Bank of Zambia

ZAMBIA STATISTICS AGENCY

"Quality Statistics for Development"

ZDA

Potential Made Possible

Zambia Development Agency

2021 Survey on Private Sector Foreign Investment and Investor Perception In Zambia

Promoting Investment for Sustainable Growth and Job Creation

Bank *of* Zambia

ZAMBIA STATISTICS AGENCY

"Quality Statistics for Development"

Zambia Development Agency

2021 Survey On Private Sector Foreign Investment and Investor Perception in Zambia

Promoting Investment for Sustainable Growth and Job Creation

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

TABLE OF CONTENTS

Executive Summary

This report presents preliminary findings of the 14th Private Capital Flows and Investor Perception Survey for the year 2020 and the first half of 2021. A total of 250 enterprises with foreign liabilities and assets were enumerated out of which 135 responded, translating into a response rate of 54.0 percent, a decrease from 56.4 percent recorded in 2019. The survey was administered electronically due to the on-going COVID-19 pandemic. It was undertaken on a quarterly and annual basis.

The stock of private sector foreign liabilities declined by 4.9 percent to US$21.3 billion. This was largely due to the fall in the FDI stock owing to valuation effects on equity mostly held by the mining and quarrying sector. Nonetheless, FDI continued to account for the largest share of private sector foreign liability stock. In terms of flows, net foreign liability outflows of US$73.8 million were recorded in 2020 against net inflows of US$357.1 million in 2019. This was due to loan repayments to non-affiliates by the mining, manufacturing, electricity as well as wholesale and retail trade sectors and the reduction in currency by non-residents in deposit-taking corporations. Private sector external debt, which accounted for 77.9% of foreign liabilities, increased by 5.4 percent to US$16.6 billion. This was due to the revaluation changes in non-US dollar denominated loans mostly in the electricity, manufacturing, information and communication as well as real estate sectors. FDI liability inflows amounted to US$226.1 million despite being 70 percent lower than in 2020. Reduced re-invested earnings and debt repayments, mostly by the mining and quarrying sector, accounted for the decline in FDI inflows. Canada was the major source of private sector foreign liabilities.

In contrast, the stock of private sector foreign assets increased by 16.1 percent to US$3.2 billion in 2020 mainly due to currency and deposits driven by the mining and deposit-taking corporations. At US$725.8 million, asset flows where higher by 62.3 percent than in 2019 mostly due to the surge in the holdings of currency and deposits. FDI asset acquisitions, however, slumped to US$62.8 million in 2020 from US$624.4 million in 2019 as a result of the reduction in the mining sector's debt flows to fellow enterprises. The United Kingdom was the major recipient of foreign asset flows and held most of the asset stock.

The stock of private sector foreign liabilities declined further in the first half of 2021 to US$19.7 billion as a result of loan repayments and valuation effects on equity. However, liability inflows rose to US$643.3 million following an upswing in FDI inflows on account of higher reinvested earnings by the mining, deposit-taking corporation, manufacturing, electricity as well as information and communication sectors.

In terms of investor perceptions, political stability, ease of doing business, availability of resources, and market potential were cited as the main factors that influenced investment and re-investment in Zambia. The encouragement of the use of digital financial services and the reduction in the Monetary Policy Rate were seen as positive measures that supported business activity. However, the temporary closure of some commercial bank branches and revision of banking operating hours due to the COVID-19 pandemic were perceived to have had a negative impact on investment.

The key measures recommended by the majority of firms for Government to enhance investment relate to improvements in service delivery by the public sector, having a stable and sustainable tax system, maintaining stability in the exchange rate, preserving political stability, consistency in Government policy, and continued investment in infrastructure development. Other areas highlighted include addressing increased efforts in the fight against corruption, reduced red-tape, lower lending rates, enhanced private sector involvement in decision making and streamline licensing requirement.

1.0 Introduction

This report summarises the survey findings on private sector external flows and investor perception in Zambia for the year 2020 and the first half of 2021. It provides highlights on the magnitude, type and direction of foreign private sector capital liabilities and assets as well as investor perceptions.

The survey was undertaken in conformity with the International Monetary Fund's (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.

Due to the COVID-19 pandemic, the survey was administered electronically. A total of 250 enterprises were sampled out of which 135 responded translating into a response rate of 54.0 percent. This is lower than the 56.4 percent response rate recorded in 2019. Similarly, the average quarterly response rate marginally fell to 80.7 percent from 82.8 percent in 2019. Work-from-home arrangements, reduced working hours, and rotational working sequences induced by COVID-19 continued to contribute to the poor response rate. The survey period was also extended to accommodate a larger number of enterprises to respond.

The highest response rate by sector was recorded by the deposit-taking corporations and electricity (100.0 percent) followed by mining and quarrying (64.0 percent), real estate and transport (60.0 percent), as well as information and communication (58.3 percent) (Table 1).

Table 1: 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	5	5	100.0
Mining and Quarrying	25	16	64.0
Real Estate	10	6	60.0
Transport and Storage	15	9	60.0
Information and Communication	12	7	58.3
Wholesale and Retail Trade	46	24	52.2
Insurance and Other Financial	18	9	50.0
Manufacturing	54	27	50.0
Construction	13	6	46.2
Agriculture, Forestry and Fishing	12	5	41.7
Professional, Scientific and Technical	7	2	28.6
Administrative and Support Service	4	1	25.0
Accommodation & Food Service	13	2	15.4
Grand Total	250	135	54.0

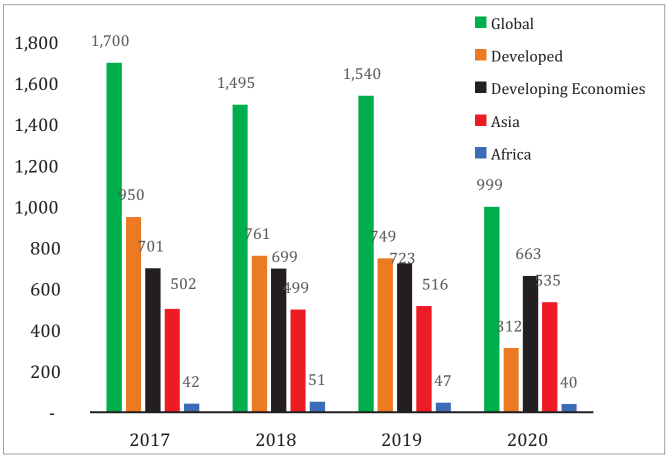
Source: Foreign Private Investment & Perceptions Survey, 2021

2.0 Global FDI Inflows

Global FDI flows fell by 35.0 percent

In 2020, global foreign direct investment (FDI) flows fell by 35.0 percent to about US$1.0 trillion (Figure1). This is the lowest level recorded since 2005. Developed and transition economies accounted for the largest drop following a 58 percent decline in FDI inflows. Existing investment projects slowed down and multinational enterprises (MNEs) re-assessed new projects on prospects of a recession as economies shutdown in response to the COVID-19 pandemic.

Figure 1: Global FDI Inflows (US$ billion), 2017-2020



Source: World Investment Report, 2021

2.1 Regional Investment Trends

FDI inflows to Africa drop due to fall in greenfield projects

FDI flows to developed countries declined the most falling by 58.0 percent while that to developing economies contracted by a lower amount of 8.0 percent largely due to resilient flows to Asia.

In Africa, FDI flows declined by 16.0 percent to US$40.0 billion in 2020, reflecting a 62.0 percent fall in greenfield projects (Figure 1). The disruption in economic activity occasioned by the COVID-19 pandemic largely accounted for this outturn.

2.2 Prospects for Global FDI

Between 10 to 15 percent global FDI flows projected in 2021

UNCTAD projects a recovery in global FDI in 2021, by about 10-15 percent. This gradual uptick is still 25 percent below the 2019 level and more than 40 per cent below the 2016 peak. Lingering uncertainty about the duration and severity of the COVID-19 pandemic on account of unequal access to vaccines, emergence of virus mutations and the effectiveness of policy interventions explain the relatively modest recovery in global FDI.

Beyond 2021, UNCTAD forecasts a further recovery, with FDI projected to rebound to the 2019 level of US$1.5 trillion by 2022. However, this is only possible under the most optimistic scenario of limited occurrence of the COVID-19, rapid economic growth and high investor confidence. The outlook is however, uncertain as the duration of the health crisis and the effectiveness of the policy interventions are unknown.

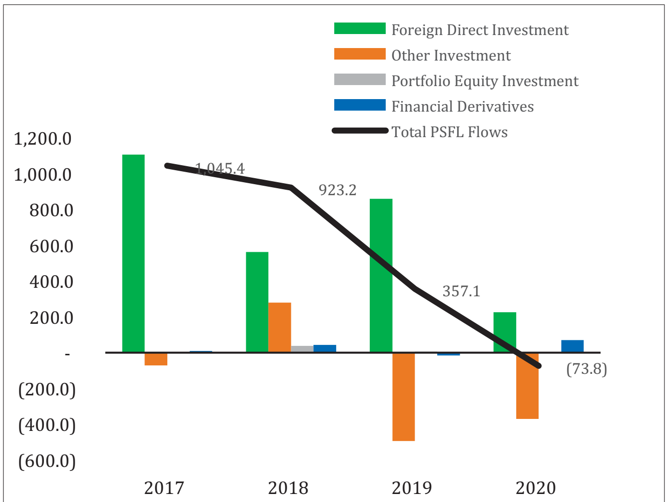
3.0 Zambia's Private Sector Foreign Liabilities

Private Sector Foreign Liability Flows

Liability net outflows recorded due to loan repayments

Private sector foreign liability (PSFL) registered net outflow of US$73.8 million in 2020 against net inflow of US$357.1 million in 2019 (Figure 2). Loan repayments to non-affiliates by the mining, manufacturing, electricity as well as wholesale and retail trade sectors and a reduction in currency and deposits by non-residents in deposit-taking corporations explain this outturn[1].

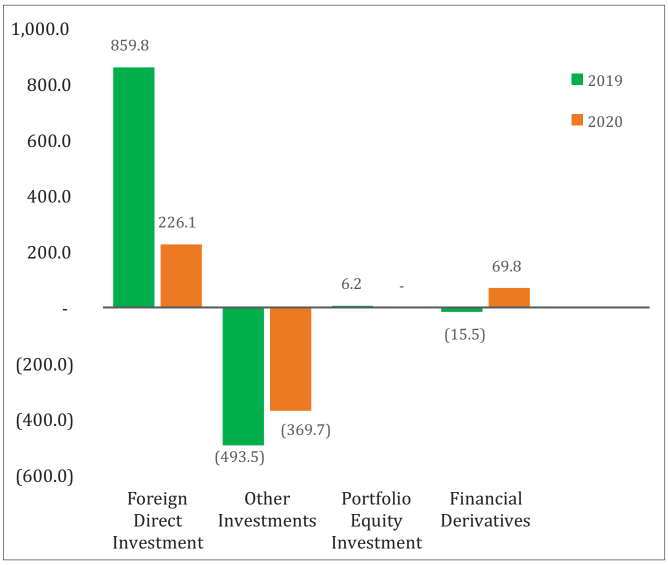
Figure 2: Private Sector Foreign Liability Inflows (US$ million), 2017-2020



Source: Foreign Private Investment & Perceptions Survey, 2021

However, foreign direct investment liability and financial derivatives registered inflow of US$226.1 million and US$69.8 million, respectively (Figure 3).

Figure 3: Private Sector Foreign Liability Inflows by Type (US$ million), 2019–2020



Source: Foreign Private Investment & Perceptions Survey, 2021

Net private sector foreign liabilities inflow of US$643.3 million were recorded in the first half of 2021, compared to net inflows of US$496.0 million a year ago. This was mainly due to the upswing in FDI inflow on account of retained earnings attributed to higher profits in the mining, deposit-taking corporations, manufacturing, electricity as well as information and communication sectors.

