



REPUBLIC OF ZAMBIA

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INTRODUCING

COUNTRY PROFILE – FACTS AND FINDINGS



Location: The Republic of Zambia is located in southern Africa. It shares borders with the Democratic Republic of Congo in the north; Tanzania in the north-east; Malawi in the east; Mozambique, Zimbabwe, Botswana and Namibia in the south; and Angola in the west. The capital city of Zambia is Lusaka. Zambia is home to the Victoria Falls, which is one of the seven natural wonders of the world.

Chambers/Associations:

- Zambia is a member of the African Union (AU), Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), United Nations (UN) and World Trade Organisation (WTO). The headquarters of COMESA is in Lusaka.
- The Zambia Chamber of Commerce and Industry (ZACCI) and the Chamber of Mines Zambia are influential industrial bodies.

PESTEL ANALYSIS

INTERNATIONAL TRADE

Top five export locations	Top five import locations
1. Switzerland (44.70%)	1. South Africa (32.43%)
2. China (18.48%)	2. Democratic Republic of Congo (15.30%)
3. Democratic Republic of Congo (8.26%)	3. China (8.99%)
4. South Africa (6.96%)	4. Kenya (8.11%)
5. Singapore (3.84%)	5. India (4.26%)

Top five exported goods	Top five imported goods
1. Copper (74.43%)	1. Machinery and boilers (15.54%)
2. Inorganic chemicals and precious metal compound isotopes (3.04%)	2. Ores, slag and ash (14.94%)
3. Pearls, precious stones, metals and coins (2.81%)	3. Mineral fuels, oils and distillation products (14.92%)
4. Sugars and sugar confectionery (2.29%)	4. Vehicles other than railway (8.45%)
5. Machinery (1.67%)	5. Electrical and electronic equipment (7.37%)

Source: International Trade Centre (ITC) and COMTRADE statistics

ZAMBIA'S OPENNESS TO FOREIGN DIRECT INVESTMENT

- Foreign direct investment (FDI) is a vital driver of economic growth in Zambia. The national government has established an investment framework that is attractive to international businesses. This includes low tax rates, reduced levels of red tape, and equal rights for foreign and domestic investors.
- FDI is growing significantly; this is driven by favourable conditions for foreign business ownership, investment incentives and special economic zones developed by the Zambian government. Moreover, Zambia's membership of international trading blocs reduces international trade barriers and further boosts trade and investment openness.

- Overall, Zambia scores well in the BMI Trade and Investment Market Risks Index in terms of economic openness. Its score of 56.6 out of 100 places it fifth out of 48 countries in sub-Saharan Africa.

SOUTH AFRICA IN ZAMBIA

- Not only is South Africa Zambia's biggest trading partner, but South African companies already have a fairly sizeable presence in the Zambian market. MTN has the largest market share of mobile subscribers. This sits at 46.7% as at Q215. In other sectors, South African banks and insurance companies such as Old Mutual and Standard Bank have a heavy presence in Zambia, as does the retailer Shoprite.

POLITICS AND LEGISLATION

- Zambia has a mixed legal system of English common law and customary law.
- Zambia is a republic in which power rests with the president. The 158-seat parliament has eight members, appointed by the president.
- President Edgar Lungu was elected on 25 January 2015, following the death of former president Michael Sata. Under Zambia's constitution, President Lungu is only eligible to serve the remainder of Sata's election term until the next general election takes place in September 2016.
- It is expected that president Lungu will find it difficult to maintain his presidency in 2016. He is struggling with a poor macroeconomic situation in the country, which can be seen through the weakening currency and inconsistent investment inflows.
- The business-friendly opposition leader, Hakainde Hichilema, has already started contesting the upcoming polls, having narrowly lost in the previous elections. His party, the United Party for National Development (UPND), obtained 46.7% of the votes. This was very close to the Patriotic Front's 48.3%.
- Zambia has enjoyed political stability over most of the last decade. There have been no major conflicts since the late 1990s.





ECONOMICS

- The government is pursuing an economic diversification programme to make the economy less reliant on the copper industry. The programme seeks to make use of other components of Zambia's rich resource base by promoting agriculture, tourism, gemstone mining and hydropower.
- The production of copper increased steadily from 2004 due to higher copper prices and foreign investment. It weakened in 2014, though, when the Democratic Republic of Congo overtook Zambia as Africa's largest copper producer. Copper prices have since fallen to a six-year low. This happened due to power disruptions, which further added to mining costs.
- The decline in copper prices was triggered by the slow growth in global economic activity, particularly in China and the emerging economies. The lower copper prices resulted in weaker copper export earnings and a widening current account deficit as well as the depreciation of the Zambian Kwacha. Due to the low copper prices, Zambia collected lower revenues from the mining sector. This posed challenges in financing critical government programmes.
- The Kwacha has lost 45% of its value against the dollar this year. The ongoing depreciation will make debt management more difficult for the country in the coming years.
- China has increased its investment in Zambia in return for access to the country's resources. While this has led to improvements in infrastructure, it has also led to rising resentment among Zambians against an influx of Chinese labour and goods perceived to be of low quality.
- The government announced a new mineral royalty tax regime on 1 January 2015. Royalty rates were increased to 20% and 8% for opencast mining and underground mining,

