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# 2022 Survey on Private Sector Foreign Investment in Zambia

*Promoting Investment to Stimulate Value Addition for Improved Livelihoods*

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# 2022 Survey on Private Sector Foreign Investment in Zambia

***Promoting Investment to Stimulate Value Addition for Improved Livelihoods***

Prepared By
The Balance of Payments Statistical Committee
of the Government of the Republic of Zambia

**Disclaimer:** The opinions and expectations presented herein are of the respondents and not of the Bank of Zambia, Zambia Statistics Agency, and Zambia Development Agency

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# Executive Summary

This report presents preliminary findings of the 15th Private Capital Flows Survey for 2021 and the first half of 2022. A total of 235 enterprises with foreign liabilities and assets were enumerated out of which 143 enterprises responded translating into a response rate of 60.9 percent. This is an improvement over the 54.0 percent recorded in 2020. The survey was largely administered electronically with some targeted physical visits.

The stock of private sector foreign liabilities rose by 4.9 percent to US$21.4 billion in 2021. This was due to significant valuation changes to the foreign direct investment (FDI) stock mostly held by enterprises in the mining sector. FDI continued to account for the largest share of the stock of private sector foreign liabilities at 80.3 percent. However, the stock of foreign liabilities declined during the first half of 2022 by 11.7 percent to US$18.9 billion at end-June due to losses in the mining sector.

Net foreign liability outflows increased in 2021 to US$345.8 million from US$45.4 million in 2020. Loan repayments, mainly to fellow enterprises by the mining sector as well as debt repayments to non-affiliated enterprises in the ICT and electricity sectors, accounted for this outturn. FDI liability outflows amounted to US$122.1 million in 2021 against a net inflow of US$245.2 million recorded in 2020. Higher debt repayments by the mining sector more than offset a rise in retained earnings recorded in the mining, deposit-taking corporations, manufacturing as well as information and communications sectors. This led to the net outflow of FDI liabilities. Canada remained the major source of FDI liabilities.

The stock of private sector foreign assets increased by 17.4 percent to US$3.7 billion in 2021, largely reflecting higher trade receivables. Asset flows marginally increased in 2021 to US$721.7 million from the US$721.4 million recorded in 2020 due to trade receivables to some companies in the mining sector from non-related parties and loan repayments to entities in the sector from related parties. FDI asset flows fell by US$254.3 million in 2021 from the net acquisition of US$64.0 million registered in 2020 because of loan repayments by affiliates to entities in the mining sector. The United Kingdom dominated FDI asset withdrawals while Canada held most of the asset stock.

In terms of investor perception, the survey findings revealed that peace and security, market potential, good infrastructure and political stability were the main factors that influenced decisions to invest and re-invest in Zambia. The main Government policies and measures perceived as most effective at promoting investment were the creation of a conducive governance environment, economic diversification, improved transport infrastructure and facilitation of business linkages.

# 1.0 Introduction

This report summarises survey findings on private sector flows in Zambia for 2021 and the first half of 2022. It provides highlights on the magnitude, types and direction of foreign private capital liabilities and assets.

The survey was undertaken in conformity with the International Monetary Fund (IMF) Balance of Payments and International Investment Position Manual Sixth Edition (BPM6) and the Organisation for Economic Co-operation and Development (OECD) Benchmark definition of Foreign Direct Investment.

The survey was largely administered electronically through emails and follow-ups through telephone calls. Some targeted physical follow-ups were made to resolve queries. A total of 235 questionnaires were administered out of which 143 enterprises responded translating into a response rate of 60.9 percent, an improvement from the 54.0 percent recorded in 2020. This notwithstanding, the response rate is significantly below the pre-COVID-19 average of about 80.0 percent. Reduced physical interaction with respondents could have contributed to the lower response rate recorded in recent years. The survey period was also extended to accommodate a larger number of respondents.

A 100 percent response rate was recorded in the deposit-taking corporations and electricity sectors as shown in the Table below. This was followed by mining (75.0 percent), real estate (68.8 percent), transport and storage (66.7 percent), information and communications (66.7 percent), wholesale and retail (66.7 percent) and insurance and other financial (61.9 percent) sectors.

Sample Distribution by Sector

| Sector | Number of Enterprises Sampled | Number of Enterprises that Responded | Response Rate (Percent) |
|---|---|---|---|
| Deposit-Taking Corporations | 16 | 16 | 100.0 |
| Electricity | 4 | 4 | 100.0 |
| Mining and Quarrying | 12 | 9 | 75.0 |
| Real Estate | 16 | 11 | 68.8 |
| Transport and Storage | 18 | 12 | 66.7 |
| Information and Communication | 27 | 18 | 66.7 |
| Wholesale and Retail trade | 6 | 4 | 66.7 |
| Insurance and Other Financial | 42 | 26 | 61.9 |
| Manufacturing | 11 | 6 | 54.5 |
| Construction | 12 | 6 | 50.0 |
| Agriculture, Forestry and Fishing | 8 | 4 | 50.0 |
| Professional, Scientific and Technical | 47 | 21 | 44.7 |
| Administrative and Support Service | 12 | 5 | 41.7 |
| Accommodation and Food Service | 4 | 1 | 25.0 |
| **Grand Total** | **235** | **143** | **60.9** |

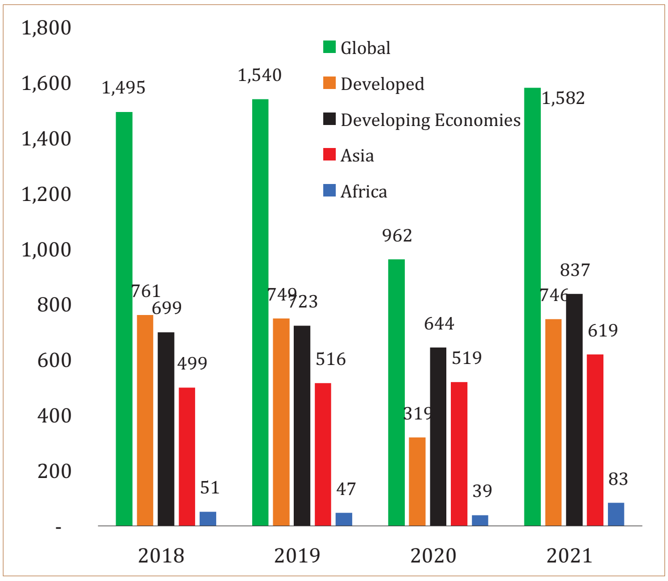
Source: Foreign Private Investment & Investor Perceptions Survey, 2022

# 2.0 Global FDI flows

*global FDI flows recover strongly*

In 2021, global FDI flows recovered strongly to pre-pandemic levels, rising by 64.0 percent to about US$1.6 trillion as indicated in the chart below. This is a significant rebound following a 35.0 percent slump in 2020, the lowest since 2005. All the regions recorded higher inflows with developed and developing economies leading the recovery. Stimulus packages in major economies, growth in international project finance on account of loose financing conditions as well as mergers and acquisitions were the key drivers behind the rebound in FDI.

Global FDI Inflows (US$ billion), 2018-2021




Source: World Investment Report, 2022

## 2.1 Regional Investment Trends

*FDI inflows surge*

Developed economies accounted for most of the global FDI flows in 2021. Stimulus packages facilitated record earnings for multinational enterprises and led to higher FDI flows. Thus, the share of global flows accounted for by developed countries rose to pre-pandemic levels of about 50.0 percent from 33.0 percent in 2020.

FDI flows to developing economies rose by 30.0 percent, largely reflecting resilient growth in Asia and a partial recovery in Latin America and the Caribbean.

In Africa, FDI flows more than doubled to US$83.0 billion, a strong rebound from US$39.0 billion in 2020. A large intra-firm financial transaction in South Africa largely explained the outturn. Nonetheless, FDI flows to the region accounted for only 5.2 percent of global FDI in 2021.

## 2.2 Prospects for Global FDI

*global FDI flows projected to decline in 2022*

In 2022, UNCTAD projects a decline in global FDI flows. Investor confidence has been tapered by the Russia–Ukraine conflict, which exacerbated the lingering effects of the COVID-19 pandemic and led to food, fuel and finance challenges facing most regions in the world. Thus, new project activities are showing signs of increased risk aversion among investors. Preliminary data for the first quarter of 2022 show greenfield project numbers down by 21.0 percent and international project finance deals down by 4.0 percent.

Beyond 2022, downside risks to FDI are likely to persist in view of inflationary pressures and monetary tightening in most advanced countries. The outlook is uncertain as the duration of the Russia–Ukraine conflict and the persistence of inflationary pressures in advanced economies is unknown.

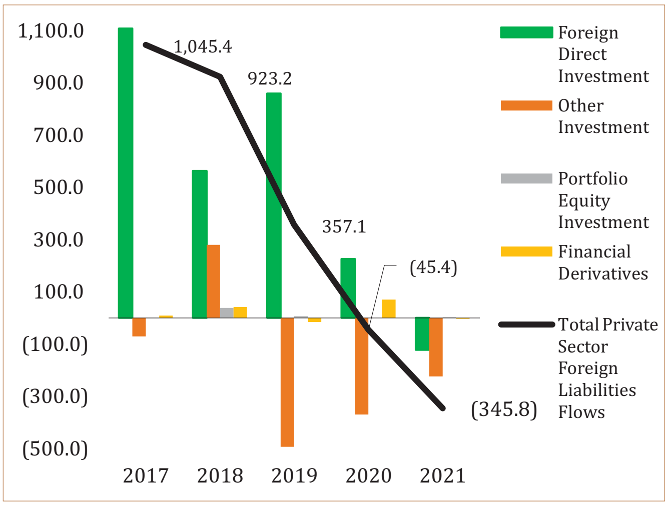
# 3.0 Foreign Liabilities

## 3.1 Foreign Liability Flows

*liability net outflows recorded due to loan repayments*

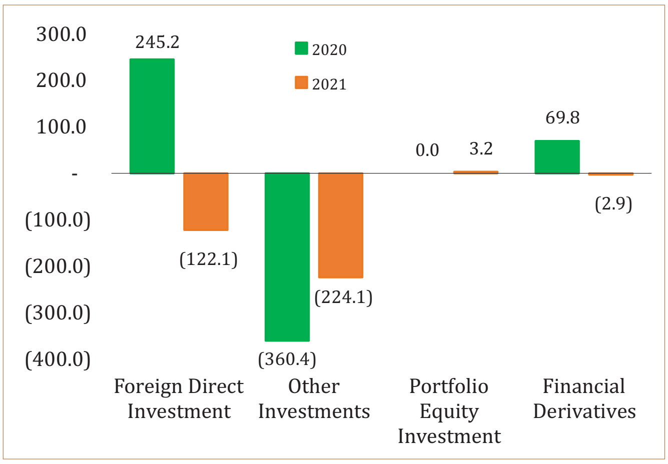
Net foreign liability outflows increased to US$345.8 million in 2021 from US$45.4 million in 2020 (Figures 3.1 and 3.2). Loan repayments, mainly to fellow enterprises by the mining sector and to non-affiliated enterprises by the ICT and electricity sectors, accounted for this outturn.