Private Sector Foreign Liability Stocks

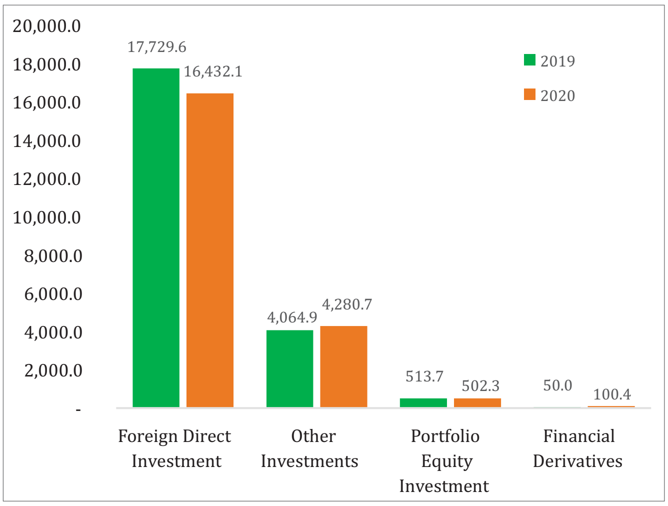
Stock of private sector foreign liabilities decline and FDI continued to dominate

The stock of private sector foreign liabilities declined by 4.9 percent to US$21.3 billion. This was largely due to the fall in the FDI stock as a result of valuation effects on equity mostly by the mining and quarrying sector.

FDI continued to account for the largest share of private sector foreign liability stock (77.1 percent) followed by other investments (20.1 percent) as depicted in Figure 4.

[1]Loan repayments to non-affiliates and holdings of currency and deposits in domestic deposit-taking corporations attributed to non-residents fall in the other investment category.

Figure 4: Composition of Private Sector Foreign Liability Stock (US$ million), 2019–2020



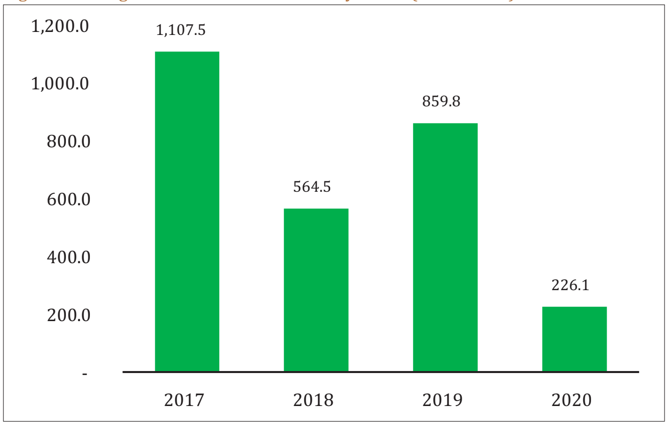
Source: Foreign Private Investment & Perceptions Survey, 2021

The stock of private sector foreign liabilities declined further in the first half of 2021 by 7.3 percent to US$19.7 billion. Loan payments, mainly by the mining and quarrying sector, as well as valuation effects on equity accounted for this outturn.

Foreign Direct Investments

FDI liability flow into Zambia significantly declined to US$226.1 million in 2020 from US$859.8 million in 2019 (Figure 5). This was attributed mostly to lower re-invested earnings and debt repayments by the mining and quarrying sector. Subdued profits in other sectors due to the effects of COVID-19 contributed to the decline in FDI inflow.

Figure 5: Foreign Direct Investment Liability Flows (US$ million), 2017-2020



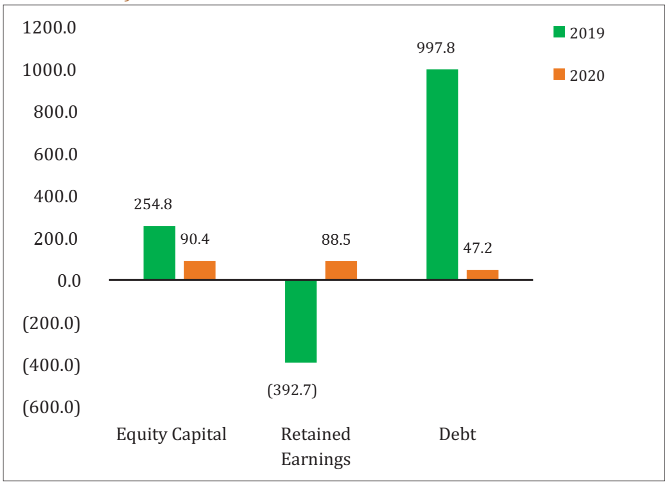
Source: Foreign Private Investment & Perceptions Survey, 2021

Foreign Direct Investment Liability Inflow and Stock by Type

FDI inflows in form of debt reduces

FDI liability inflows in the form of borrowings from affiliates declined to US$47.2 million in 2020 from US$997.8 million in 2019 (Figure 6). Equity capital flows also slowed down to US$90.4 million from US$254.8 million.

Figure 6: Foreign Direct Investment Liability Inflows by Type US $ million), 2019-2020



Source: Foreign Private Investment & Perceptions Survey, 2021

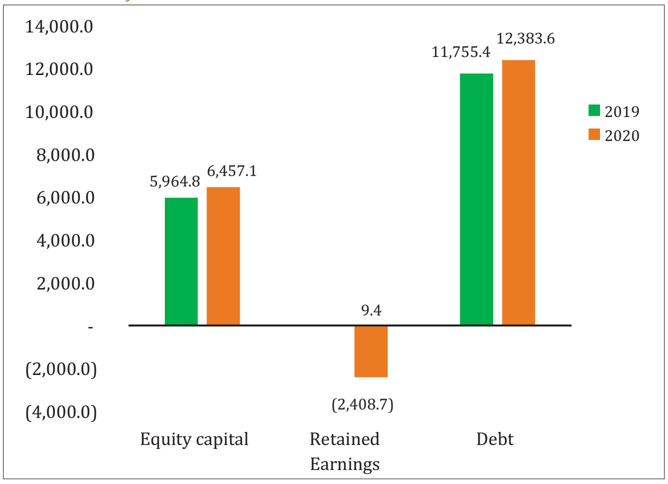
Retained profits of US$88.5 million were, however, recorded, attributed to enterprises mostly in the manufacturing, real estate, deposit-taking corporations, agriculture, transport, construction as well information and communication sectors.

Debt dominated FDI liability stock

The stock of FDI liability decreased by 7.3 percent to US$16.4 billion due to a change in the stock of retained earnings on account of revaluation effects mostly in the mining and quarrying sector (Figure 7).

FDI liability stock mostly consisted of debt of US$12.4 billion representing 75.4 percent of the total stock.

Figure 7: Foreign Direct Investment Liability Stock by Type US $ million), 2019-2020



Source: Foreign Private Investment & Perceptions Survey, 2021

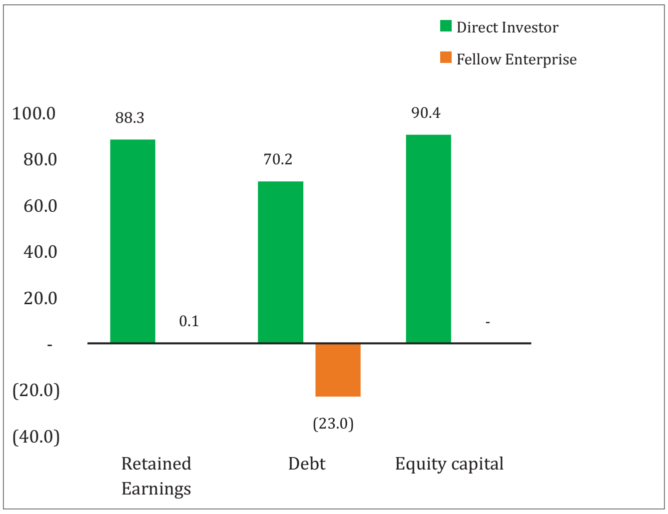
FDI liability net inflow of US$601.8 million were registered during the first half of 2021 against net outflow of US$295.0 million recorded in the corresponding period in 2019. This outturn was due to retained earnings on account of profits and higher equity capital flows in the mining and quarrying, manufacturing, deposit-taking corporations, electricity as well as information and communication sectors.

Foreign Direct Investment Liability Inflows and Stocks by Relationship

Direct investors largest contributor to FDI inflow and stocks

In 2020, FDI liability inflows were mainly from direct investors who contributed US$249.0 million largely in form of equity capital (Figure 8).

Figure 8: Foreign Direct Investment Liability Inflows by Relationship (US$ millions), 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

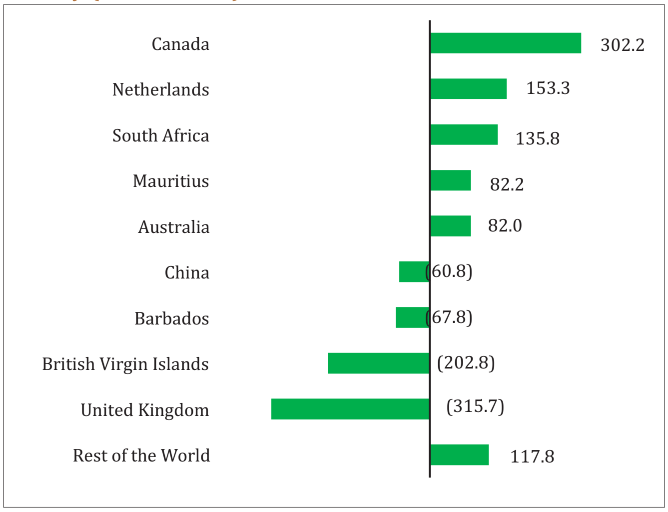
Direct investors represented 87.3 percent of the total stock, which stood at US$14.3 billion at end-2020. Fellow enterprises accounted for the remainder.

Foreign Direct Investment Liability Inflows and Stocks by Source Country

Canada major source of FDI Inflow into Zambia

The major source country for FDI liability flow in 2020 was Canada with a net amount of US$302.2 million mostly in form of retained profits (Figure 9). Net inflows from Netherlands, South Africa, Mauritius and Australia amounted to US$453.2 million. Net outflows to the United Kingdom, British Virgin Islands, Barbados and China were due to accumulated retained losses and debt repayments.

Figure 9: Foreign Direct Investment Liability Inflows by Source Country (US $ millions), 2020



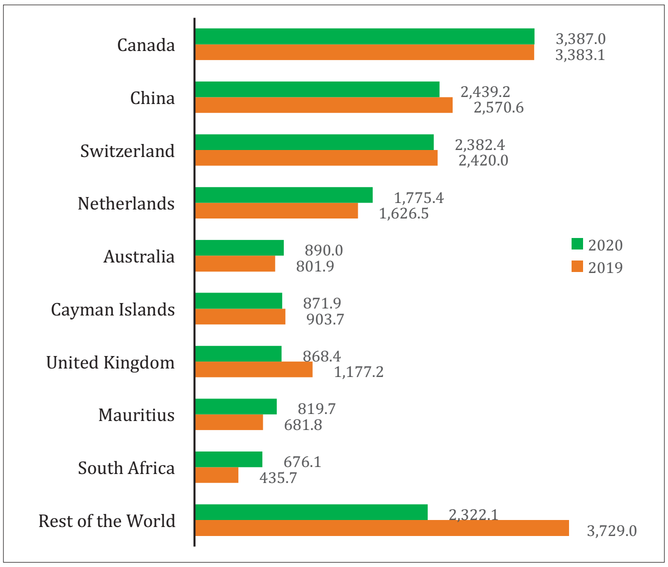
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

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

The top four source country contributors to FDI liability stock in 2020 were Canada, China, Switzerland and Netherlands (Figure 10). These countries represented 60.8 percent of the total stock, an increase from 56.4 percent in 2019.