respectively. The new regime was revised by the Zambian cabinet in April, due to protests. The new royalty rates were dropped to 9% for opencast mining from the proposed 20%. Corporate income tax on mining operations has been reintroduced at 30%. Before the proposed changes, a uniform rate of 6% was applied across the industry. It is expected that mine profitability will be lower due to the new regime as well as the high costs of mining in Zambia. This could reduce investments and the future growth of the sector.

- Currency: Zambian Kwacha (ZMK)
 - ZMK10 981.77: US\$1 (2 December 2015)
 - ZMK582.42: R1 (2 December 2015)

ECONOMIC GROWTH: CURRENT VS OUTLOOK

Economic growth (%)						
	2014	2015 ^(f)	2016 ^(f)	2017 ^(f)	2018 ^(f)	2019 ^(f)
Economic Intelligence Unit (EIU) ⁽¹⁾	6.0	4.0	4.8	6.2	7.1	5.8
– Agriculture	3.0	-3.9	1.0	4.0	4.6	3.5
– Industry	0.5	2.2	4.9	7.5	7.5	5.9
– Services	5.5	6.0	5.8	6.2	7.5	6.7
BMI ⁽²⁾	5.5	5.6	6.1	6.9	7.2	7.0
Ministry of Finance of Zambia ⁽³⁾	5.6	5.8	6.4	7.8	7.3	5.9
Inflation (%)						
EIU (Year-on-year average)	7.8	8.4	8.3	7.5	7.0	6.7
BMI (Year-on-year average)	7.5	7.3	7.0	7.0	7.0	7.0
Ministry of Finance of Zambia	7.0	7.7	7.4	6.7	5.9	5.5
Central Bank Policy Rate (%)						
BMI (end of period)	12.5	12.5	12.0	11.0	10.0	10.0

^(f)Forecasted
Sources: ⁽¹⁾ EIU: Country Report Zambia, 9 November 2015; ⁽²⁾ BMI Zambia Country Risk Report, Quarter 4, 2015; ⁽³⁾ Ministry of Finance of Zambia, 2015 MTEF Growth Estimates

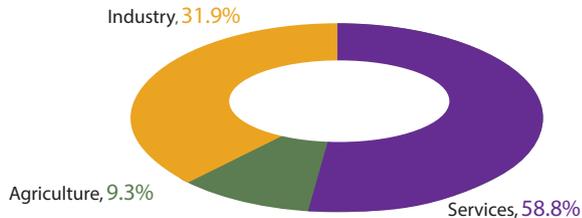
THE STRUCTURE OF THE ECONOMY:

- Zambia's economic structure is dominated by the services sector, which contributes 58.8% to the GDP. This is followed by the industrial sector and agricultural sector, which make up 31.9% and 9.3% respectively.
- **Agriculture, forestry and fisheries sector**
 - The agricultural sector is dominated by subsistence farming, which still provides the bulk of food production. The government has identified agriculture as a priority sector in achieving sustainable economic growth and reducing poverty.
 - The main agricultural products include corn, sorghum, rice, peanuts, sunflower seeds, vegetables, flowers, tobacco,

cotton, sugar cane, cassava (manioc, tapioca), coffee, cattle, goats, pigs, poultry, milk, eggs and hides.

- During the 2014/15 farming season, output for 13 of the 18 major crops declined. This was largely due to the irregular rainfall, which brought down the yield rates. The steepest crop decline was for barley, which dropped by 75% because a much smaller area was planted. Another significant decline in crop was for rice, which declined by 48.6%. Maize production decreased by 21.9%.
- The sector is expected to contract in 2015 due to adverse weather conditions. Beyond 2015, the sector is expected to grow due to expected improvements in the livestock subsector and better weather conditions.