Figure 3.1: Foreign Liability Inflows (US$ million), 2017-2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

Figure 3.2: Foreign Liability Inflows by Type (US$ million), 2020–2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

A further net foreign liability outflow of US$308.2 million was recorded during the first half of 2022. This was due to net FDI outflows on account of losses recorded by enterprises in the mining, manufacturing and electricity sectors.

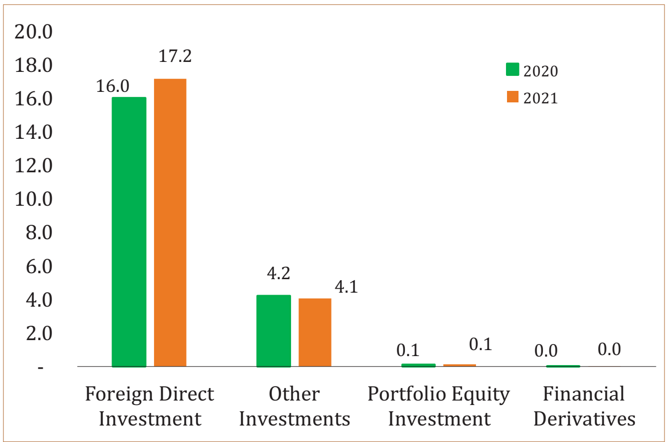
## 3.2 Foreign Liability Stocks

*stock of foreign liabilities rises and FDI continued to dominate*

The stock of private sector foreign liabilities rose by 4.9 percent to US$21.4 billion in 2021. Significant valuation changes, mostly in the mining sector, explained the rise in the stock. Specifically, substantial impairment reversals as well as gains on loan modifications accounted for the rise.

FDI continued to account for the largest share of the stock of private sector foreign liabilities (80.3 percent) followed by other investments (19.0 percent) as depicted in Figure 3.3.

Figure 3.3: Composition of Foreign Liability Stocks (US$ billion), 2020–2021



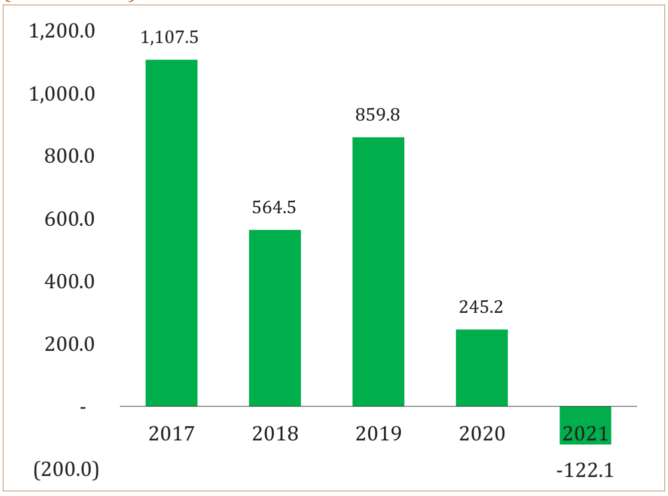

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

However, the stock of foreign liabilities declined during the first half of 2022 by 11.7 percent to US$18.9 billion at end-June due to losses in the mining sector.

*foreign direct investment into Zambia*

In 2021, net FDI liability outflows of US$122.1million were recorded against net inflows of US$245.2 million in 2020 (Figure 3.4). This was mostly attributed to higher debt repayments by the mining sector which more than offset a rise in retained earnings recorded in the mining, deposit-taking corporations, manufacturing as well as information and communication sectors.

Figure 3.4: Foreign Direct Investment Liability Flows (US$ million), 2017-2021



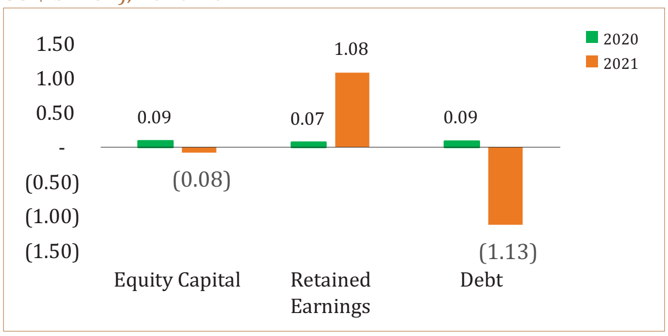

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*...foreign direct investment liability flows and stock by type*

*debt repayments rise*

Net repayments of debt, mostly to fellow enterprises in the mining sector, surged to US$1.1 billion in 2021 from a net acquisition of US$86.5 million in 2020 (Figure 3.5). In terms of equity capital flows, a net withdrawal of US$76.0 million was recorded in 2021 against a net injection of US$90.4 million in 2020. Conversely, retained earnings significantly rose to US$1.1 billion from US$68.3 million in 2020, attributed to higher profitability in the mining, deposit-taking corporations, manufacturing as well as information and communication sectors.

Figure 3.5: Foreign Direct Investment Liability Inflows by Type US $ billion), 2020-2021

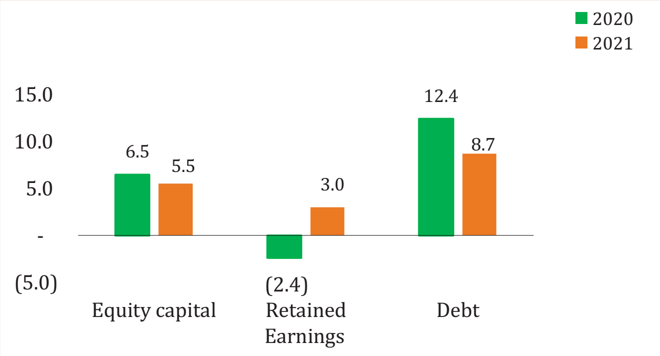



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*debt dominated FDI liability stock*

The stock of FDI liabilities increased by 4.5 percent to US$17.2 billion in 2021 explained by valuation changes on equity mainly in the mining sector. Despite a substantial net repayment of US$1.1 billion, debt continued to dominate the stock of FDI liabilities and accounted for 50.6 percent of the total stock (Figure 3.6).

Figure 3.6: Foreign Direct Investment Liability Stock by Type US $ billion), 2020-2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

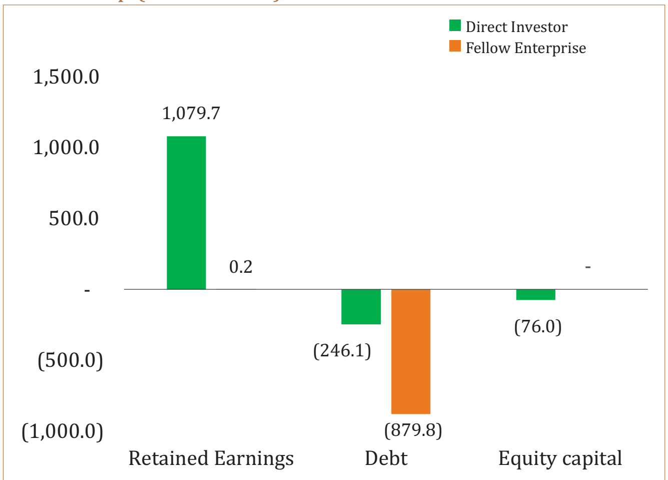
A further FDI liability net outflow of US$177.0 million was registered during the first half of 2022 due to losses in the mining, manufacturing and electricity sectors.

### *... foreign direct investment liability flows and stocks by relationship*

### *direct investors largest contributor to FDI stocks*

In 2021, loan repayments to fellow enterprises amounted to US$879.8 million and explained the net outflow of FDI liabilities (Figure 3.7).

Figure 3.7: Foreign Direct Investment Liability Inflows by Relationship (US$ millions), 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

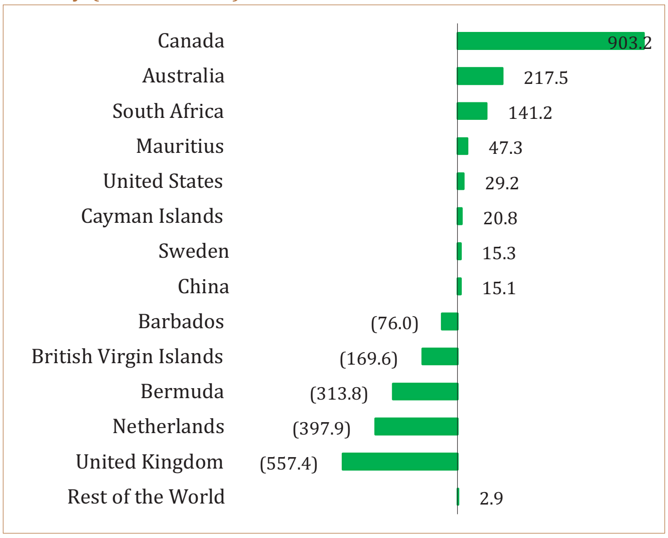
Direct investors represented 86.0 percent of the total stock of FDI liabilities, which stood at US$17.2 billion at end 2021. Fellow enterprises accounted for the remainder.

### *... foreign direct investment liability flows and stocks by source country*

### *major outflows attributed to the United Kingdom*

The bulk of the outflows were to the United Kingdom (US$557.4 million) as shown in Figure 3.8. Notable net outflows were also recorded to the Netherlands and Bermuda due to debt repayments. However, inflows were recorded from Canada, Australia, South Africa, Mauritius, the United States of America, Cayman Islands, Sweden and China.

Figure 3.8: Foreign Direct Investment Liability Inflows by Source Country (US $ millions), 2021



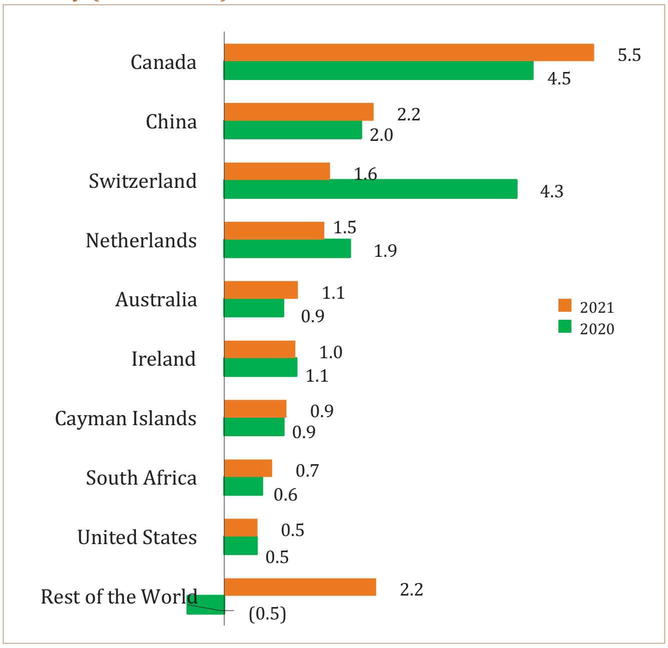

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *Canada, China, Switzerland and Netherlands major contributors to FDI liability stock*

Canada, China, Switzerland and Netherlands continued to be the top four source country contributors to FDI liability stock in 2021 (Figure 3.9). These countries represented 62.2 percent of the total stock, an increase from 60.8 percent in 2020.