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

Figure 10: Foreign Direct Investment Liability Stocks by Source Country (US$ millions), 2019-2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

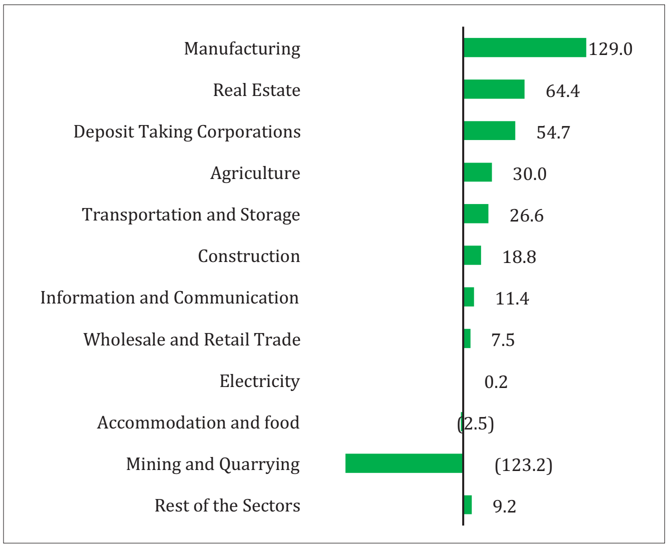
Foreign Direct Investment Liability Inflows and Stocks by Sector

Manufacturing sector major recipient of FDI inflow

The manufacturing sector recorded the highest net inflow of US$129.0 million in 2020 mainly in form of debt, representing 57.1 percent share of total inflows (Figure 11). Other sectors that recorded net FDI inflows were real estate, deposit-taking corporations, agriculture, transport, construction, electricity, ICT as well as wholesale and retail.

The mining as well as accommodation and food sectors, however, recorded net outflows due to lower re-invested earnings and debt repayments.

Figure 11: Foreign Direct Investment Liability Inflows by Sector (US$ million), 2020



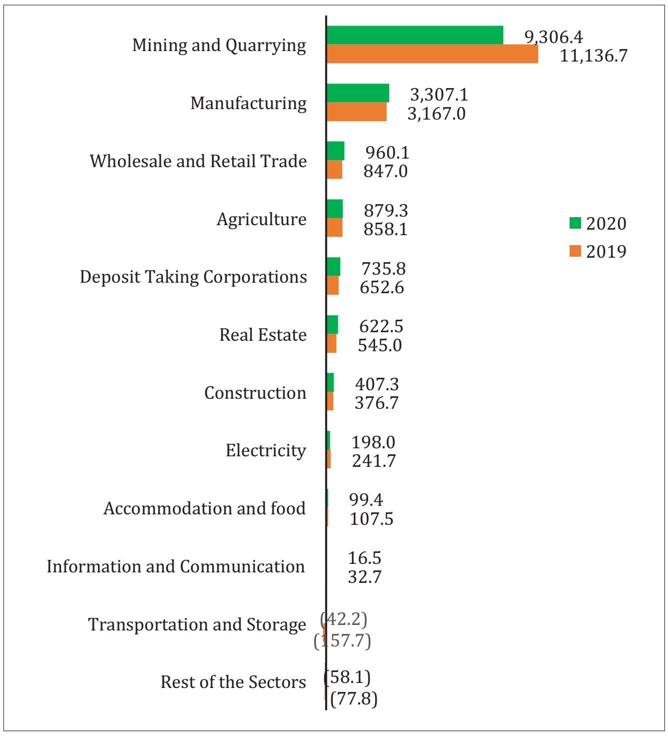
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

FDI stock concentrated in mining and quarrying sector

With regard to the distribution of FDI liability stock by sector, mining and quarrying contributed the largest share of 56.6 percent mainly in form of debt, a decrease from 62.8 percent in 2019 (Figure 12). Manufacturing was second, at 20.1 percent, following a growth of 4.4 percent due to debt and equity capital inflows. The remaining sectors collectively accounted for 23.2 percent of the total stock.

The overall decline in FDI stock was mostly attributed to the mining and quarrying, electricity, transport, ICT as well as accommodation and food sectors.

Figure 12: Foreign Direct Investment Liability Stocks by Sector, (US$ millions), 2019-2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Liabilities

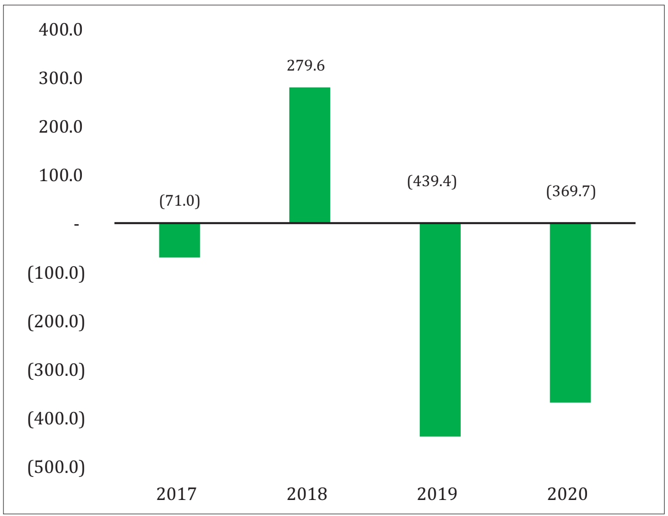
Reduce due to debt repayments

Net outflow of other investments[2] declined by US$369.7 million compared to US$493.4.6 million in 2019 (Figure 13). Loan repayments by the mining, manufacturing, electricity as well as wholesale and retail trade sectors accounted for this outturn. There was also a reduction in currency and deposits by deposit-taking corporations.

Nonetheless, the stock of other investments rose by 5.3 percent to US$4.3 billion in 2020 mostly due to exchange rate valuation on loans especially in the electricity sector.

[2]Other investments are a residual category, which includes positions and transactions other than those included in direct investment, portfolio investment and financial derivatives (IMF 2009). These include currency and deposits, trade credit and advances, and other foreign borrowings from unrelated parties. The also category includes non-tradable/negotiable equity of less than 10 percent held by non-residents and equity in international organizations.

Figure 13: Other Investment Liability Flows (US$ millions), 2016-2019



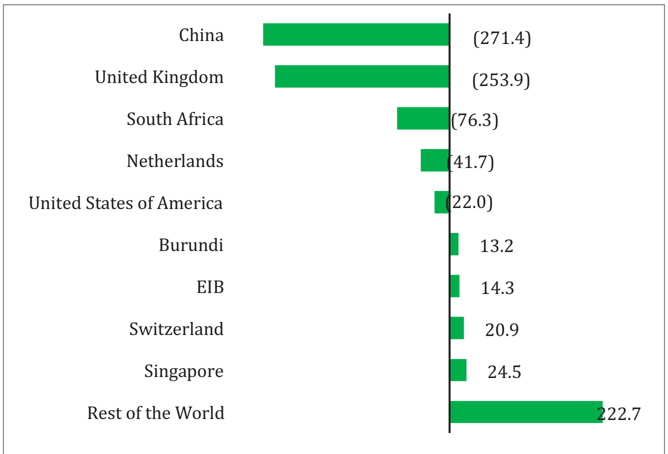
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Inflows and Stocks by Source Country

China recorded the highest other investment liability net outflows

Total net outflow of US$665.2 million, mainly in form of loan repayments, were recorded in 2020. Most repayments went to China followed by the United Kingdom, South Africa, Netherlands and the United States of America (Figure 14). Net inflows were, however, received from Singapore, Switzerland, European Investment Bank and Burundi.

Figure 14: Other Investment Inflows by Source Country (US $ millions), 2020

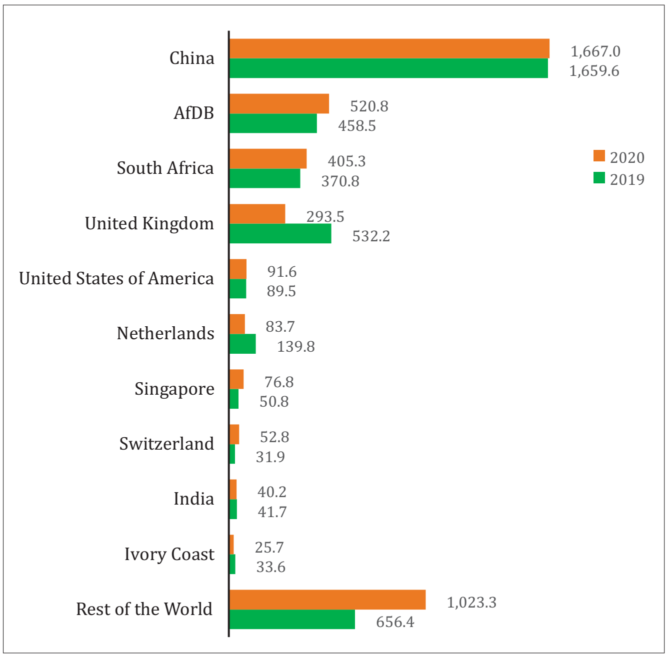


Source: Foreign Private Investment & Investor Perceptions Survey, 2021

China dominates other investment liability stocks

China accounted for the largest share of other investment liability stocks, recording US$1.6 billion, representing 39.0 percent (Figure 15). The African Development Bank (AfDB) was second (12.2 percent) followed by South Africa (9.5 percent) and the United Kingdom (6.9 percent).

Figure 15: Other Investment Stocks by Source Country (US$ millions), 2019 - 2020



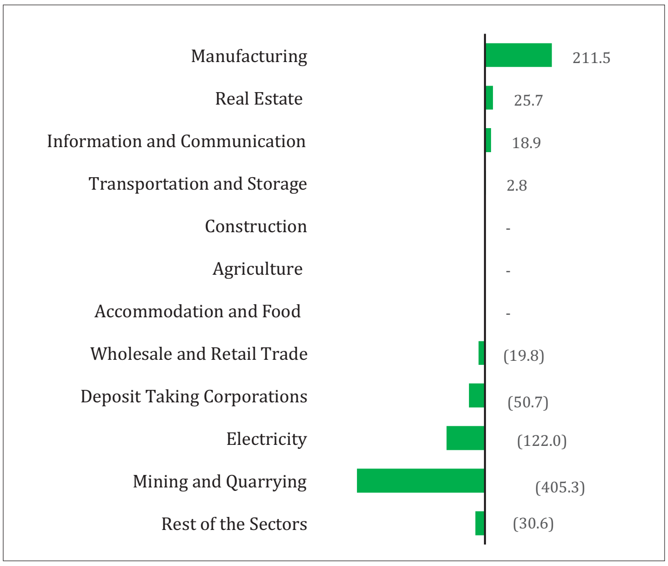
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Inflows and Stocks by Sector

Net inflows largely recorded by manufacturing sector

The manufacturing sector recorded the highest net inflow of US$211.5 million in 2020 against net outflow of US$23.6 million in 2019(Figure 16). Net inflow of US$47.3 million were collectively recorded by enterprises in the real estate, transport as well as information and communication sectors. Nevertheless, mining, electricity, as well as wholesale and retail trade sectors registered net outflows in form of loans. Net outflows in form of currency and deposits were recorded by deposit-taking corporations.

Figure 16: Other Foreign Investment Inflows by Sector (US$ millions), 2020

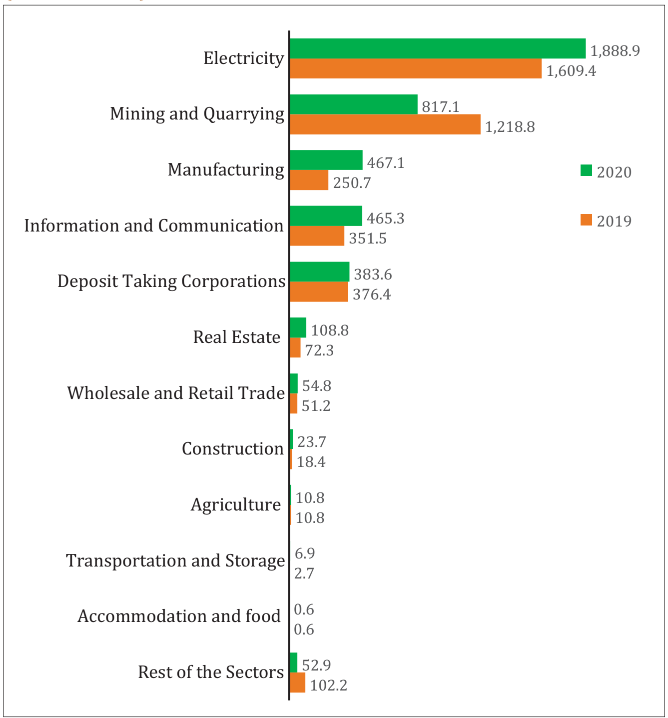


Source: Foreign Private Investment & Investor Perceptions Survey, 2020

Electricity sector contributed largest share to other investment stock

The electricity sector contributed the largest share to the other investment stock, at 44.1 percent, following a growth of 17.4 percent to US$1.9 billion (Figure 17). The mining and quarrying sector accounted for 43.3 percent despite registering a 33.0 percent decrease in the stock to US$0.8 billion. The remaining sectors collectively accounted for 12.6 percent.