SECTOR CONTRIBUTION TO GDP



Source: CIA World Fact Book, 2014

- The **industrial sector** is dominated by the copper sector and downstream-related activities.
- The key activities included in the services industry are copper mining and processing, emerald mining, construction, foodstuffs, beverages, chemicals, textiles, fertilizer and horticulture.
- **Manufacturing sector**
 - The manufacturing sector accounted for about 11% of the country's GDP in 2014. It has been growing at an average of 3% in the five years up to 2014. In 2015, it is expected to show higher growth of 5.7%. This growth is largely driven by the agroprocessing (food and beverages), textiles and leather subsectors.
 - Secondary processing of metals is another main activity within the manufacturing sector. This activity includes the smelting and refining of copper. Metal fabrication firms are expected to raise their output as demand has grown because more areas have to be given access to electricity.
 - The sector is important to the country's macroeconomic strategy of encouraging broad-based economic growth. The government has put in place various measures to support manufacturing activities. These include the establishment of multi-facility economic zones (MFEZs) and industrial parks. Industrial parks are industrial areas for both export-orientated and domestic-orientated industries. The industrial parks have the necessary support infrastructure installed and provide sector-specific investment incentives.
- The priority areas for investment in the manufacturing sector include food processing, textiles and clothing, mineral processing, chemical products, engineering, leather products, electrical goods, pharmaceutical products and packaging materials.
- Zambia's manufacturing sector has considerable investment potential. The domestic economy has resources such as raw materials, the required labour force, abundant land, water and rich minerals.
- The **construction sector**
 - The construction sector is expected to grow by 7.5% in 2015. Growth will come from, amongst other things, investment in new roads and bridges, residential housing construction and commercial property development in the urban cluster of the mining region and the capital city of Lusaka.
- The **mining and quarrying sector**
 - Zambia is rich in mineral resources such as copper, cobalt, zinc, lead, coal, emeralds, gold, silver and uranium.
 - Copper prices have dropped significantly in recent years. The expectation is that they will remain low for quite some time.
 - The mining sector performed well in the first half of 2015 despite the significant drop in metal prices. This was reflected in the increased production of copper, gemstones and coal. However, the production of gold has declined.
 - The sector has been affected by Zambia's recent power cuts. The country's largest copper producer, First Quantum, has reduced operations at the firm's Sentinel

project after the government cut the plant's electricity supply by 24%.

- **Energy**

- Hydropower accounts for 99.7% of Zambia's total electricity generation. A small amount is generated through thermal sources.
- The lack of diversification in the energy mix presents risks. Hydropower is highly susceptible to droughts, which have a damaging impact on Zambia's power output.
- Poor rainfall levels have forced the government to ration water used for power generation. This has cost the state-owned utility ZESCO USD116 million thus far in 2015.
- The Zambian government signed a memorandum of understanding with Kenya which will lead to the construction of a 2 300 km, USD1.2 billion interconnector between the two countries. The estimated date of completion is 2018. This would improve Zambia's electricity supply, as Kenya has an excess of electricity after it tapped into its vast geothermal energy.
- A number of coal-fired and hydropower stations are close to completion to cover Zambia's electricity needs. The Energy Minister for Zambia announced on 2 December 2015 that the construction of the 300 MW thermal power plant in Sinazongwe was almost complete. This will boost the generation capacity of the country.
- ZESCO plans to invest USD5 billion by 2022 in refurbishing existing power stations in collaboration with the private sector. Included in this are the 750MW Kafue Gorge Lower hydropower project; the 1 600MW Batoka hydroelectricity project between Zambia and Zimbabwe; the Kalangwishi hydropower scheme; and the thermal power plant being built by Maamba Collieries.

- **Transportation**

- The transportation sector includes railways, roads, air

travel and inland waterways.

- The railway has been operating below capacity due to a lack of locomotives, poor track conditions and wagon ability, and low operating capital.
- The private sector is encouraged to participate in the rehabilitation and development of railway infrastructure as well as the improvement of airport infrastructure.
- The **services sector** accounts for the highest contribution to GDP. This is driven by strong performance in the finance and banking, telecommunications and tourism services subsectors.
- **Information and communication**
 - The mobile subscriber base increased by 18.6% to 10 495 413 from 8 852 670 for the same period in 2014. This was due to the increased demand for mobile services. MTN Zambia continued to have the largest number of subscribers, representing 46.7% of the market share, followed by Airtel Zambia.
 - Further growth in the subsector is expected due to investments in fibre optics and the construction of communication towers across the country.
- **Finance and insurance services**
 - There is a great opportunity to be explored in the banking sector, as only 21.4% of the population have a bank account.
 - The services are relatively under-developed: the ratio of bank branches per number of people is much lower in Zambia when compared to other countries in the region. Zambia has 4.9 bank branches per 100 000 people, compared to 10.3 per 100 in South Africa.
 - It is expected that the banking sector's development and expansion will be driven by electronic and mobile banking platforms as well as new product offerings for the growing consumer market.

- The sector grew by 13.2% in 2014 and is expected to grow by 16% in 2015. The improved performance of the sector has been supported by a continued decline in the share of non-performing loans to total credit since 2010. This shows that commercial banks are more cautious in giving out loans and better at selecting viable projects.
- However, it is expected that a tight monetary policy and high reserve requirements will decrease commercial bank profits in 2015.