The FDI liability stocks continued to be dominated by mining investments from Canada, Switzerland, Australia, China and the United Kingdom.

Figure 3.9: Foreign Direct Investment Liability Stocks by Source Country (US$ billions), 2020-2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

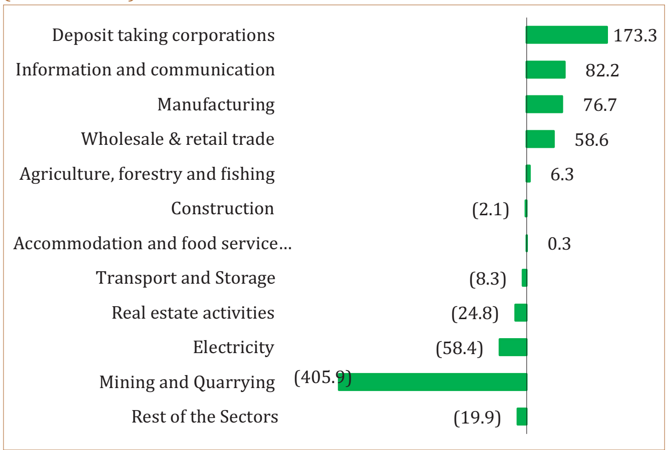
*... foreign direct investment liability flows and stocks by sector*

*deposit taking corporations sector major recipient of FDI inflows*

The deposit-taking corporations sector recorded the highest net inflow of US$173.3 million in 2021, largely in form of retained earnings (Figure 3.10). Other sectors that recorded net inflows were information and communications, manufacturing, wholesale and retail, as well as agriculture, forestry and fishing.

The mining sector recorded the highest net outflow on account of increased debt repayments despite higher retained earnings. Net outflows in the electricity, real estate as well as transport and storage sectors reflect net losses and net debt repayments.

Figure 3.10: Foreign Direct Investment Liability Inflows by Sector (US$ million), 2021

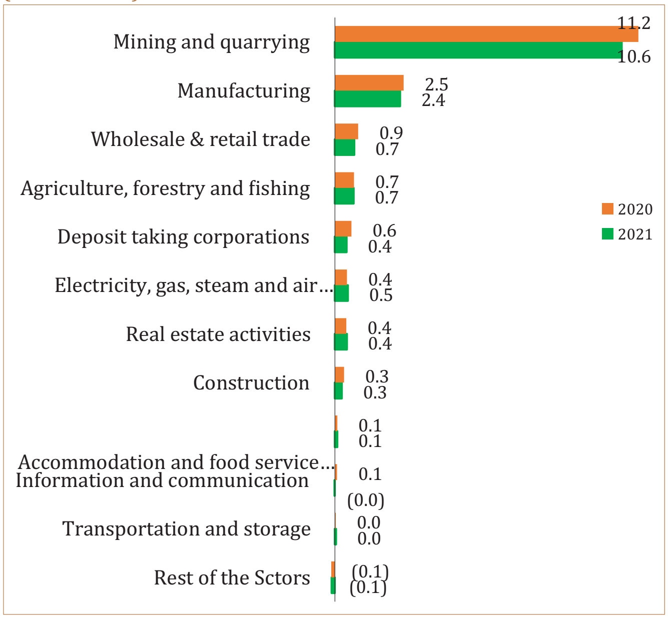



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*FDI stock concentrated in mining sector*

With regard to the distribution of FDI liability stock by sector, mining contributed the largest share of 65.3 percent mainly in form of debt, an increase from 56.6 percent in 2020 (Figure 3.11). Manufacturing, wholesale and retail trade, agriculture, deposit-taking corporations as well as electricity sectors collectively accounted for 30.0 percent.

Figure 3.11: Foreign Direct Investment Liability Stocks by Sector, (US$ billions), 2020-2021



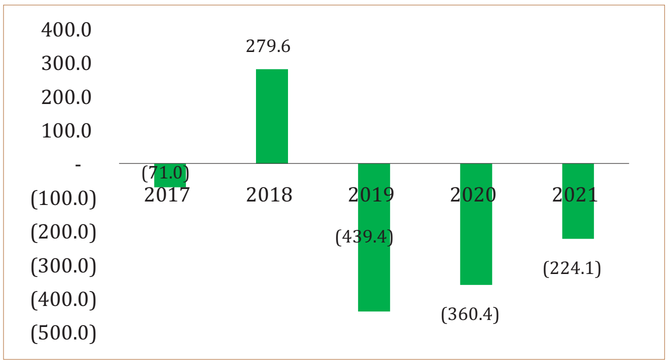

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## Other Investment Liabilities

*debt repayments rise*

A net outflow of US$224.1 million in other investment liabilities was recorded in 2021 compared to US$360.4 million in 2020 (Figure 3.12). Loan repayments by the electricity, information and communications as well as manufacturing sectors accounted for this outturn. Consequently, the stock of other investments fell by 3.7 percent to US$4.1 billion in 2021.

Figure 3.12: Other Investment Liability Flows (US$ millions), 2017-2021



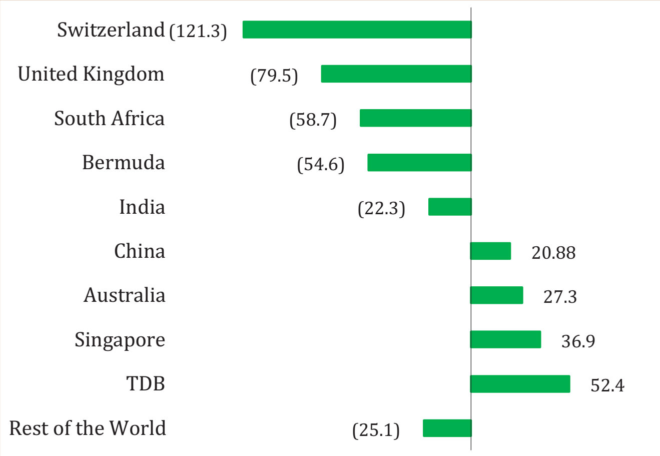

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... other investment flows and stocks by source country*

*Switzerland records highest net outflows*

Total net outflows of US$224.1million, mainly in form of loan repayments, were recorded in 2021. Most repayments went to Switzerland followed by the United Kingdom, South Africa, Bermuda and India (Figure 3.13). Net inflows were, however, received from the Trade and Development Bank of Eastern and Southern Africa, Singapore, Australia and China.

Figure 3.13: Other Investment Inflows by Source Country (US$ millions), 2021

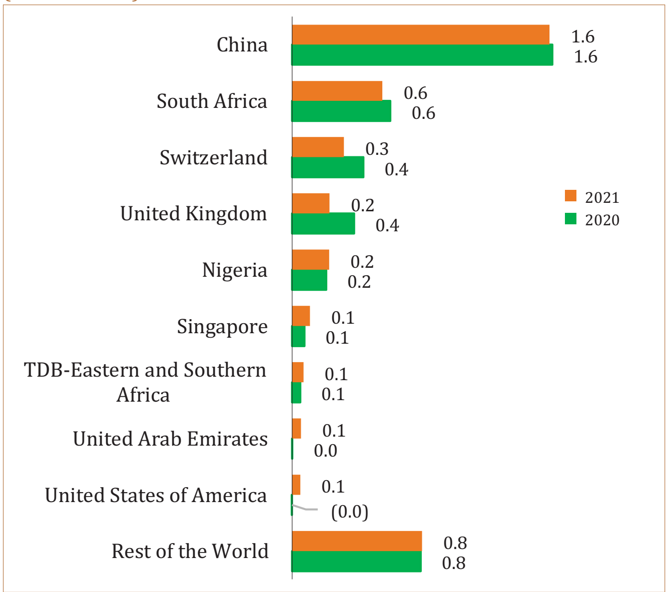



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *China dominates other investment liability stocks*

China recorded US$1.6 billion in other investment liabilities, representing the largest share of 39.6 percent (Figure 3.14). South Africa was second (13.9 percent) followed by Switzerland (8.0 percent) and the United Kingdom (5.8 percent).

Figure 3.14: Other Investment Stocks by Source Country (US$ billions), 2020 - 2021



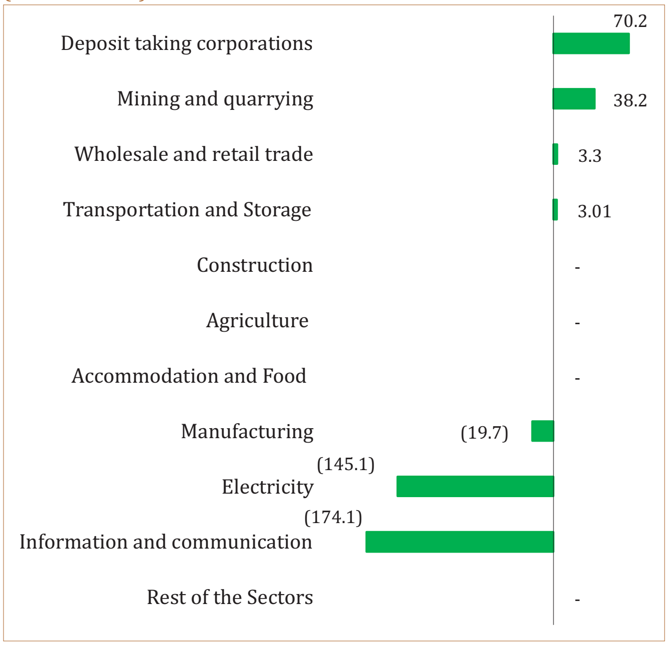

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *... other investment flows and stocks by sector*

### *net outflows largely recorded by information and communication sector*

Net outflows in form of debt repayments were recorded by the information and communications (US$174.1 million), electricity (US$145.1 million), as well as manufacturing (US$19.7 million) sectors (Figure 3.15). However, deposit-taking, mining, wholesale and retail as well as transport and storage sectors registered net inflows.

