

ZAMBIA

*AFRICA'S NEW FRONTIER FOR
INVESTMENTS AND PROFITS*



Third Edition, 2011



AFRICA



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ENTS AND PROFITS

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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.

The 10 Checkpoints are:-

1. **Political Stability**
 2. **Economic Fundamentals**
 3. **Attitude of Welcome**
 4. **Key Government Policies**
 5. **Infrastructure**
 6. **Human Resources**
 7. **Banking and Finance**
 8. **Efficiency of Government Machinery/Bureaucracy**
 9. **Domestic Business Environment**
 10. **Quality of Life**
- 

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)



INTRODUCTION

Location: 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

Capital City: Lusaka

Land Surface: 752,614 Km²

Climate: Zambia's geographical position and high altitude provides the country with sub-tropical vegetation and climatic conditions. There are three distinct seasons:

- A warm-wet season (November to April)
- A cool-dry season (May to August)
- A hot-dry season (September to October)

Population: 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%

Independence: 24th October 1964 (from the United Kingdom)

Adult Literacy: 68%

Spoken Languages: English (official language), Other main vernacular languages are Bemba, Nyanja, Tonga and Lozi. There are about 70 other indigenous languages and dialects throughout Zambia

Religion: Christianity comprises the largest faith group. Minority faith groups are Muslims and Hindus. The republican constitution recognizes Zambia as a Christian Nation.

Natural Resources: Copper, colbalt, coal, emeralds, gold, water, wildlife, forestry and hydropower.

1. POLITICAL STABILITY



Zambia and some of her surrounding neighbours

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**



Cabinet Office

independence, is stable politically, peaceful and is considered to have the friendliest people in the Southern Africa Sub-region.

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

The African Union and the Common Market for Eastern and Southern Africa (COMESA) highly praised Zambia's 28th 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



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 an interview, that Zambia is one of the few 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 Environment

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	2003	2004	2005	2006	2007	2008	2009
Inflation (%) (end of period)	17.2	17.5	15.9	8.2	8.9	16.6	9.9
Exchange rate (K per US\$)	4,710	4,780	4,520	3,600	3,830	4,880	4,550
Interest rate (%)	45.3	36.9	27.6	27.9	24.4	26.9	29.5
GDP at Market Prices (US\$'bn)	4.3	5.4	7.1	10.7	11.5	11.3	14.1
GDP growth rate (%)	5.1	5.4	5.2	6.2	6.2	5.8	6.3
GDP per capita (US\$)	400	490	635	920	935	980	1,100

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
-  Privatization 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

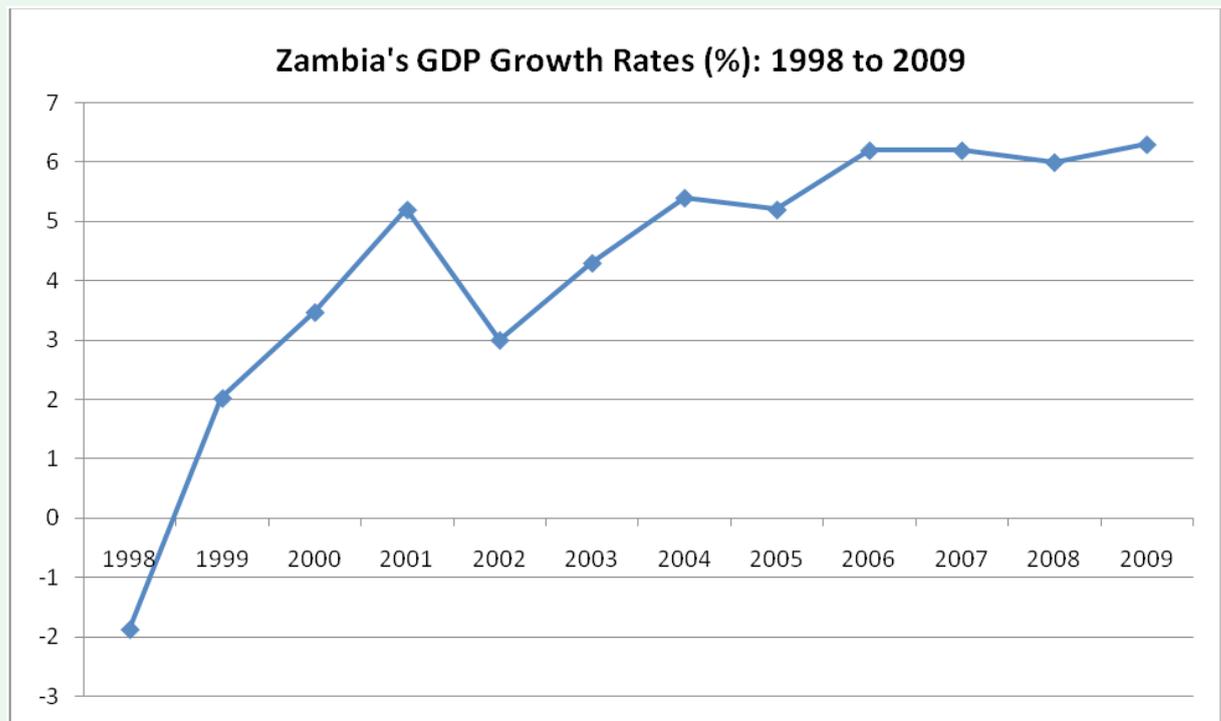
The Government put in place measures to diversify the economy from the traditional (copper and cobalt production) to non-traditional production and exports (products and exports other than copper and cobalt).

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 trebled, their value increasing from US\$210.8 million in 2000 to US\$ 1,435 million in 2009.

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. 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.

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 the end of 2009 the inflation rate had reduced to 9.9%.



International agencies and media report positively:

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, have risen considerably from a negligible amount, to over US\$ 250 million in the last five years.

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.

Future Growth Prospects

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.

However during the first half of 2009 and beyond, the country made steady recovery from the economic crisis. The price of copper improved significantly on the international markets from as low as US\$ 2,000 per tonne at the peak of the crisis to over US\$ 8,000 per tonne. Foreign direct investment (FDI) inflows in the mining sector began to rise sharply in response to the higher copper prices, and foreign exchange inflows from copper exports also rose by over 40 percent as both prices and production increased

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.