Figure 17: Other Foreign Investments Stocks by Sector (US$ millions), 2019 – 2020



Source: Foreign Private Investment & Investor Perceptions, 2021

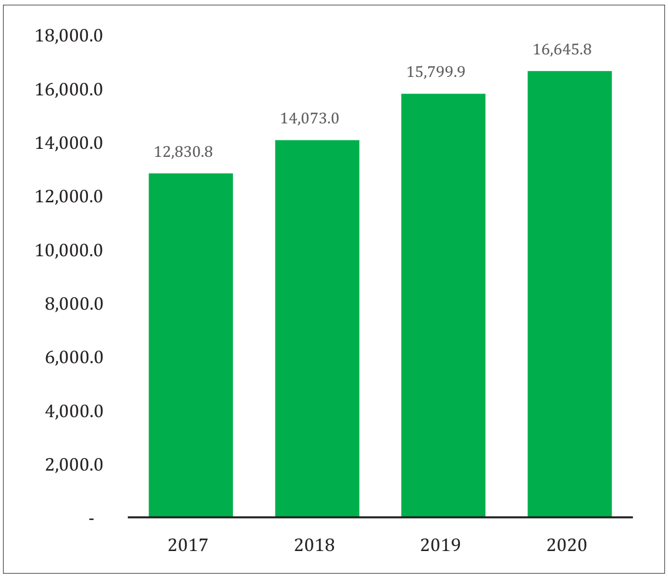
Private Sector External Debt Stock

Private sector debt rises by 5.4 percent

The private sector[3] external debt stock was US$16.6 billion, 5.4 percent higher than US$15.8 billion at end-2019 (Figure 18). The increase was due to revaluation changes in non-dollar denominated loans mostly in the electricity, manufacturing, real estate as well as information and communication sectors.

Long-term borrowing accounted for 93.0 percent of the stock.

Figure 18: Stock of Private Sector External Debt (US$ millions), 2017–2020



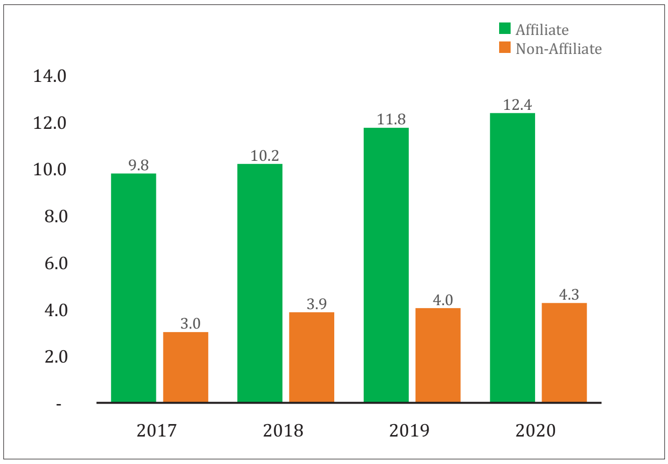
Source: Foreign and Private Investment and Investor Perception Survey, 2021

Private Sector External Debt Stock by Investor Relationship

Private debt largely from foreign affiliates

Borrowing was mainly from foreign affiliates (US$12.4 billion), representing 74.4 percent of the total stock (Figure 19).

Figure 19: Private Sector Debt Stock by Relationship (US$ billions), 2017-2020



Source: Foreign and Private Investment and Investor Perception Survey, 2021

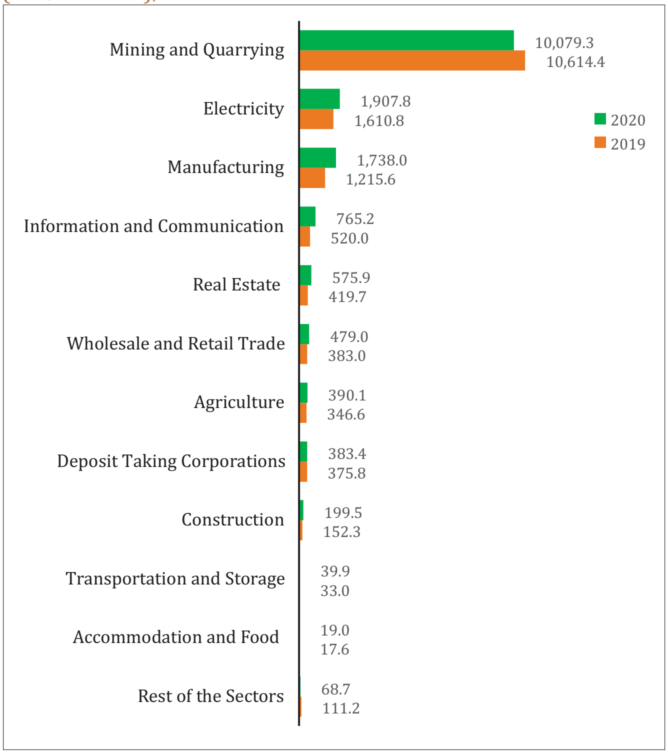
Private Sector External Debt Stock by Sector

Concentrated mostly in mining and quarrying sector

The mining and quarrying sector contributed 60.5 percent to total private external debt mostly in loans (Figure 20). The electricity and manufacturing sectors accounted for 18.9 and 10.4 percent, respectively.

[3] 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 20: Private Sector External Debt Stock by Sector (US $ millions), 2019- 2020



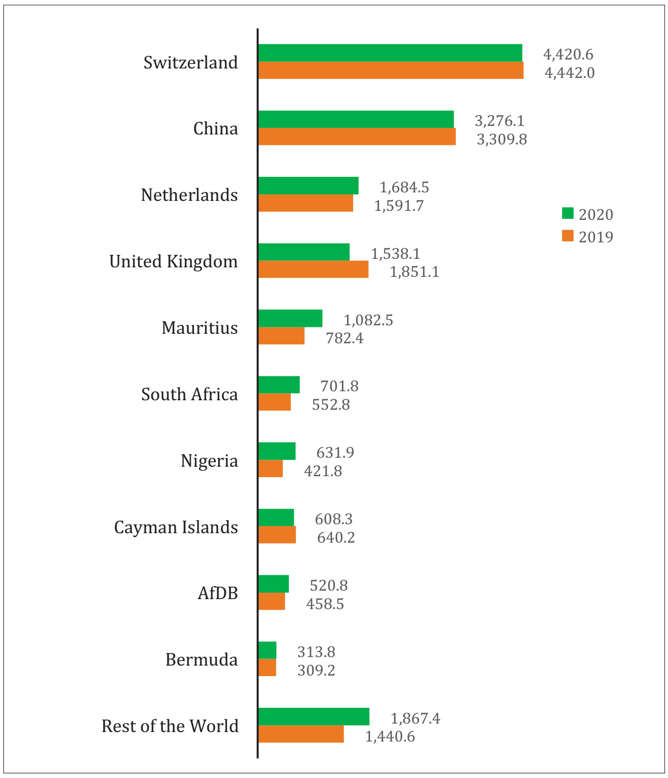
Source: Foreign and Private Investment and Investor Perception Survey, 2021

Private Sector External Debt Stock by Source Country

Switzerland continued to be major contributor to the stock of debt

Switzerland continued to be the major source country for the stock of private sector external borrowing, accounting for 26.6 percent, a decrease from 28.1 percent in 2019 (Figure 21). This was followed by China (19.7 percent), the Netherlands (10.1) percent and the United Kingdom (9.2 percent).

Figure 21: Private Sector External Debt Stock by Source Country (US$ millions), 2019-2020



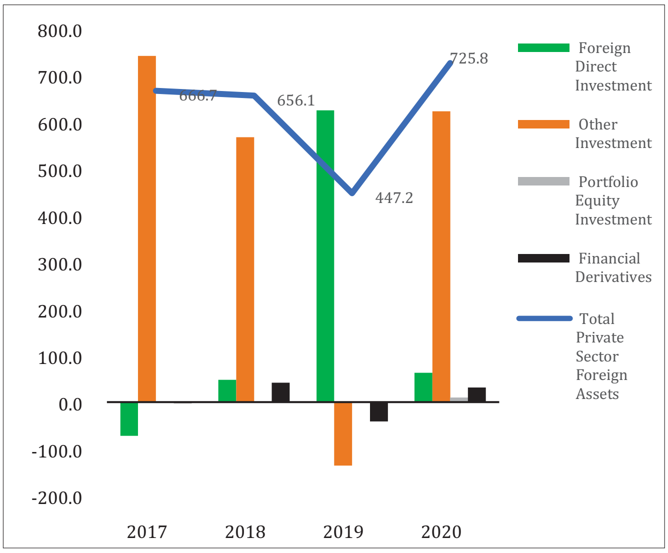
Source: Foreign and Private Investment and Investor Perception Survey, 2021

4.0 Zambia's Private Sector Foreign Assets

Private sector asset flows rise

In 2020, total private sector asset flows increased by 62.3 percent to US$725.8 million (Figure 22). Currency and deposits by the mining sector and deposit-taking corporations accounted for the increase.

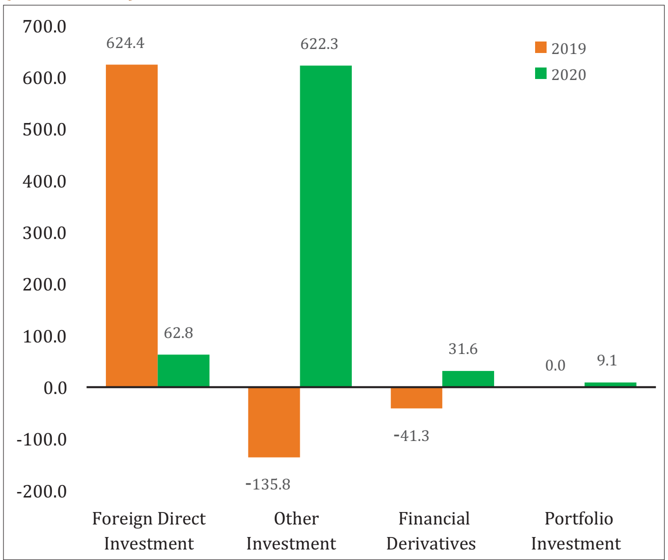
Figure 22: Private Sector Foreign Asset Flows (US$ million), 2016 – 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Some mining companies (affiliates) switched asset holdings to non-affiliates hence the strong recovery in other investment (OI) assets and a sharp decline in foreign direct investment (FDI) assets. As a result, OI flows significantly increased to US$622.3 million in 2020 against a net withdrawal of US$135.8 million in 2019 (Figure 23). Similarly, financial derivatives and portfolio investment registered net accumulation of US$31.6 million and US$9.1 million, against a net drawdown of US$41.3 million and zero net flows, respectively, over the same period. However, FDI assets declined by 89.9 percent to US$62.8 million.

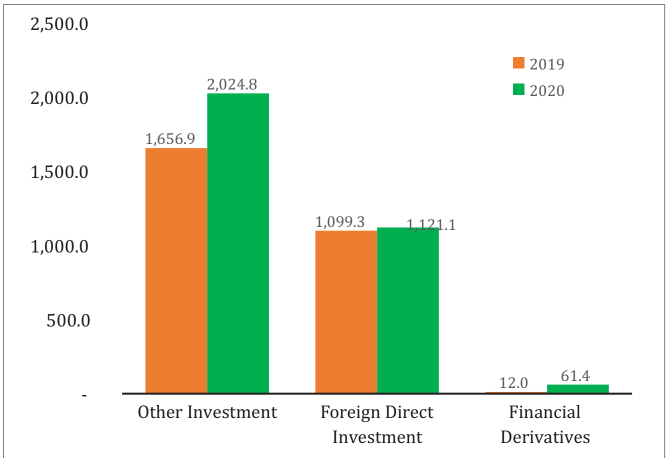
Figure 23 Private Sector Foreign Asset Flows by Type (US$ million), 2019 – 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

The stock of private sector foreign assets increased by 16.1 percent to US$3.2 billion in 2020 mainly due to the rise in currency and deposits. The stock of OI assets (mostly currency and deposits) accounted for the largest share at 63.0 percent of the total stock while FDI assets, at US$1.1 billion, represented 34.9 percent of the total stock (Figure 24).