Figure 3.15: Other Foreign Investment Inflows by Sector (US$ millions), 2021

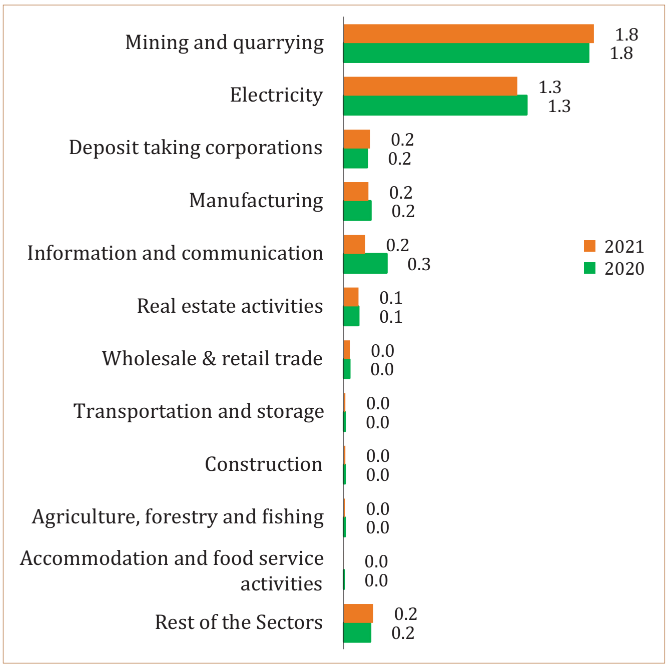



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *mining sector contributed largest share to other investment stock*

The mining sector accounted for the largest share of other investment stock in form of loans (45.4 percent) following a growth of 2.2 percent to US$1.8 billion (Figure 3.16). The electricity sector was second at 31.5 percent despite registering a 5.1 percent decrease in the stock to US$1.3 billion.

Figure 3.16: Other Foreign Investment Stocks by Sector (US$ billions), 2020 – 2021



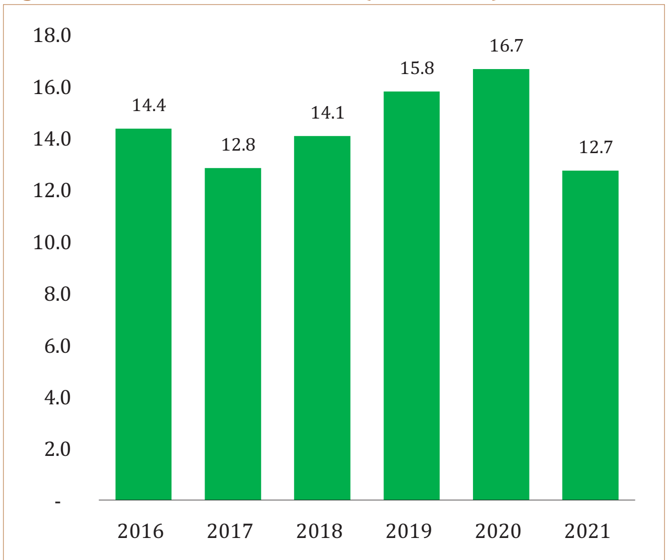

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## External Debt Stock

*private sector debt falls by 23.5 percent*

The stock of private sector[1] external debt reduced by 23.5 percent to US$12.7 billion at end-2021 (Figure 3.17). Valuation changes in FDI loans, mostly in the mining sector, accounted for this outturn. At end-June 2022, the debt stock declined further to US$8.7 billion due to loan repayments by the mining sector as well as net withdrawals in the deposit-taking corporations sector. Long-term borrowing accounted for 76.8 percent of the stock.

Figure 3.17: Stock of External Debt (US$ billions), 2016–2021



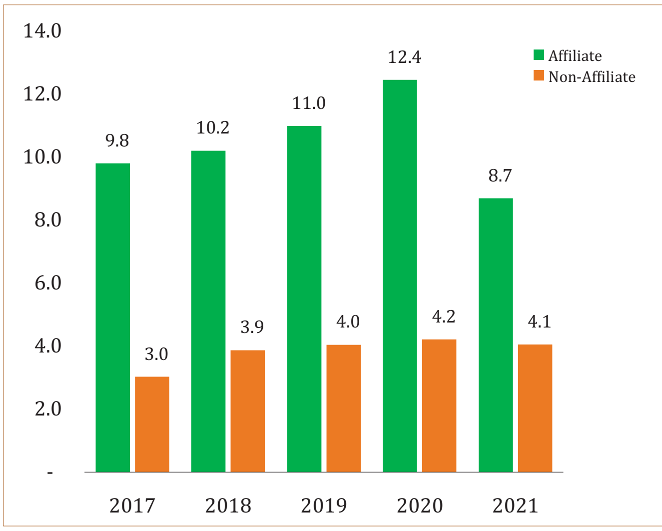

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... external debt stock by investor relationship*

*private debt largely from foreign affiliates*

Borrowing was mainly from foreign affiliates (US$8.7 billion), representing 68.2 percent of the total stock (Figure 3.18).

Figure 3.18: Private Sector Debt Stock by Relationship (US$ billions), 2017-2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... external debt stock by sector*

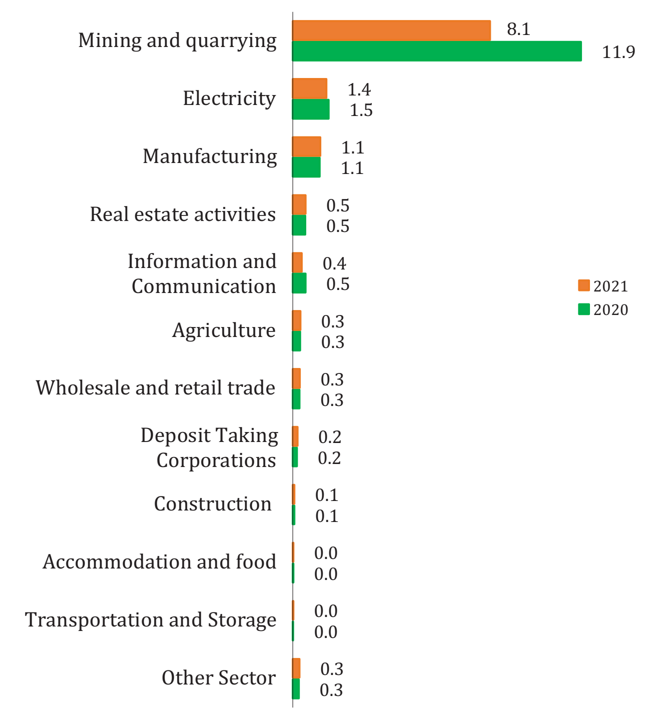
*concentrated mostly in mining sector*

The mining sector accounted for 63.9 percent of total private external debt in 2021 mostly in form of loans from affiliates (Figure 3.19). This was followed by the electricity and manufacturing sectors with 10.9 percent and 8.9 percent, respectively.

In the first half of 2022, the mining sector continued to dominate the external debt stock, at 68.9 percent, and largely in form of loans. The electricity and manufacturing sectors accounted for 9.5 and 7.9 percent, respectively.

[1] Private sector external debt stock constitutes long and short-term borrowing from affiliates (FDI related borrowing) and non-affiliates. It includes loans, debt securities, trade credits and advances, currency and deposits, life and non-life insurance, technical reserves, pension entitlements, standardised guarantees, and other accounts payable.

Figure 3.19: External Debt Stock by Sector (US$ billions), 2020- 2021



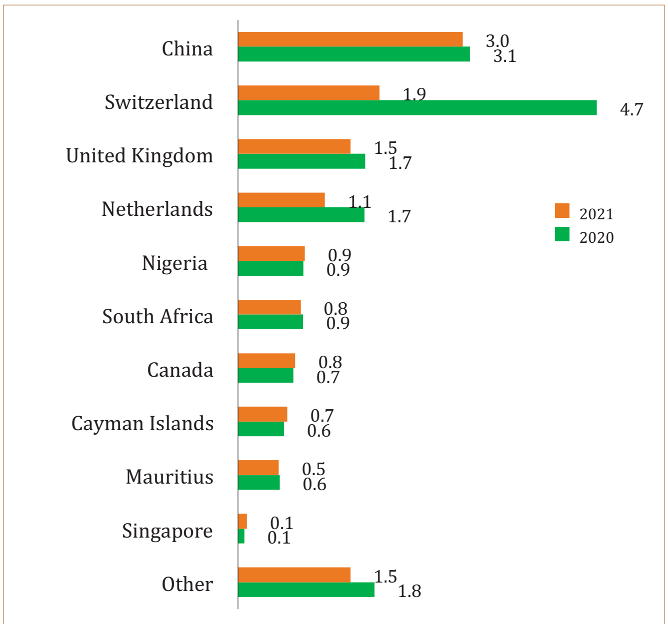

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... external debt stock by source country*

*China major contributor to stock of debt*

China was a major source country for the stock of external borrowing, accounting for 23.3 percent in 2021 (Figure 3.20). This was followed by Switzerland[2] (14.7 percent), the United Kingdom (11.7, percent) and the Netherlands (9.0 percent).

Figure 3.20: External Debt Stock by Source Country (US$ billions), 2020-2021



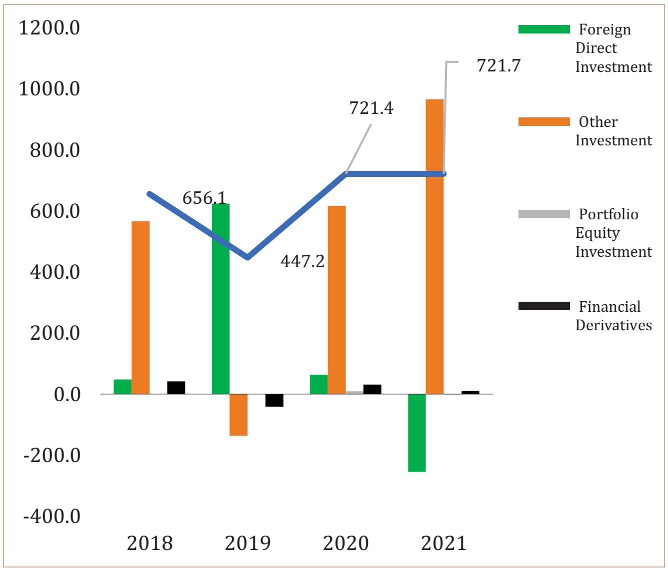

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

# 4.0 Foreign Assets

*asset flows marginally increase*

In 2021, total private sector asset flows increased by US$0.3 million to US$721.7 million (Figure 4.1). This was mostly due to the increase in trade receivables from non-related parties.

Figure 4.1: Foreign Asset Flows (US$ million), 2018 – 2021

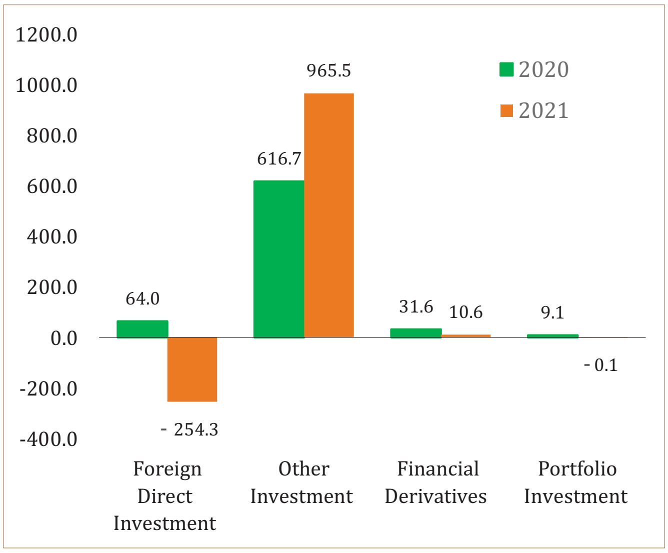



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

Trade receivables to some mining companies from non-related parties significantly rose and contributed to a 56.6 percent rise in other investment assets to US$965.5 million (Figure 4.2). On the other hand, a net outflow of US$254.3 million in FDI assets, largely due to loan repayments by affiliates to entities in the mining sector, was recorded. A reduction in spending on hedging instruments with non-residents by the mining sector and deposit-taking corporations explained the reduction in financial derivative assets.

