises in non-traditional sectors are being implemented.

**Tourism:**

The tourism industry has grown over the past 3 years, with the establishment of hotels in the major tourist town of Livingstone and the city of Lusaka. The vast potential in the tourism sector in Zambia, with its natural beauty (including the Victoria Falls, which is one of the most renowned beautiful transcendental Seven Natural Wonders of the World) and the wealth of wildlife have yet to be fully exploited. Zambia has 19 national parks and 34 game management areas with a total of 65,000 km<sup>2</sup> set aside for wildlife conservation.

**Infrastructure:**

The government of Zambia has embarked on the process of rehabilitating the road network, which covers 38,763 km of which 6,173 km are bitumen, 8,592 km gravel and 23,998 km is unclassified. Rail network remains the dominant mode of transportation (83.4%) for goods on the local and international routes. Major rail line links Zambia with Tanzania, is jointly owned by the Zambian and Tanzanian governments and is run by Tanzania-Zambia Railway Authority (TAZARA). The Chipata-Mchinji Railway is under construction and will link Zambia with Malawi and Mozambique. Zambia has more than 130 airfields, one third of which are Government-owned while the rest are privately owned. The Lusaka and Livingstone International Airports are Zambia's main airports connecting the country with the region and the rest of the world. The smaller airports include Ndola, on the Copperbelt province and Mfuwe, in the Luangwa National Park.

**Energy:**

With its vast water resources and coal reserves, Zambia offers abundant investment opportunities for hydroelectric power generation, supply and distribution. The country has well over 1,750 MW of hydroelectric generating capacity. Proven coal reserves exceed 30 million tonnes and satisfy 9% of energy demand. Hydro-electricity is mainly supplied and distributed by the Zambia Electricity Supply Corporation (ZESCO).

**Telecommunications:**

The Telecommunication infrastructure is relatively developed and the state-owned Zambia Telecommunications Company (ZAMTEL) is earmarked for commercialization. There are currently 3 companies providing mobile telephone services namely Zain, MTN and Cell-Z (a mobile segment of ZAMTEL).

**Health:**

Government and private hospitals and clinics provide health care. The private hospitals have earned a reputation as providers of good quality health care. Major surgery cases are usually referred to the Republic of South Africa. Flying doctor services cover remote areas and provide immediate care and transport for urgent cases. Investment opportunities for establishing specialized hospitals to treat such referral cases are, therefore, unexploited.

**Education:**

Revitalization of the educational system is being accorded high priority especially in primary education. The Education Sector Investment Programme (ESIP) stresses the rehabilitation of educational facilities and improvement of the quality of education. There currently only three (3) universities and relatively a good number of technical colleges, thus the massive investment opportunities for provision of university level and other tertiary education.



***Modern buildings reflect a dynamic Zambia***

In 2008 the country's balance of payment position was adversely affected by the global economic crisis. Growth in the export receipts slowed down significantly in the last quarter of the year. Total exports grew by 7.2%, reaching US\$ 4,818.3 million, compared to growth of 13% in 2007. Imports increased significantly, growing by 29.7% to US \$ 5,202.1 million. As a result, the current account deficit including capital grants widened to US\$ 1,379 million or 9.1% of GDP from a deficit of US \$ 494.2 million or 2.4% of GDP recorded in 2007.



***The Lusaka Stock Exchange in the central business area of Lusaka City***