Figure 24: Composition of Private Sector Foreign Asset Stock by Type (US$ million), 2019 – 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

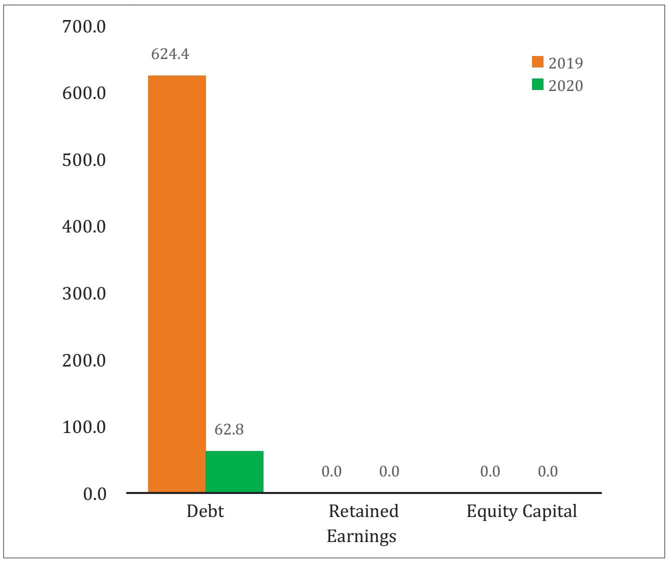
Foreign Direct Investment Assets

Debt flows decline, still dominant

Debt remained the dominant form of FDI asset acquisition despite flows declining to US$62.8 million in 2020 from US$624.4 million in 2019 (Figure 25). This was due to some mining companies switching holdings of currency and deposits from affiliates to non-affiliates. There were no changes in equity capital and retained earnings in the period under review.

The stock of FDI assets remained broadly unchanged at US$1.1 million. The FDI asset stock consists mostly of debt representing 99.5 percent of the total stock.

Figure 25: Foreign Direct Investment Asset Flows by Type (US$ million), 2019–2020



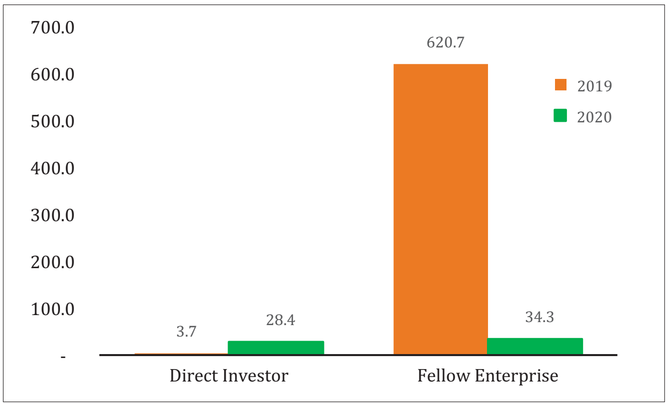
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Foreign Direct Investment Assets Flows and Stocks by Investor Relationship

FDI assets in fellow enterprises drop

The decrease in FDI asset acquisitions was mainly attributed to the reduction in the mining sector's debt flows to fellow enterprises to US$34.4 million from US$620.7 million (Figure 26). Fellow enterprises accounted for 89.9 percent of the total stock, which stood at US$1.0 billion at end-2020 while direct investors accounted for the remainder.

Figure 26: Foreign Direct Investment Asset Flows by Relationship (US$ million), 2020



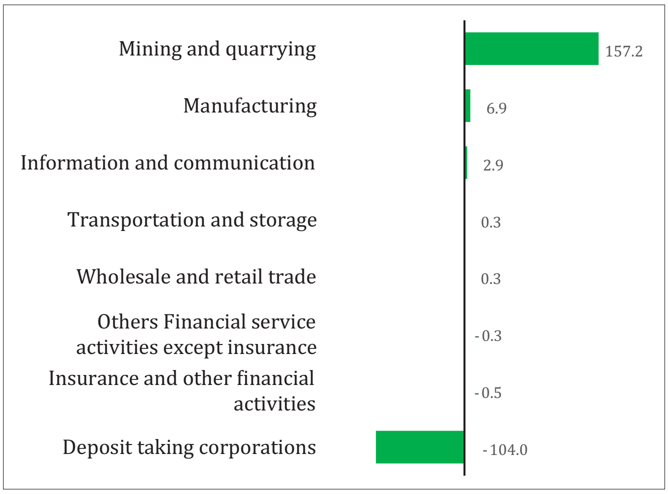
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

Foreign Direct Investment Asset Flows and Stocks by Sector

Mining sector FDI assets still dominate

Notwithstanding a drop in flows to US$157.2 million in 2020 from US$597.5 million in 2019, the mining and quarrying sector continued to dominate acquisition of FDI assets (Figure 27). Manufacturing was second (US$6.9 million) followed by the information and communications (US$2.9 million) and transport and storage sectors (US$0.3 million).

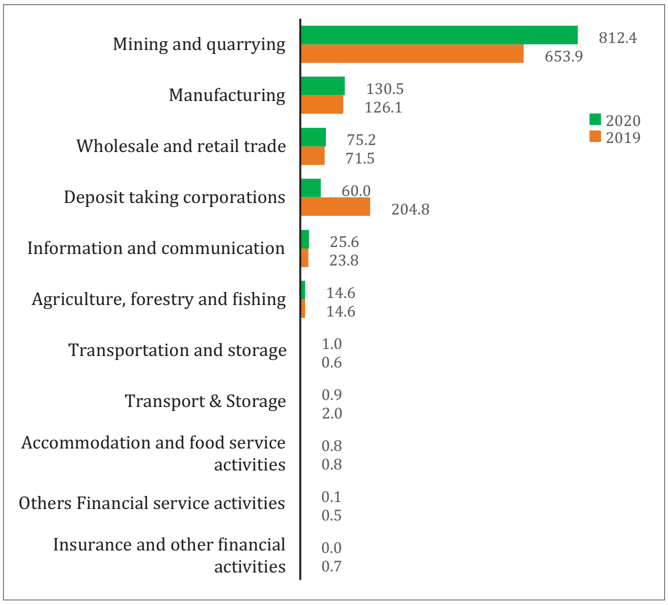
Figure 27: Foreign Direct Investment Asset Flows by Sector (US$ million), 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

The stock of FDI assets was dominated by the mining and quarrying sector at US$678.8 million, representing 72.5 percent (Figure 28). This was followed by the manufacturing (11.6 percent), wholesale and retail trade sectors (6.7 percent) and deposit-taking corporations (5.4 percent).

Figure 28: Foreign Direct Investment Asset Stocks by Sector (US$ million), 2019-2020



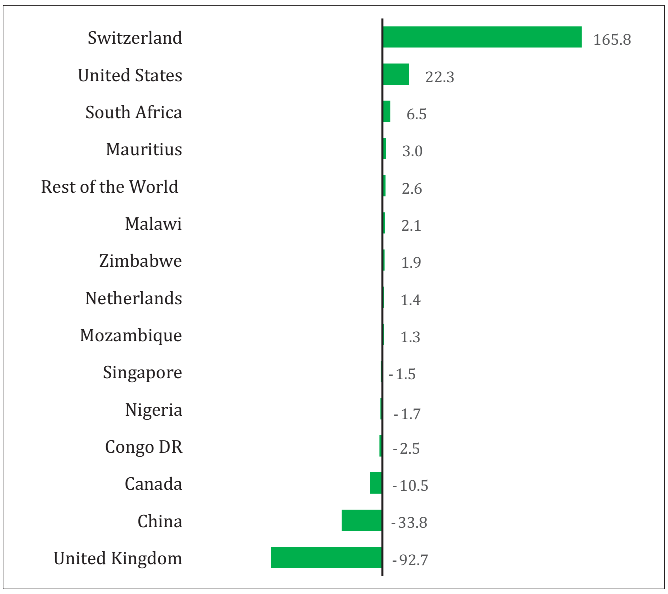
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

Foreign Direct Investment Asset Flows and Stocks by Destination Country

Assets in United Kingdom dominate

FDI asset flows decreased in 2020 mainly on account of net withdrawal of US$92.7million and US$33.8 million in the United Kingdom and China, respectively (Figure 29). However, there was a rise in net acquisition of assets in Switzerland, United States and South Africa.

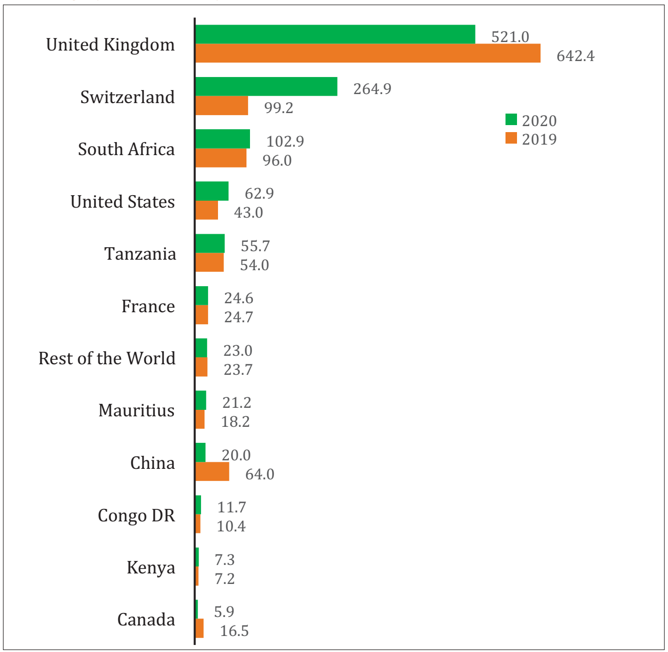
Figure 29: Foreign Direct Investment Asset Flows by Destination Country (US$ million), 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

The stock of FDI assets remained broadly unchanged at US$1.1 billion. The United Kingdom accounted for the largest share at 46.5 percent of the total stock (Figure 30).

Figure 30: Foreign Direct Investment Asset Stocks by Destination Country (US$ million), 2019-2020



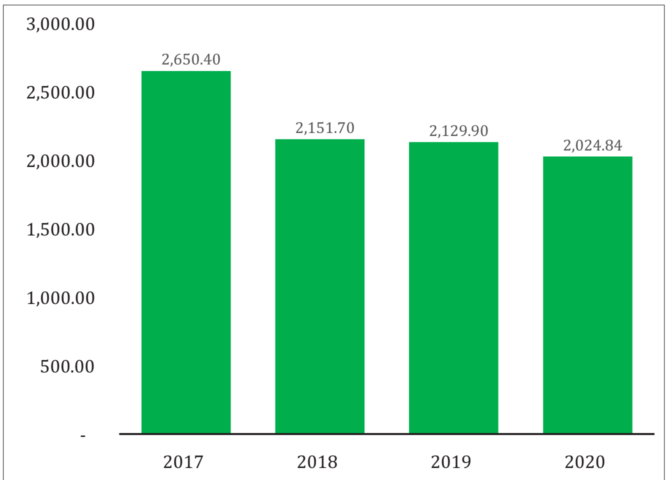
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Assets

Currency and deposits by mining and deposit-taking corporations rise

Other investment flows increased to US$622.3 million in 2020 against a net withdrawal of US$135.8 million in 2019. This was explained by a net accumulation of currency and deposits primarily by the mining and quarrying sector and the deposit-taking corporations. Consequently, the stock of other investment assets increased by 22.2 percent to US$2.0 billion (Figure 31). The debt stock, at US$1.6 billion, accounted for the largest share of 97.4 percent while equity capital accounted for the remainder.