[2]There was a 60.6 percent reduction in debt attributed to Swiss based enterprises following significant revaluation mostly in the mining sector.

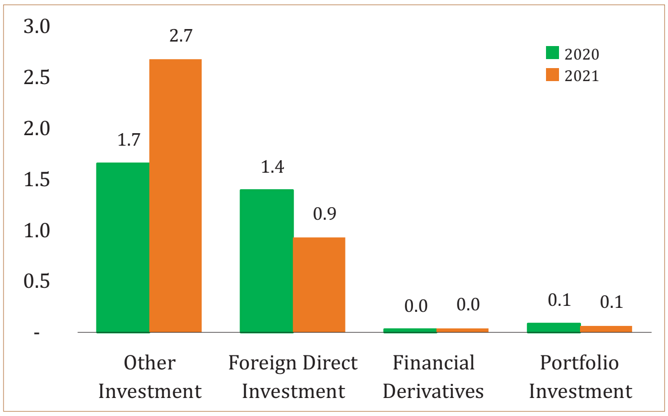
Figure 4.2 Private Sector Foreign Asset Flows by Type (US$ million), 2020 – 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

The stock of foreign assets increased by 17.4 percent to US$3.7 billion in 2021 mainly due to trade receivables. The stock of other investment assets accounted for the largest share, at 72.2 percent, while FDI assets represented 25.1 percent of the total stock (Figure 4.3).

Figure 4.3: Composition of Private Sector Foreign Asset Stock by Type (US$ billion), 2020 – 2021



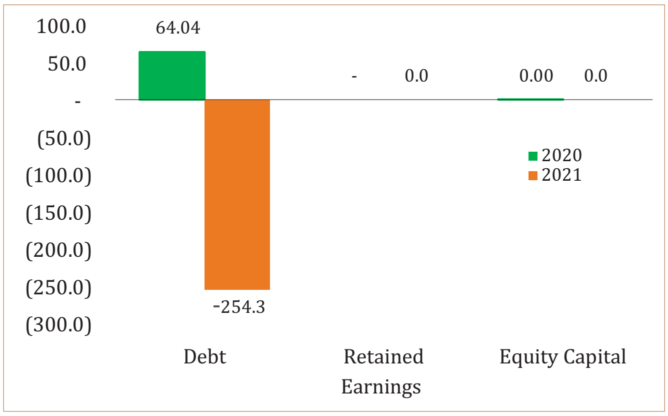

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*Foreign Direct Investment Assets*

*debt flows reverse*

Loan repayments by affiliates to firms in the mining sector largely underpinned a net FDI asset flow of US$254.3 million in 2021 compared to net debt provision of US$64.0 million in 2020 (Figure 4.4). There were no movements in equity capital and retained earnings flows in 2021.

Figure 4.4: Foreign Direct Investment Asset Flows by Type (US$ million), 2020–2021



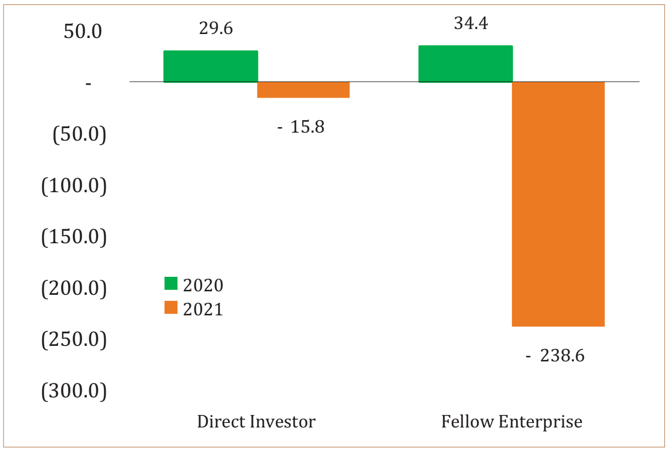

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... foreign direct investment asset flows and stocks by investor relationship*

*FDI assets flow with fellow enterprises negative*

Repayments of loans by fellows to firms in the mining sector underpinned a net reduction in FDI assets. As a result, the drawdown in FDI assets from fellows exceeded new acquisitions by US$238.6 million (Figure 4.5). Fellow enterprises accounted for 90.8 percent of the total stock, which stood at US$0.8 billion at end-2021 while direct investors accounted for the remainder.

Figure 4.5: Foreign Direct Investment Asset Flows by Relationship (US$ million), 2021



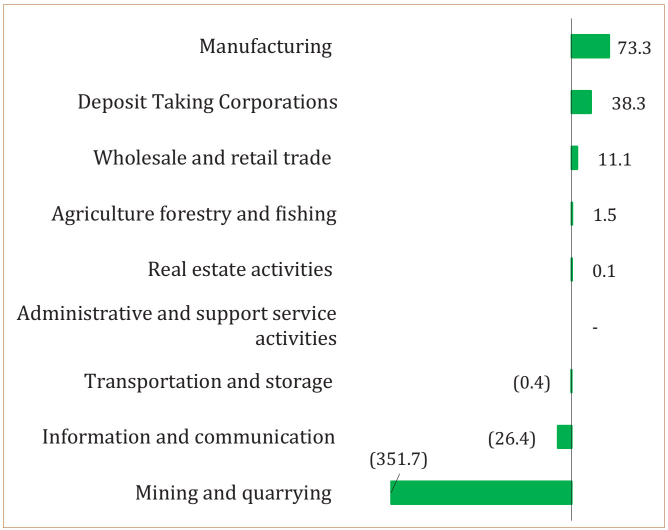

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... foreign direct investment asset flows and stocks by sector*

*mining sector FDI assets slump*

FDI asset outflow by the mining sector exceeded new acquisitions by US$351.7 million due to increased loan repayments from affiliates (Figure 4.6). The information and communications as well as transport and storage sectors also recorded excess of withdrawals over acquisitions amounting to US$26.4 million and US$0.4 million, respectively. However, manufacturing, deposit-taking corporations and wholesale and retail sectors recorded more acquisitions relative to withdrawals of US$73.3 million, US$38.8 million, and US$11.1 million, respectively.

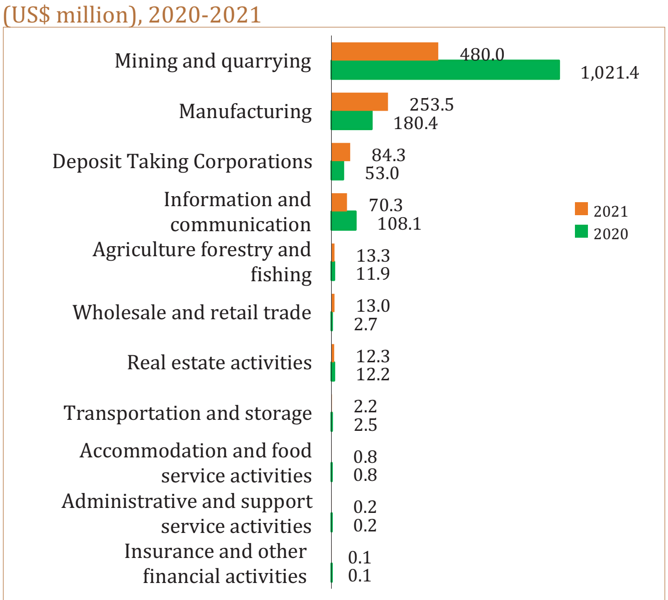
Figure 4.6: Foreign Direct Investment Asset Flows by Sector (US$ million), 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

The stock of FDI assets was dominated by the mining sector, at US$480.0 million, representing 51.6 percent (Figure 4.7). This was followed by the manufacturing (27.3 percent), deposit-taking corporations (9.1 percent) as well as information and communication (7.6 percent) sectors.

Figure 4.7: Foreign Direct Investment Asset Stocks by Sector (US$ million), 2020-2021



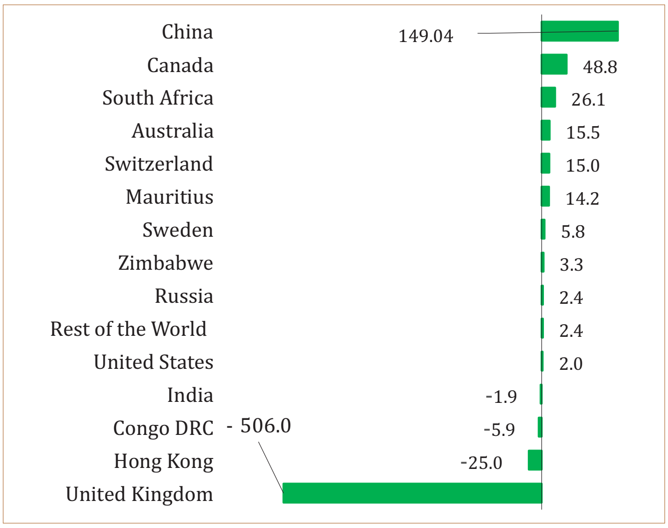

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *...foreign direct investment asset flows and stocks by destination country*

### *United Kingdom dominate FDI asset withdrawals*

The drawdown in FDI assets exceeded new acquisitions to the United Kingdom and Hong Kong by US$506.0 million and US$25.0 million, respectively (Figure 4.8). The drawdown was underpinned by debt repayments. However, China, Canada and South Africa recorded excess of acquisitions.

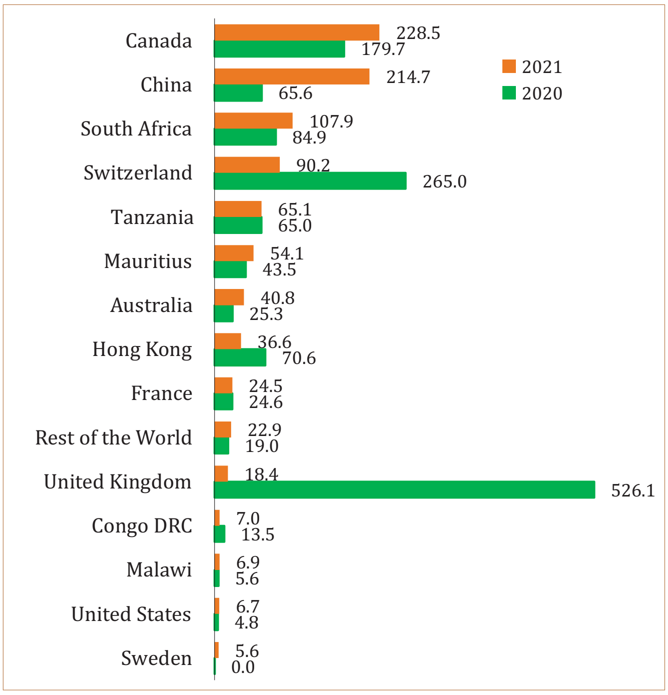
Figure 4.8: Foreign Direct Investment Asset Flows by Destination Country (US$ million), 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

The stock of FDI assets declined by 33.3 percent to US$0.9 billion. Canada accounted for the largest share at 24.6 percent of the total stock (Figure 4.9).