- **Tourism**

- Tourism has been identified as one of the priority growth areas for the Zambian economy and an important contributor to socio-economic development. Among other things, it provides jobs and prosperity; acts as a source of competitiveness, particularly in rural areas; and has linkages with, and thereby benefits, other sectors of the economy.
- Tourism is one of the fastest-growing sectors, expected to grow by 12% in 2015. This expected growth is due to continued aggressive marketing, improved tourism-supportive infrastructure, simplified visa requirements and the introduction of uni-visa at Victoria Falls, which will make Zambia more attractive. The uni-visa allows tourists to travel between Zambia and Zimbabwe as many times as they wish within a 30-day period. The uni-visa also covers those who visit Botswana for day trips through the Kazangula borders.
- Key tourism assets include the pristine national parks and game management areas, which are home to a great diversity of wildlife and flora.
- Zambia is home to the Victoria Falls, one of the seven natural wonders of the world and a UNESCO heritage site.

SOCIAL

- Population: 15 066 266 (2015 estimate)
- Main languages: English, Nyanja, Bemba, Lozi, Kaonde, Tonga, Lunda and Luvale
- The total number of languages spoken in Zambia is 73.
- Widespread and extreme rural poverty and high unemployment levels remain a significant problem. It is estimated that 64% of the population live below the poverty line.
- The workforce is affected by a high prevalence of HIV/Aids. One-fifth of the working population are infected with the disease, which raises the costs of employment.

TECHNOLOGY

- The increase in mobile phones and internet connectivity has opened up a space for electronic banking and mobile money services in the country.
- In Zambia, more people own mobile phones than bank accounts. In 2014, there were 3.4 million mobile services users compared to two million bank accounts. This provides opportunities for mobile banking services.
- The Bank of Zambia and the national telecoms regulator, Zambia Information and Communications Technology Authority (ZICTA), have signed a memorandum of understanding aimed at helping in mobile money grow.
- There has been an increased interest in improving the telecommunications infrastructure. The Zambian government entered into a partnership with Huawei Technologies to deploy 169 cell towers in underserved areas to sustain its rural expansion strategy.
- Companies currently operating in rural areas suffer from limited internet connectivity, as infrastructure has

been concentrated in urban areas. Improving internet connectivity will play an important role in economic development and business processes in Zambia over the medium term.

ENVIRONMENT

- Environmental issues include air pollution which results in acid rain in the mineral extraction and refining region, chemical runoff into watersheds, deforestation, soil erosion, desertification and lack of adequate water treatment which presents human health risks.
- Zambia has been affected by the El Niño weather phenomenon, which has brought about below-average rainfall and drought. This has affected the availability of water, which is critical for hydroelectricity generation.

OPPORTUNITIES FOR DOING BUSINESS

- Zambia is economically open, with low levels of governmental red tape. This significantly enhances the attractiveness of its business environment. Companies operating in Zambia will encounter a favourable tax regime, with various incentives and international agreements lowering the cost of doing business.
- Setting up a business is a straightforward process, and the cost of construction permits is low.
- Zambia offers one of the most competitive crime and security environments in sub-Saharan Africa. Businesses and foreign workers in Zambia benefit from a safer environment than in most other sub-Saharan Africa countries, with lower crime rates, a negligible threat from domestic or international terrorism and a secure strategic environment.

OPERATIONAL RISKS/BARRIERS TO DOING BUSINESS

Africa's growth and development has attracted foreign investment to the continent. Yet there are many risks associated with doing business or operating in African countries.

The following are some of the potential risks facing investors operating in Zambia:

- The new mineral royalty tax regime could result in the closure of less profitable mines. This will lead to the loss of thousands of jobs and of additional foreign investment.
- Businesses face the highest degree of operational risk from Zambia's logistics capabilities. Zambia is a landlocked country with high trading costs. Other threats include the rising road congestion, high energy costs and the limited availability of utilities. The poor transport infrastructure makes trade costly and time consuming.
- The limited availability of skilled and educated labour, high poverty rates and stringent labour laws also pose challenges to businesses.
- The absence of a reliable source of power severely constrains the growth of power-intensive industries such as manufacturing.
- Low levels of internet penetration damage Zambia's attractiveness to investors, as internet access is critical to international business. The e-commerce market is relatively new, so companies would need to rely on alternative channels for marketing and financial transactions.
- The lack of water infrastructure is a risk to businesses operating in Zambia. The underinvestment in this resource means that water supply and sanitation services are inadequate to meet domestic demand, especially in rural areas.
- Al-Shabaab has threatened to expand operations into Southern Africa.

SOURCES:

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