Figure 31: Other Investment Asset Stock (US$ million), 2016 - 2020



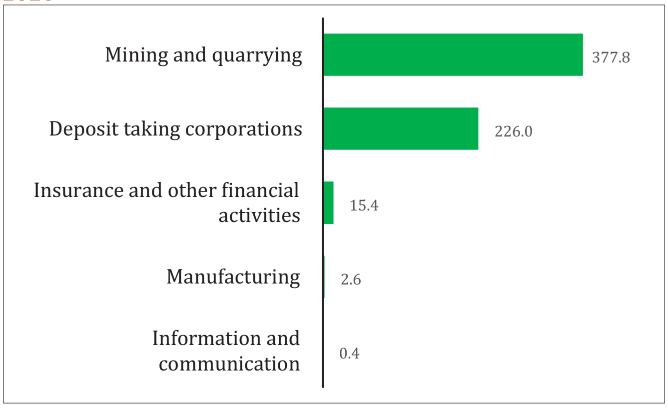
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Assets Flows and Stocks by Sector

Mining dominates OI asset stocks

In 2020, the mining and quarrying, deposit-taking corporations, manufacturing as well as information and communication sectors recorded net acquisition of assets in form of debt and equity capital amounting to US$377.8 million, US$226.0, US$2.6 million and US$0.4 million, respectively (Figure 32).

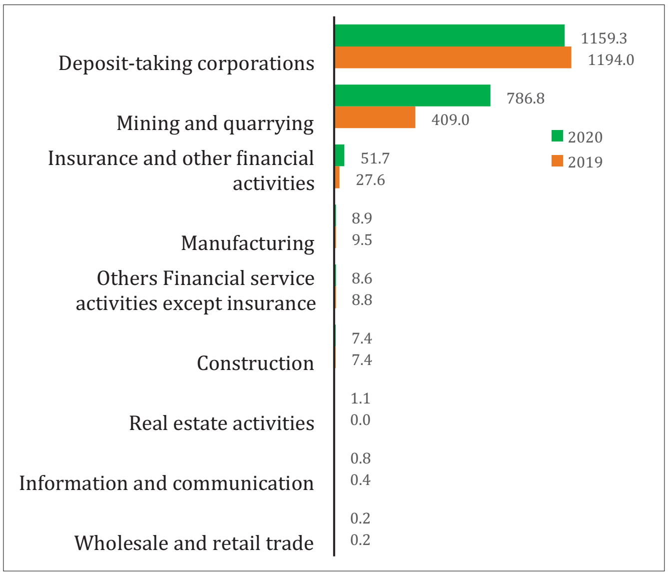
Figure 32: Other Investment Asset Flows by Sector (US$ million), 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Further, other investment stocks held by deposit-taking corporations accounted for the largest share, at US$1.2 billion, representing 57.3 percent (Figure 33). Mining and quarrying were the second largest (38.9 percent) followed by insurance and other financial activities (2.6 percent) and manufacturing (0.4 percent). Other investment stock mostly consisted currency and deposits of US$1.9 billion (representing 94.3 percent of the total stock).

Figure 33 Other Investment Asset Stocks by Sector (US$ million), 2019-2020



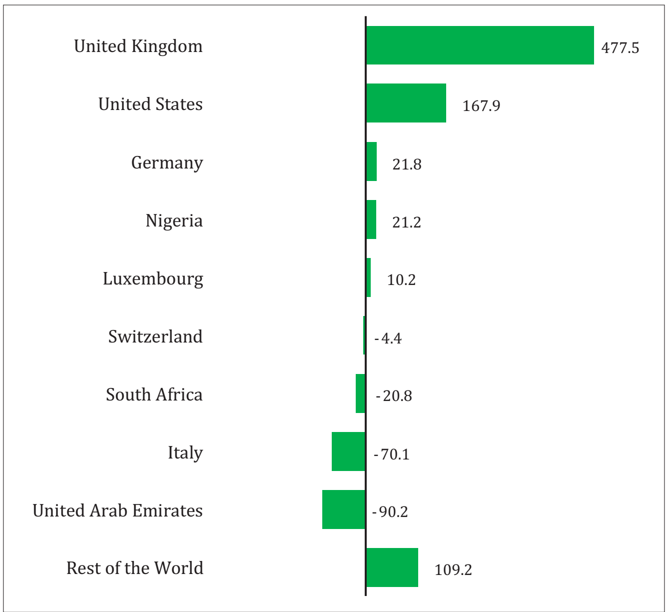
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other Investment Asset Flows and Stocks by Destination Country

OI assets in the UK dominate

Net acquisitions of other investment assets amounting to US$667.2 million were registered in the United Kingdom, United States and Germany (Figure 34). However, a decline of US$181.1 million in other investment assets was recorded in the United Arab Emirates, Italy and South Africa.

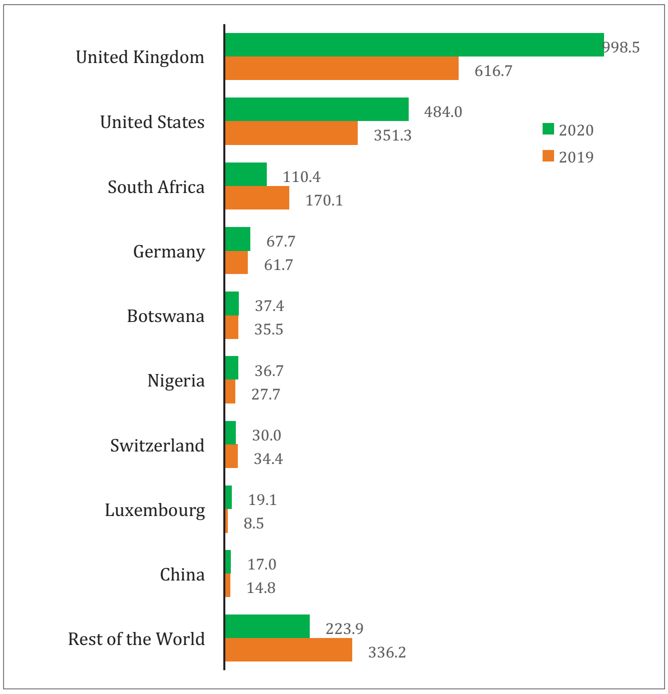
Figure 34: Other Investment Asset Flows by Destination Country (US$ million), 2020



Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Other investment asset stock was predominantly held in the United Kingdom (US$998.5 million) representing 49.3 percent of the total stock (Figure 35). This was followed by the United States of America (23.9 percent), Germany (3.3 percent), Nigeria (1.8 percent), Luxembourg (0.9 percent) and Kenya (0.3 percent).

Figure 35: Other Investment Asset Stocks by Destination Country (US$ million), 2019-2020



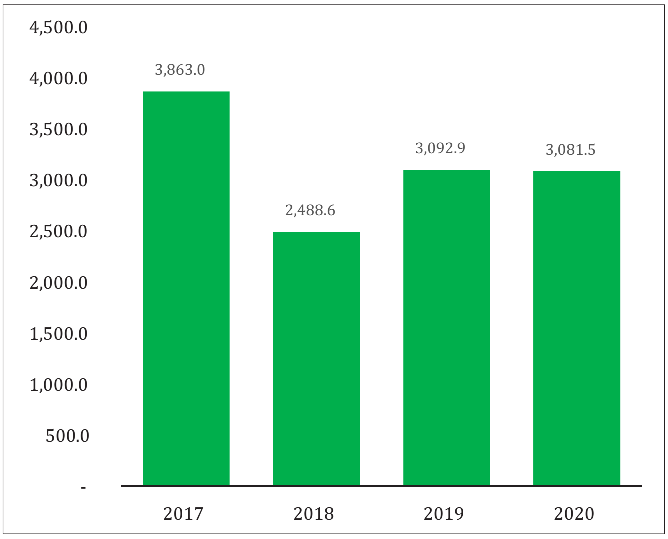
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Private Sector External Lending

Stock of private sector external lending rises

The stock of private sector external lending increased by 13.9 percent to US$3.1 billion in 2020 (Figure 36). This was due to the rise in holdings of currency and deposits, extension of loans as well as trade receivables by the deposit-taking corporations, mining, transport and storage, information and communication, manufacturing, as well as wholesale and retail trade sectors. Currency and deposits, at US$2.0 billion, accounted for the largest share (64.2 percent) of private sector external lending.

Figure 36: Total Stock of Private Sector External Lending, (US$ million), 2016- 2020



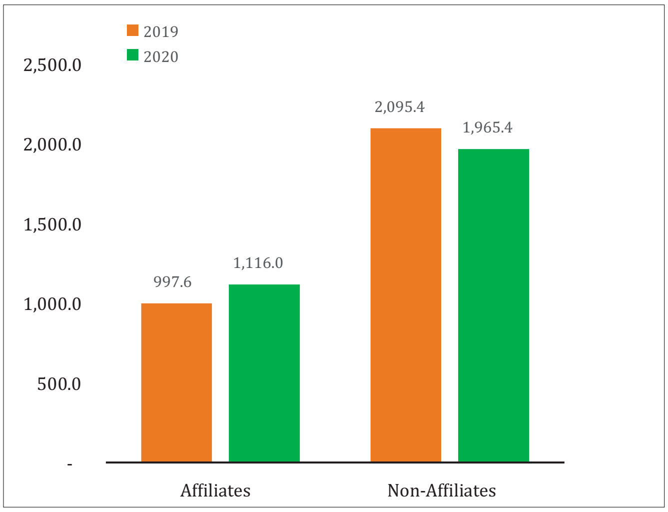
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Stock of Private Sector External Lending by Investment Relationship

Stock of lending to non-affiliates dominates

Non-affiliates, at US$2.1 billion, represented 63.8 percent of the stock of private sector external lending (Figure 37). The remaining 36.2 percent was accounted for by affiliated enterprises.

Figure 37: Private Sector External Lending by Investment Relationship (US$ millions), 2019- 2020



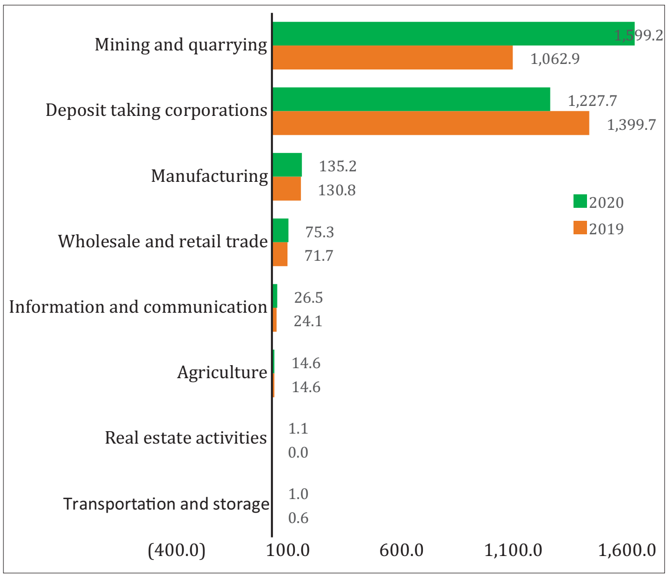
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Stock of Private Sector External Lending by Sector

Mining and deposit-taking corporations' major providers of external lending

The mining and quarrying sector as well as deposit-taking corporations dominated private sector external lending at US$1.6 billion and US$1.2 billion, respectively, collectively accounting for 91.7 percent of the stock of private sector external lending (Figure 38).

Figure 38: Private Sector External Lending by Sector (US$ million), 2019-2020



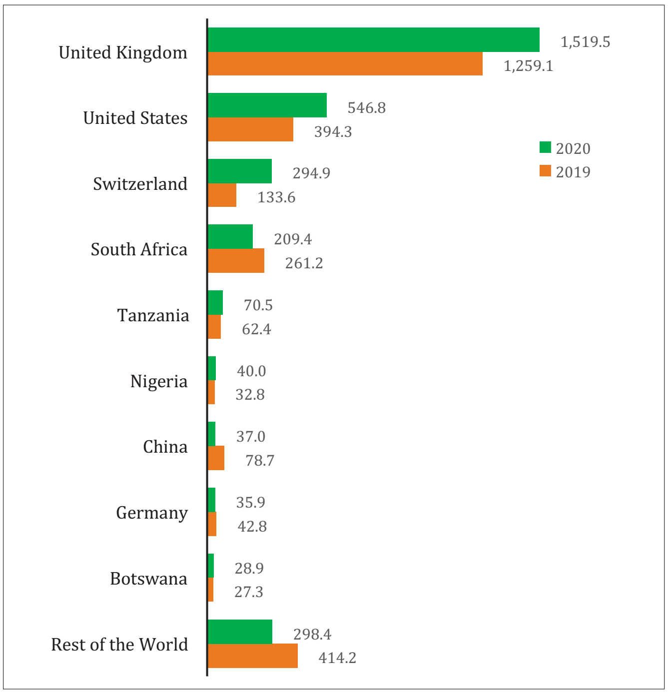
Source: Foreign Private Investment & Investor Perceptions Survey, 2021

Stock of Private Sector External Lending by Destination Country

Lending to UK dominant

The major destination country for private sector external lending was the United Kingdom (US$1.5 billion million or 49.3 percent) as shown in Figure 39. This was followed by United States of America (17.7 percent), Switzerland (9.6 percent), Nigeria (1.3 percent), Germany (1.2 percent) and Saudi Arabia (0.3 percent), which collectively accounted for 79.4 percent.