Figure 4.9: Foreign Direct Investment Asset Stocks by Destination Country (US$ million), 2020-2021



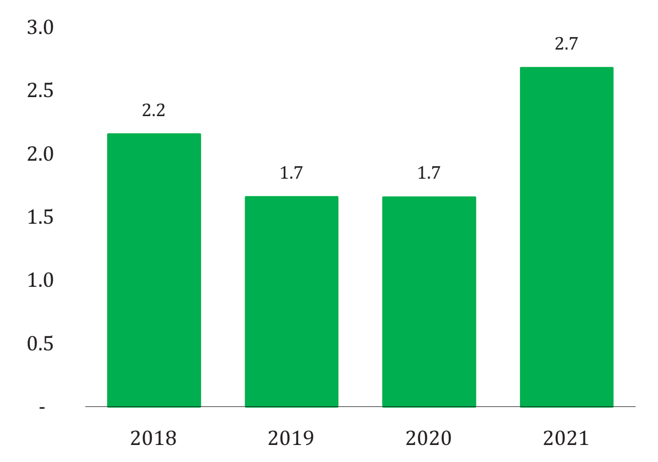

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## Other Investment Assets

*trade receivables to the mining sector rise*

Other investment flows increased to US$965.5 million in 2021 from US$616.7 million in 2020 largely on account of the rise in trade receivables. This was mostly explained by the increase in exports by the mining sector. Consequently, the stock of other investment assets increased by 61.8 percent to US$2.7 billion (Figure 4.10). Debt, at US$2.6 billion, accounted for the largest share of the stock amounting to 92.9 percent while equity capital accounted for the remainder.

Figure 4.10: Other Investment Asset Stock (US$ billion), 2018 - 2021



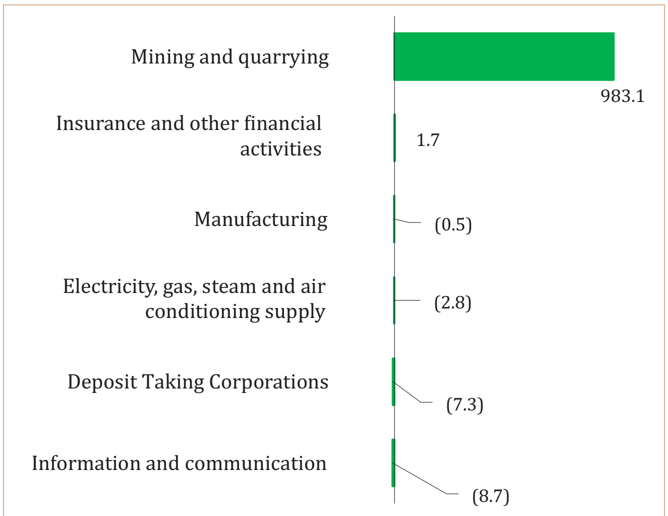

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*...other investment assets flows and stocks by sector*

*mining dominates*

In 2021, the mining, and insurance and other financial activities sectors recorded net acquisition of assets in form of debt and equity capital amounting to US$1.0 billion and US$1.7 million, respectively (Figure 4.11).

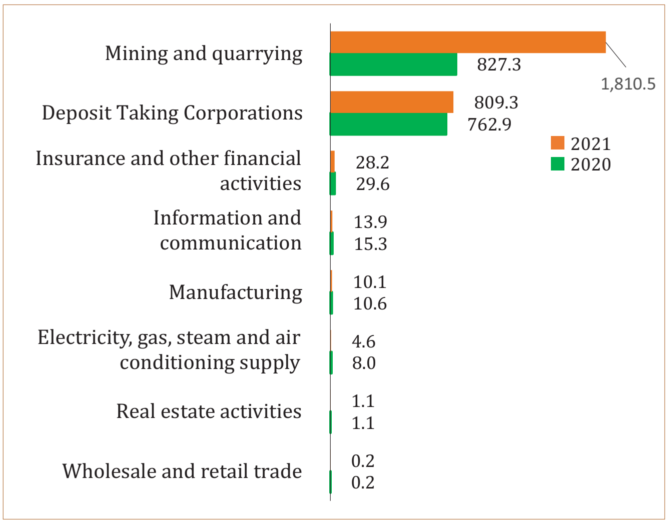
Figure 4.11: Other Investment Asset Flows by Sector (US$ million), 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

Further, other investment stocks held by the mining sector accounted for the largest share, at US$1.8 billion, representing 67.6 percent (Figure 4.12). Deposit-taking corporations were the second largest (30.2 percent) followed by insurance and other financial activities (1.1 percent) and information and communication (0.5 percent) sectors.

Figure 4.12: Other Investment Asset Stocks by Sector (US$ million), 2020-2021



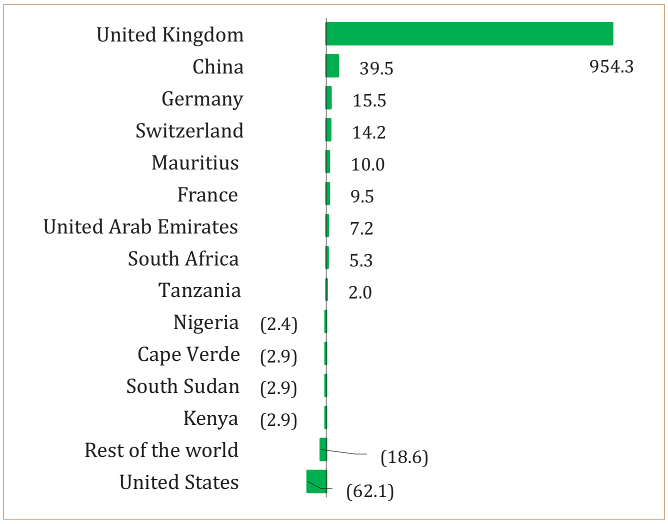

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... other investment asset flows and stocks by destination country*

*UK dominates*

Net acquisitions of other investment assets were registered in the United Kingdom (US$954.3 million), China (US$39.5 million) and Germany (US$15.5 million) (Figure 4.13). However, net withdrawals in other investment assets were recorded in the United States, Kenya and South Sudan.

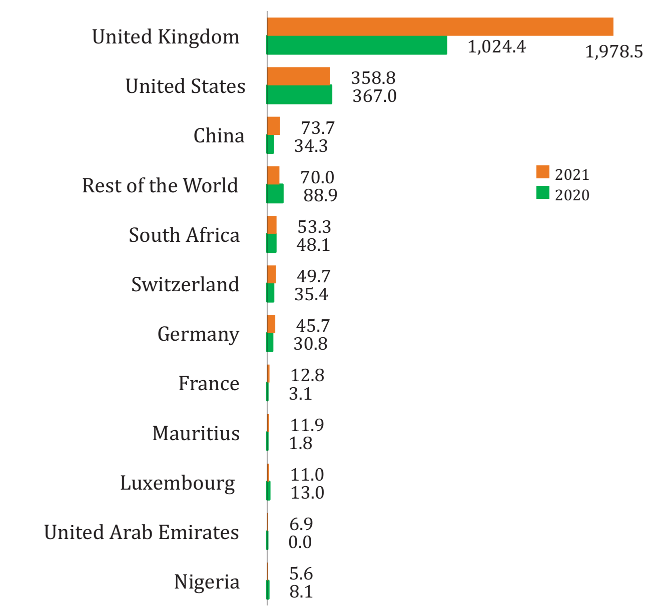
Figure 4.13: Other Investment Asset Flows by Destination Country (US$ million), 2021




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

Other investment asset stock was predominantly held in the United Kingdom (US$2.0 billion) representing 73.9 percent of the total stock (Figure 4.14). This was followed by the United States of America (13.4 percent), China (2.8 percent), South Africa (2.0 percent), Switzerland (1.9 percent) and Germany (1.7 percent).

Figure 4.14: Other Investment Asset Flows by Destination Country (US$ million), 2020-2021



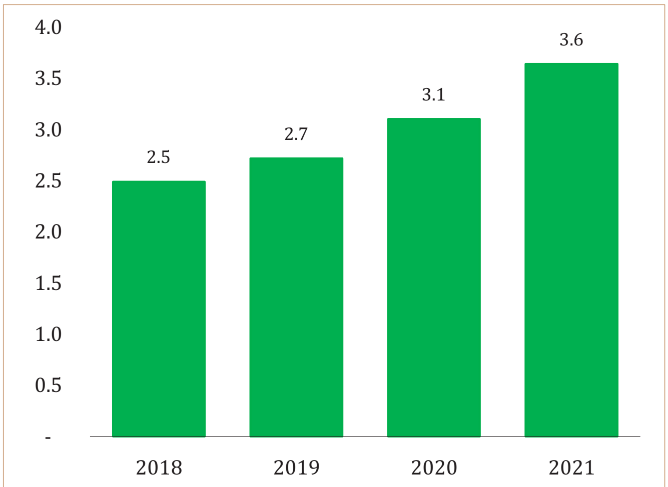

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## External Lending

### *stock rises*

The stock of private sector external lending increased by 17.4 percent to US$3.6 billion in 2021 (Figure 4.15). This was due to the rise in holdings of trade and other receivables by the mining sector as well as currency and deposits by deposit-taking corporations. Trade receivables, at US$2.2 billion, accounted for the largest share (61.1 percent) of private sector external lending.

Figure 4.15: Total Stock of External Lending, (US$ million), 2018- 2021



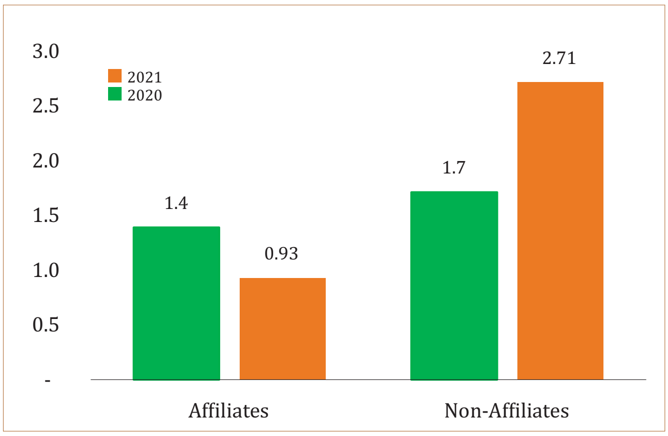

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *... stock of external lending by investment relationship*

### *non-affiliates dominate*

Non-affiliates, at US$2.7 billion or 74.6 percent, held most of the stock of private sector external lending (Figure 4.16).

Figure 4.16: External Lending by Investment Relationship (US$ billions), 2020- 2021



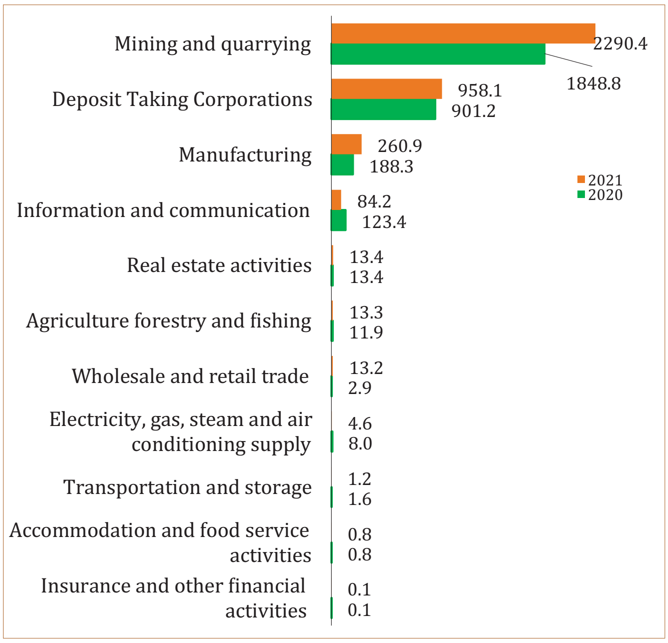

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *... stock of external lending by sector*

### *mining and deposit-taking corporations major providers of external lending*

The mining sector and deposit-taking corporations dominated private sector external lending at US$2.3 billion and US$1.0 billion, respectively. These sectors collectively accounted for 89.2 percent of the stock (Figure 4.17).

Figure 4.17: Private Sector External Lending by Sector (US$ million), 2020-2021



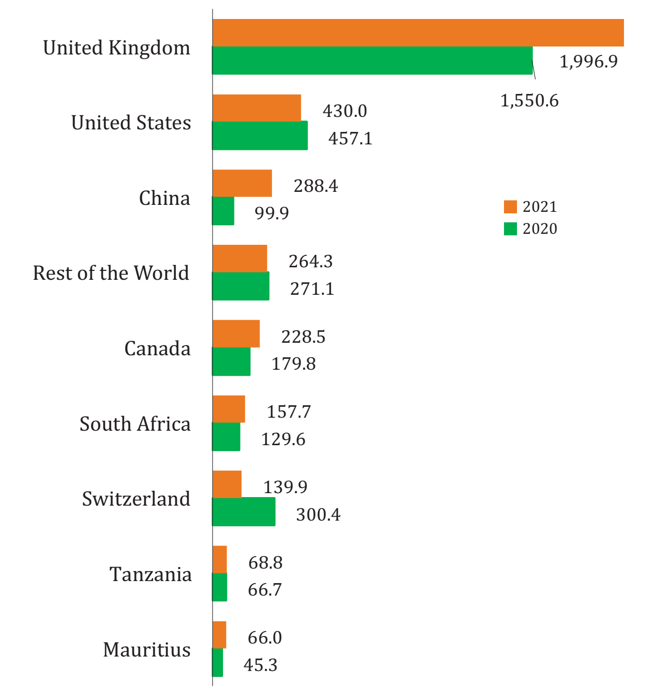

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*... stock of external lending by destination country*

*lending to UK dominant*

The major destination country for private sector external lending was the United Kingdom (US$2.0 billion or 54.9 percent) as shown in Figure 4.18. This was followed by the United States of America (11.8 percent), China (7.9 percent), Canada (6.3 percent), South Africa (4.3 percent) and Switzerland (3.8 percent), which collectively accounted for 89.0 percent.

Figure 4.18: Total Stock of Private Sector External Lending by Source Country, (US$ million), 2020 2021



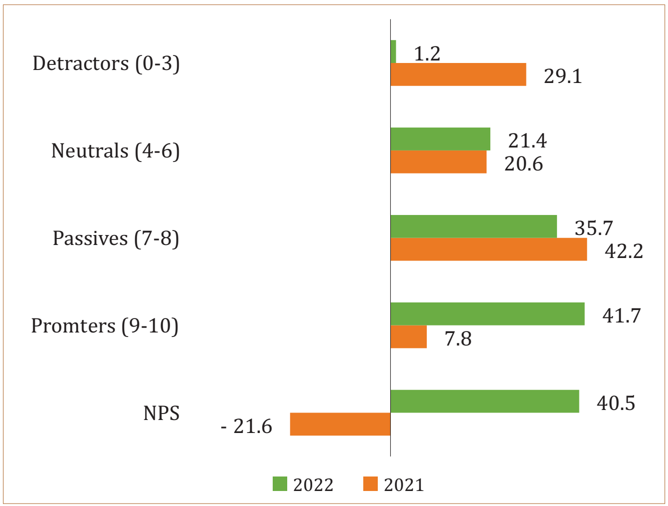

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

# 5.0 Investor Perceptions

*overall investor perception improves*

Respondents were asked to rate their overall satisfaction regarding investing in Zambia on a scale of 0-10. The majority of the respondents were passives (7-8) and promoters (9-10), giving a net-promoter score[3] of 40.5 percent (Figure 5.1). This indicates an overall satisfaction rating. This represented a significant improvement in investor satisfaction in 2022 by 62.1 percentage points from -21.6 percent in 2021. Most of the respondents who were satisfied are in the manufacturing and services sectors.

Figure 5.1: Overall Investor Perception (Percent), 2021-2022



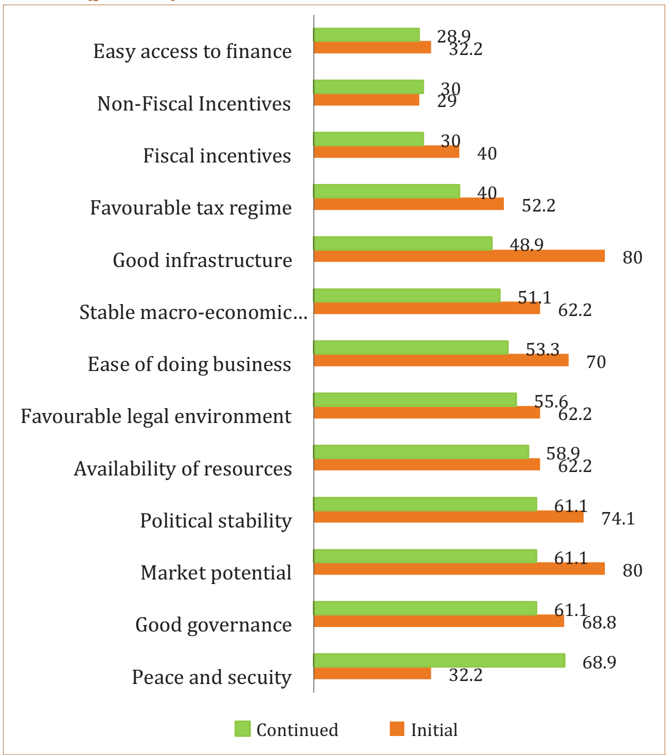

Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*motivation for re-investment*

Market potential, good infrastructure and political stability were the main investor-pull factors while peace and security and good governance motivated re-investments (Figure 5.2).

[3] Net Promoter Score = %Promoters - % Detractors

Figure 5.2: Factors Motivating Investment and Re-Investment in Zambia (percent), 2022

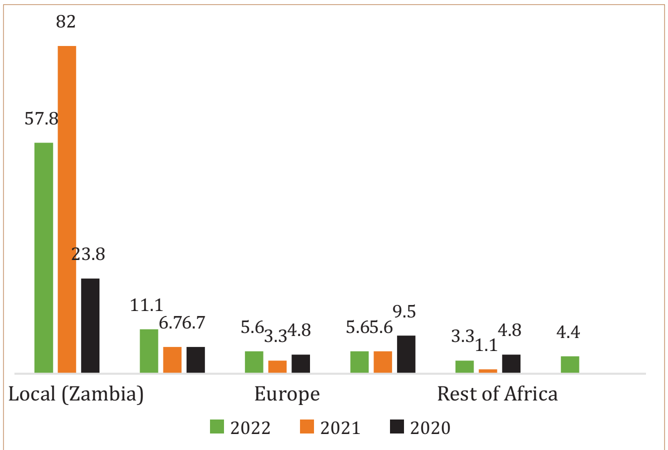



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## *export orientation: market for products*

The majority of the respondents continued to produce for the local market (Figure 5.3). This was followed by the regional market.

Figure 5.3: International Trade Orientation, 2022

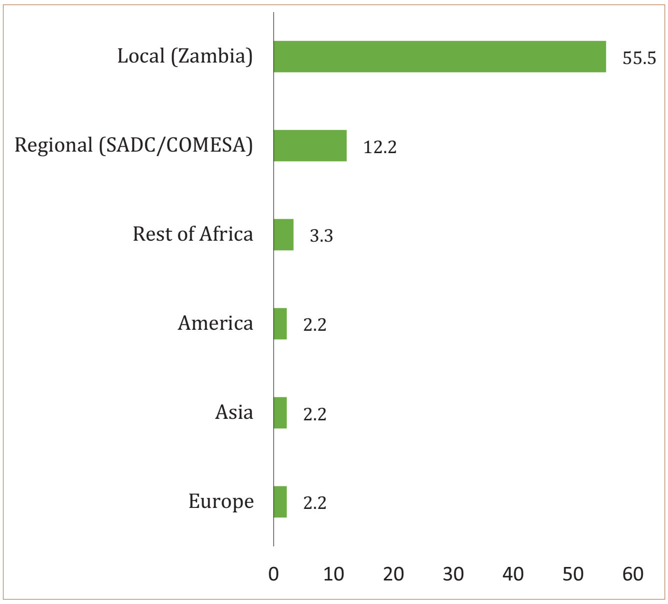



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## *market for services*

Services were mostly provided to the domestic market (Figure 5.4). This was followed by the regional market.

Figure 5.4: Market for Services (Percent), 2022

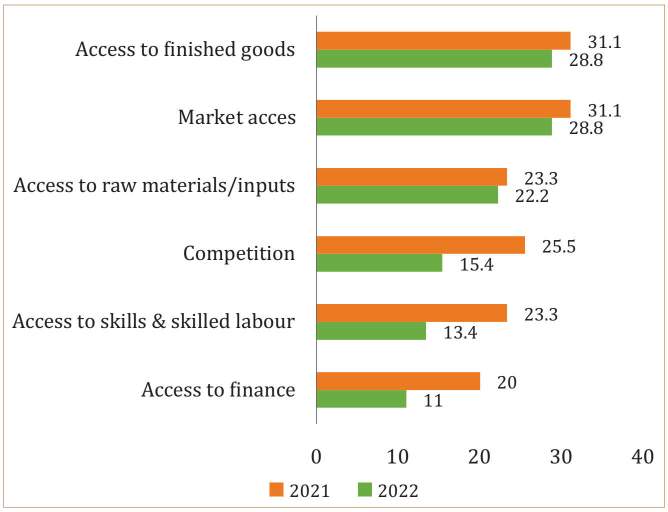



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## *benefits of membership to SADC and COMESA*

The main benefits of Zambia's membership to SADC and COMESA were perceived to be increased access to finished goods and enhanced market access (Figure 5.5).