Figure 39: Total Stock of Private Sector External Lending by Source Country, (US$ million), 2019- 2020

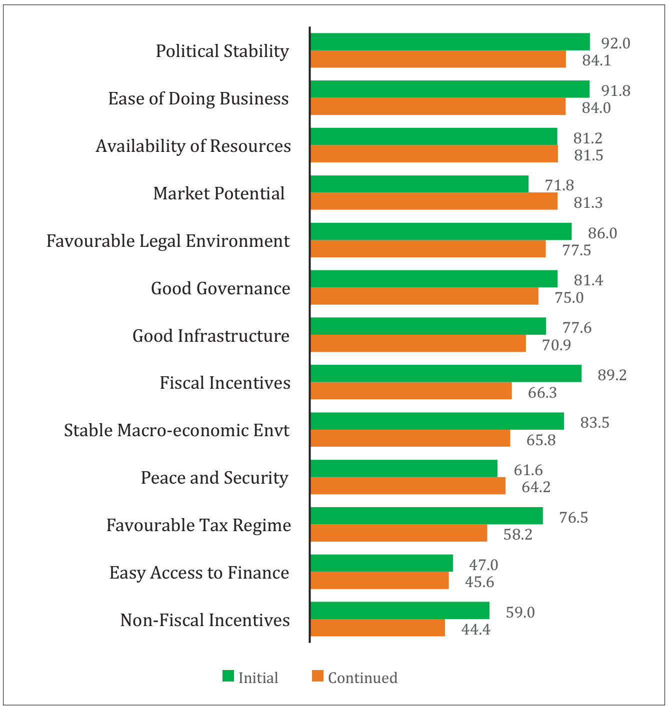


Source: Foreign Private Investment & Investor Perceptions Survey, 2021

5.0 Investor Perceptions

Political stability, ease of doing business, availability of resources, and market potential were cited as key factors that influenced investment and re-investment in Zambia (Figure 40).

Figure 40: Factors Motivating Investment and Re-Investments in Zambia (percent), 2021

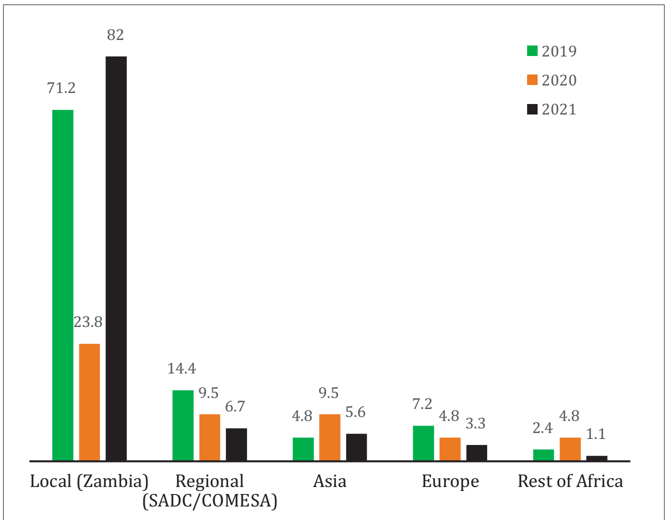


Source: Foreign Private Investment & Perceptions Survey, 2021

Export Orientation: Markets for Products

The majority of the respondents continued to produce for the local market and regional markets (Figure 41).

Figure 41: International Trade Orientation, 2020

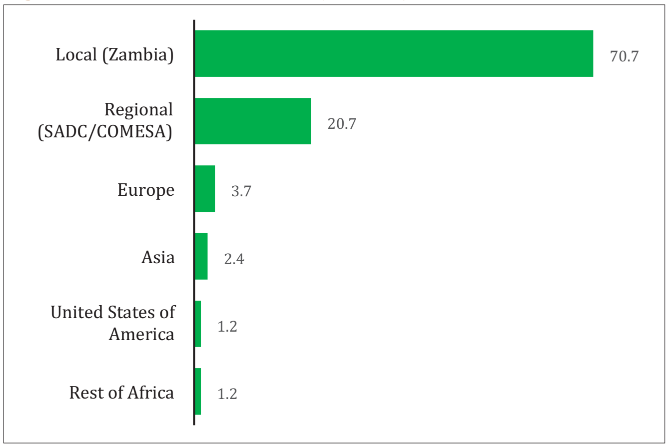


Source: Foreign Private Investment & Perceptions Survey, 2021

Markets for Services

The domestic market was the main market for services followed by the regional market (Figure 42).

Figure 42: Market for Services (Percent), 2021

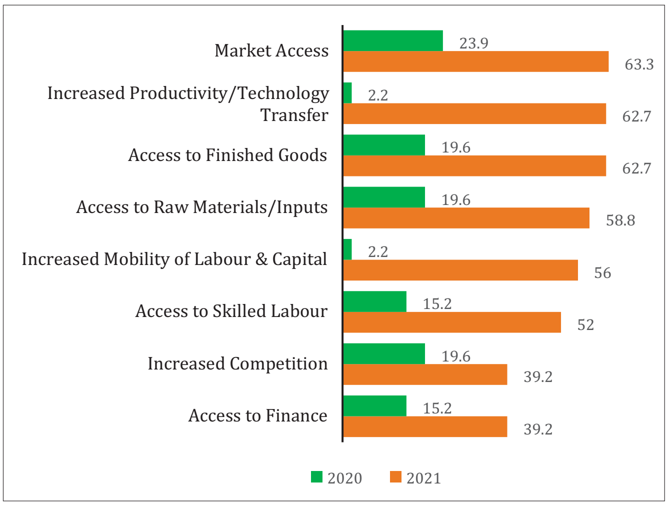


Source: Foreign Private Investment & Perceptions Survey, 2021

Benefits of Membership of the AfCFTA

The findings reveal that there is increased awareness of the benefits of the AfCFTA that include increased market access, productivity (technological transfer), and access to finished goods (Figure 43).

Figure 43: Benefits of membership to the AfCFTA (Percent), 2021

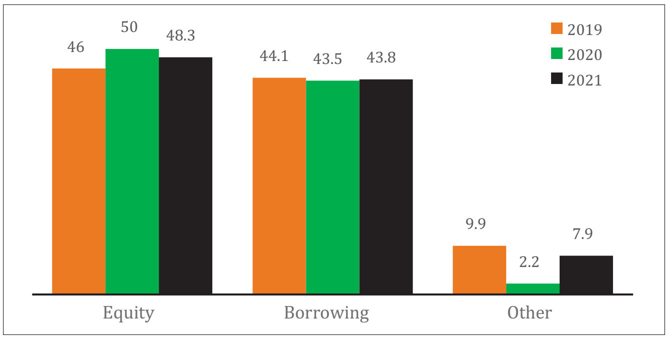


Source: Foreign Private Investment & Perceptions Survey, 2021

Source of Financing for Re-investment

Equity and debt were reported as the major sources of finance for re-investment (Figure 44).

Figure 44: Sources of Finance (percent), 2021

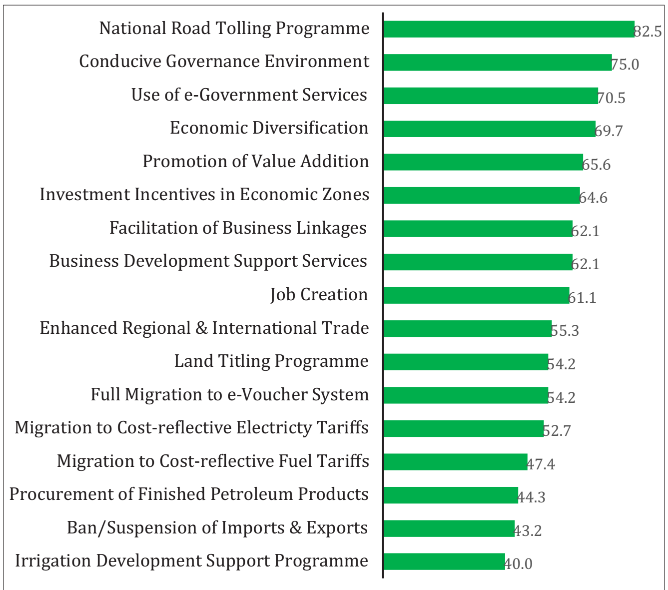


Source: Foreign Private Investment & Perceptions Survey, 2021

Government Policies and Measures to Stimulate Investment

Road infrastructure development was cited as the most significant Government measure aimed at stimulating investment (Figure 45). The irrigation development programme and the ban on imports/exports were perceived as the least effective interventions to support investment and growth.

Figure 45: Government Policies & Measures at Promoting Growth and Investment (Percent), 2021



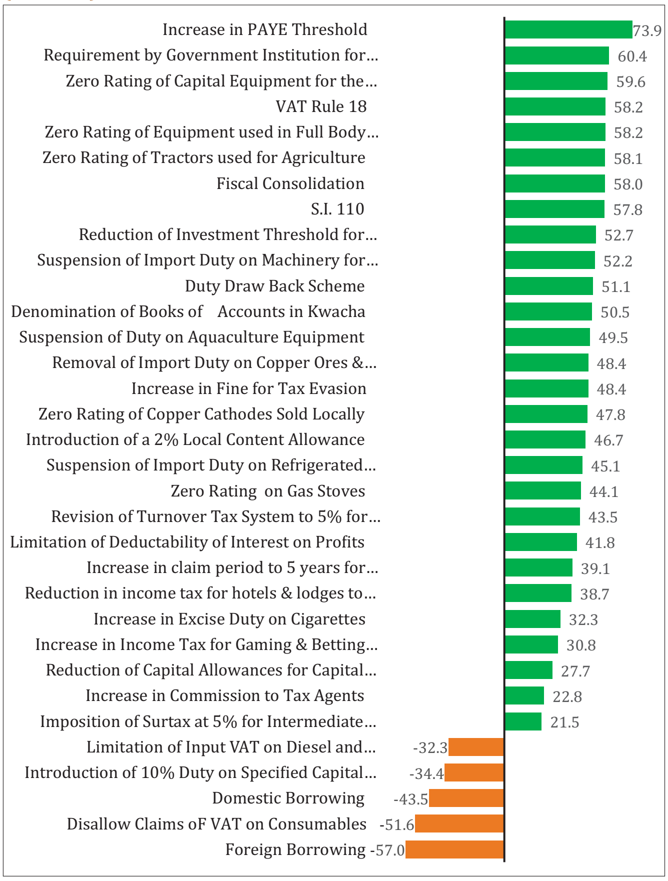
Source: Foreign Private Investment & Perceptions Survey, 2021

The Impact of Fiscal Policy Measures on Private Sector Investment

Changes in the fiscal regime were viewed as having a positive impact on investment by the majority of the firms. These included the increase in the PAYE threshold, zero rating of capital equipment used in the mining sector and full-body sanitization, fiscal consolidation and reduction in the investment threshold for Zambian investors (Figure 46).

However, some respondents indicated that foreign and domestic borrowing by the Government as well as non-claimable VAT on consumables had a negative impact on investment.