Figure 5.5: Benefits of membership to SADC and COMESA (percent), 2022

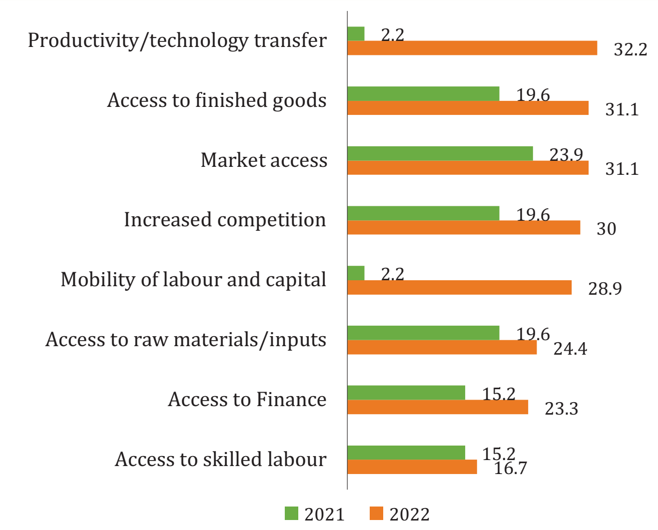



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

## *benefits of membership of the AfCFTA*

About 42 percent of the respondents were aware of the AfCFTA. The main benefits associated with the AfCFTA are perceived increased productivity (technological transfer), access to finished goods and market access (Figure 5.6).

Figure 5.6: Benefits of membership to the AfCFTA (Percent), 2022

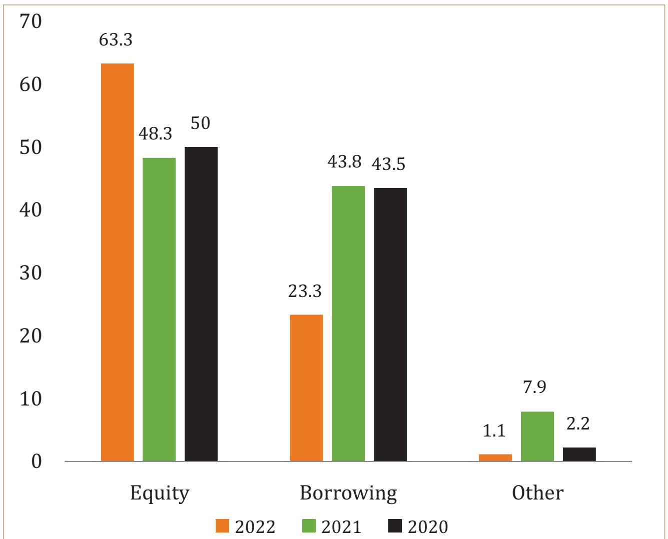



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *source of financing for re-investment*

Equity and debt were reported as major sources of finance for re-investment (Figure 5.7).

Figure 5.7: Sources of Finance (percent), 2022

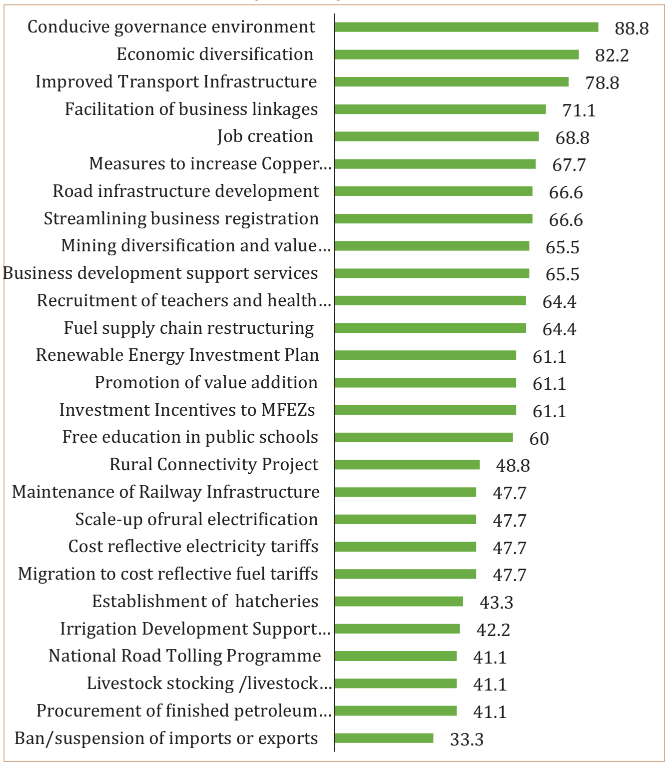



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *Government policies and measures to stimulate investment*

The creation of a conducive governance environment was perceived as the most significant factor for stimulating investment (Figure 5.8). In contrast, the irrigation development programme and the ban on imports/exports were perceived as the least effective interventions aimed at investment and growth.

Figure 5.8: Government Policies and Measures at Promoting Growth and Investment (Percent), 2022

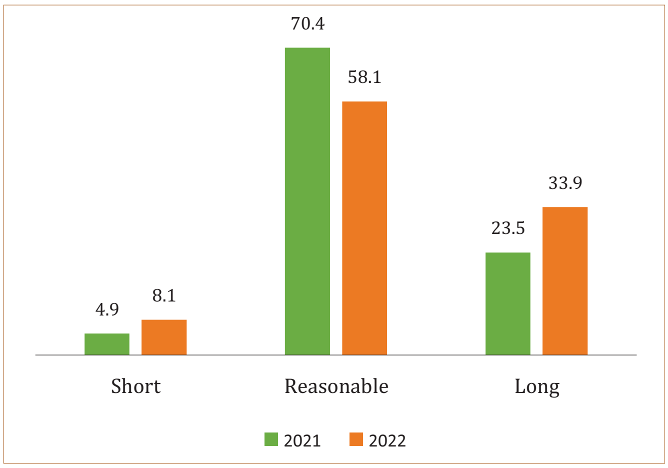



Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *border clearance time and efficiency*

The majority of respondents indicated that border clearance time was reasonable (Figure 5.9).

Figure 5.9: Border Clearance Times and Efficiency (Percent), 2021 - 2022




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

### *service delivery by government institutions*

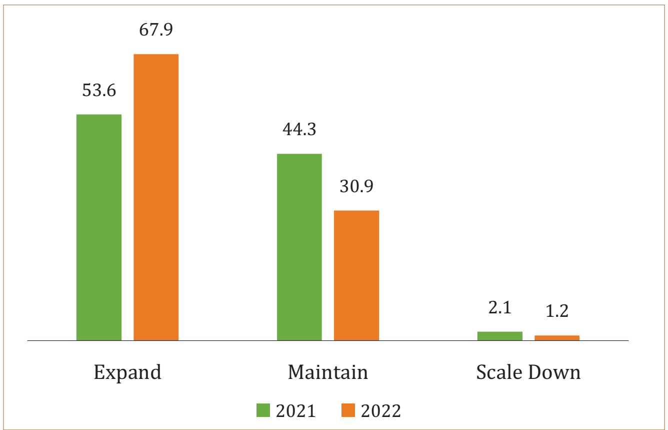
The Patents and Company Registration Authority (PACRA), Zambia Revenue Authority (ZRA), Bank of Zambia (BoZ) and the Road Transport and Safety Agency (RTSA) were the highest rated Government institutions in terms of service delivery. In contrast, the Food and Drugs Control Lab, Zambia Medicines Regulatory Authority (ZMRA), Ministry of Works and Supply and Local Authorities (Councils) were the least rated Government institutions.

Overall, there was a marginal increase in the average rating of Government institutions in 2022 to 39.8 percent from 38.3 percent in 2021.

*Investor Outlook*

The percentage of respondents intending to expand businesses increased in 2022 while those planning to scale down reduced (Figure 5.10). Respondents who planned to expand their businesses indicated that they would use value addition and expansion of existing facilities as strategies.

Figure 5.10: Investors' Outlook (Percent), 2021-2022




Source: Foreign Private Investment & Investor Perceptions Survey, 2022

*policy recommendations to Government to encourage foreign investments in Zambia*

The majority of the firms recommended the following measures to Government to encourage foreign investment:

a) Improve efficiency of public service;
b) Reduce bureaucracy;
c) Develop a stable and sustainable tax system;
d) Enhance political stability;
e) Streamline licensing;
f) Ensure consistency in Government policy;
g) Enhance infrastructure development;
h) Increased efforts in the fight against corruption;
i) Lower lending rates; and
j) Enhance private sector involvement in decision making.

## 6.0 Conclusion

The 2022 survey was administered electronically with some targeted physical visits covering the year 2021 and the first half of 2022. A total of 235 enterprises were enumerated out of which 143 responded, translating into a response rate of 60.9 percent, an increase from 54.0 percent recorded in 2020.

In 2021, the stock of private sector foreign liabilities rose by 4.9 percent to US$21.4 billion due to significant valuation changes to the FDI stock mostly held by enterprises in the mining sector. FDI continued to account for the largest share of the stock of foreign liabilities at 80.3 percent. However, the stock of foreign liabilities declined during the first half of 2022 by 11.7 percent to US$18.9 billion at end-June due to losses in the mining sector.

Net foreign liability outflows increased in 2021 to US$345.8 million from US$45.4 million in 2020. Loan repayments mainly to fellow enterprises by the mining sector as well as debt repayments to non-affiliated enterprises in the ICT and electricity sectors accounted for this outturn.

FDI liability outflows amounted to US$121.1 million in 2021 against a net inflow of US$245.2 recorded in 2020. This was driven by higher debt repayments by the mining sector which more than offset the rise in accumulated retained earnings recorded in the mining, deposit-taking corporations, manufacturing as well as information and communication sectors. Canada remained the major source of private sector foreign liabilities.
The stock of private sector foreign assets increased by 17.4 percent to US$3.7 billion in 2021 largely reflecting higher trade receivables. Asset flows marginally increased in 2021 to US$721.7 million from the US$721.4 million recorded in 2020 due to trade receivables to some companies in the mining sector from non-related parties and loan repayments to entities in the sector from related parties. FDI asset flows fell by US$318.3 million in 2021 from the net acquisition of US$64.0 million registered in 2020 as a result of loan repayments by affiliates to entities in the mining sector. The United Kingdom dominated FDI asset withdrawals while Canada held most of the asset stock.

Further, the survey revealed a notable shift in investor sentiment with the net promoter score (NPS) or percentage of *satisfied* investors rising to 40.5 percent from a net *dissatisfaction* of 21.6 percent in 2020. Respondents reported peace and security, market potential, good infrastructure and political stability as the main factors that influenced decisions to invest and re-invest in Zambia. The main Government policies and measures perceived as most effective at promoting investment were the creation of a conducive governance environment, economic diversification, improved transport infrastructure and facilitation of business linkages. To enhance investment, the majority of firms recommended improved efficiency of public service, reduced bureaucracy as well as development of a stable and sustainable tax system.