Figure 46: Performance of Government Fiscal Measures (Percent), 2021

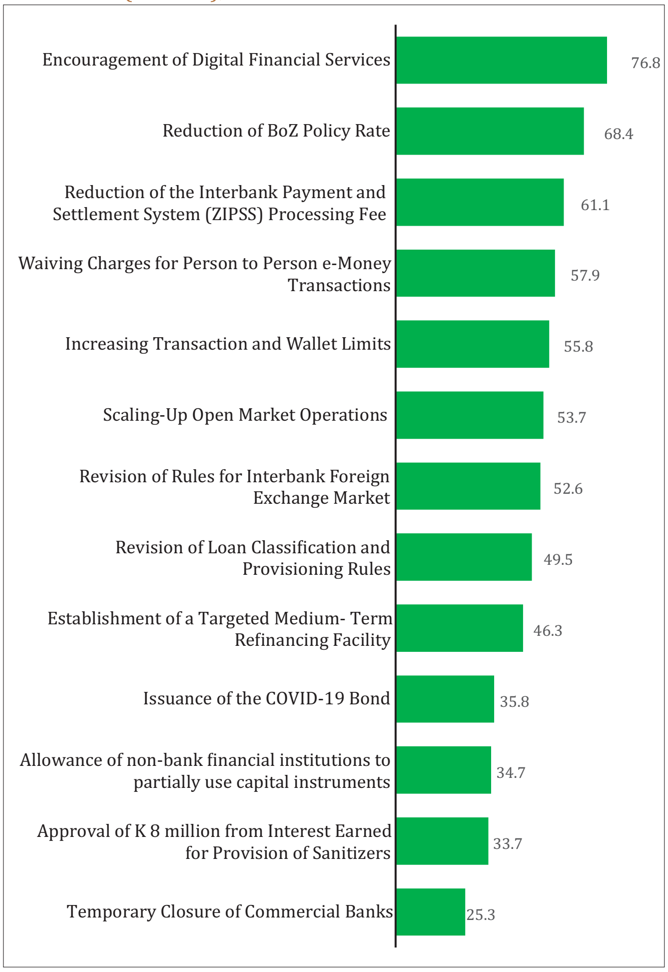


Source: Foreign Private Investment & Perceptions Survey, 2021

Results of Monetary Policy Measures on Private Sector Investment

Promotion of the use of digital financial services, reduction in the Monetary Policy Rate to 8.0 percent to 11.5 percent, as well as the downward adjustment of the Interbank Payment and Settlement System (ZIPSS) processing fees were perceived to have had a positive effect on private sector investment (Figure 47). On the other hand, the temporary closure of some commercial banks' branches and the revision of banking operating hours due to the COVID-19 pandemic negatively impacted investment.

Figure 47: Effects of Monetary Policy Measures on Private Sector Investment (Percent), 2021

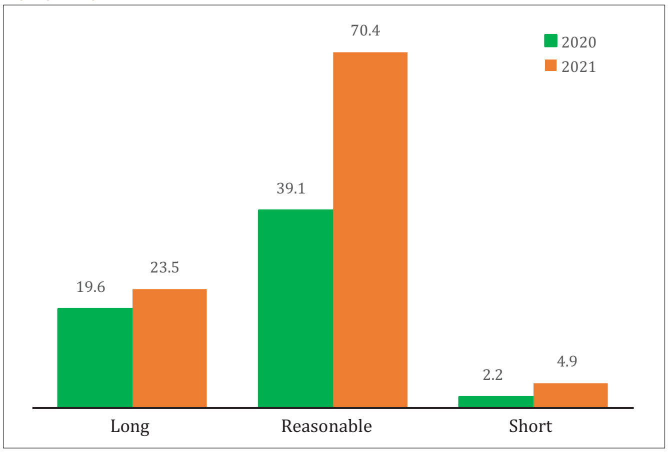


Source: Foreign Private Investment & Perceptions Survey, 2021

Border Clearance Time and Efficiency

The majority of the respondents found border clearance times reasonable (Figure 48).

Figure 48: Border Clearance Times and Efficiency (Percent), 2020 - 2021



Source: Foreign Private Investment & Perceptions Survey, 2021

Service Delivery by Government Institutions

The Patents and Company Registration Authority (PACRA), Bank of Zambia (BoZ), National Pensions Scheme Authority (NAPSA) and the Zambia Revenue Authority (ZRA) were the highest rated Government institutions in terms of service delivery. In contrast, the Zambia Medicines Regulatory Authority (ZMRA), Zambia Metrology Agency (ZMA) and the Zambia Compulsory Standards Agency (ZCSA) were the least rated Government institutions.

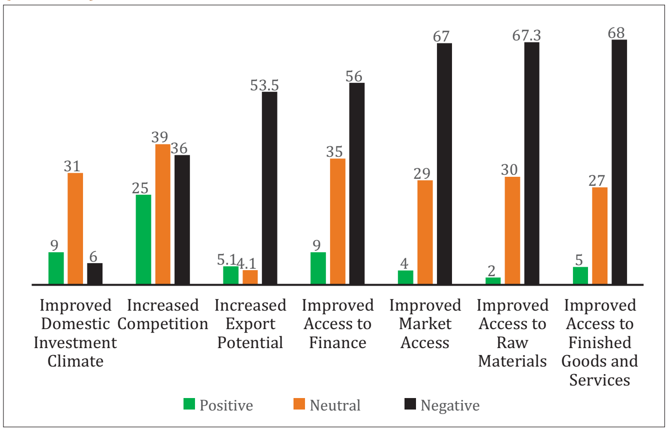
Overall, there was a marginal decline in the average rating of all Government institutions to 38.3 percent in 2021 from 40.1 percent in 2020.

Impact of COVID-19 on Businesses

About 34 percent of the respondents were satisfied with Government's response to the COVID-19 pandemic while 14 percent were not satisfied and 52 percent were indifferent.

Reduced access to finished goods, services and raw materials were cited as the main negative effects of the COVID-19 pandemic on business (Figure 49).

Figure 49: The Impact of the COVID-19 Pandemic Enterprises (Percent), 2021

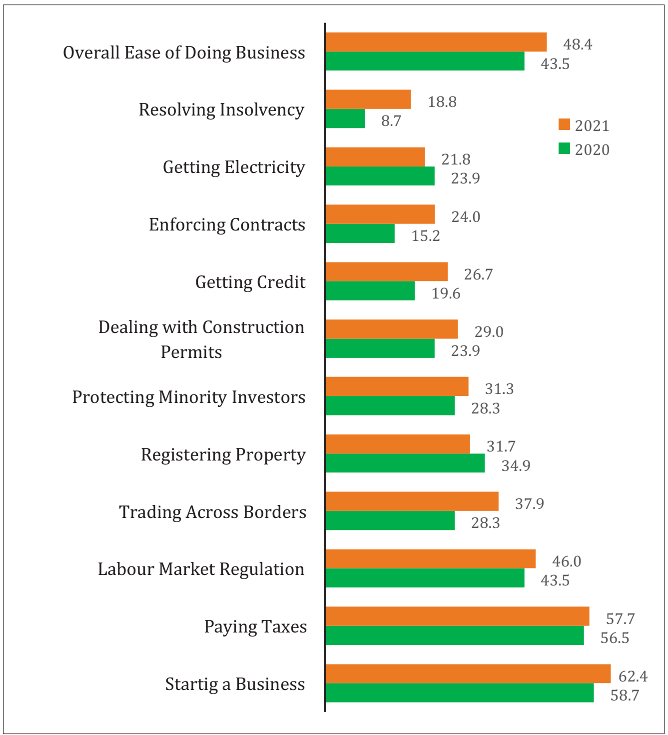


Source: Foreign Private Investment & Perceptions Survey, 2021

Ease of Doing Business

Generally, respondents did not find starting a business and paying taxes difficult. Conversely, they found resolving insolvency and getting electricity difficult. Overall, there was a marginal improvement in perceptions regarding the ease of doing business (Figure 50).

Figure 50: Perceptions on the Ease of Doing Business (Percent), 2020 - 2021

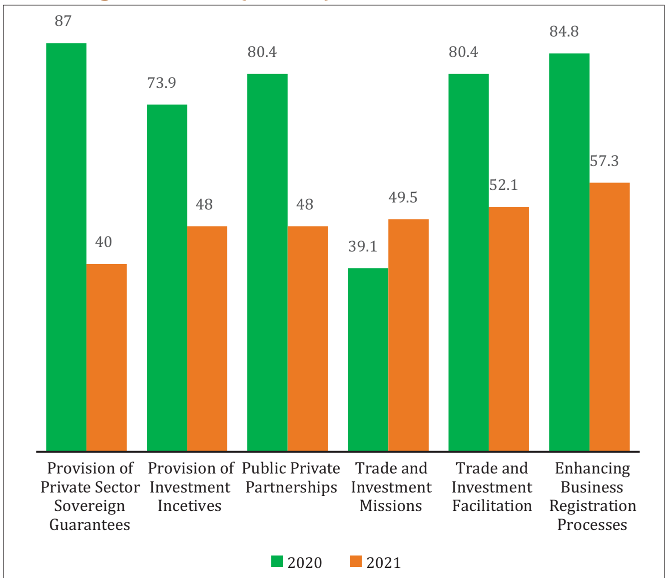


Source: Foreign Private Investment & Perceptions Survey, 2021

Effectiveness of Government Measures in Promoting Investments

The findings revealed that enhancing business registration processes as well as trade and investment facilitation were the most effective measures implemented by Government to spur investment (Figure 51). Conversely, the provision of private sector sovereign guarantees, investment incentives and public-private partnerships were perceived as the least effective investment promotion interventions. Overall, perceptions on the effectiveness of investment promotion interventions declined.

Figure 51: The effectiveness of Government Measures aimed at Promoting Investment (Percent), 2020-2021

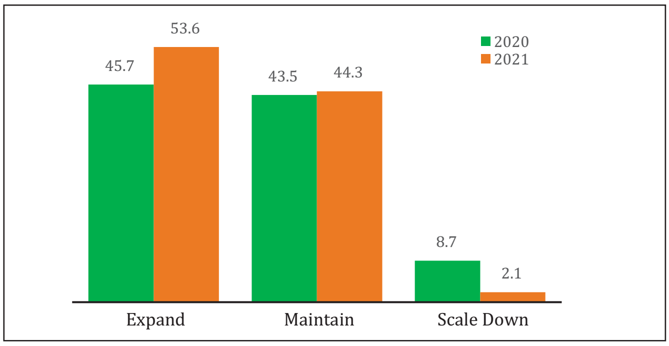


Source: Foreign Private Investment & Perceptions Survey, 2021

Investor Outlook

The percentage of respondents intending to expand their businesses increased while those planning to scale down reduced between 2020 and 2021(Figure 52). Respondents that planned to expand their businesses indicated that they would use value addition (88.1 percent) and expansion of existing facilities (86.4 percent) as strategies.

Figure 52: Proposed Policy Measures to Government to Encourage Foreign Investments in Zambia (Percent), 2020



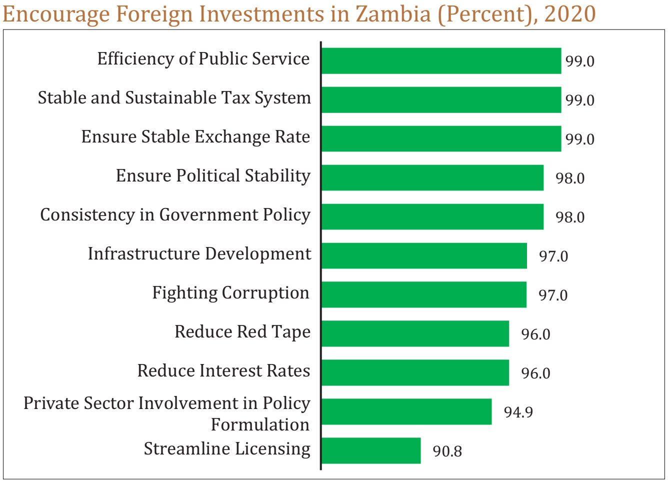
Source: Foreign Private Investment & Perceptions Survey, 2021

Policy Recommendations to Government to Encourage Foreign Investment in Zambia

The majority of the firms recommended the following measures to Government to encourage foreign investment (Figure 53):

a) Improvement in service delivery by the public sector;
b) Develop a stable and sustainable tax system;
c) Ensure stable exchange rate;
d) Enhance political stability;
e) Ensure consistency in Government policy;
f) Enhance infrastructure development;
g) Increased efforts in the fight against corruption;
h) Reduce red tape;
i) Lower Lending rates;
j) Enhance private sector involvement in decision-making; and
k) Streamline licensing requirement.

Figure 53: Proposed Policy Measures to Government to Encourage Foreign Investments in Zambia (Percent), 2020

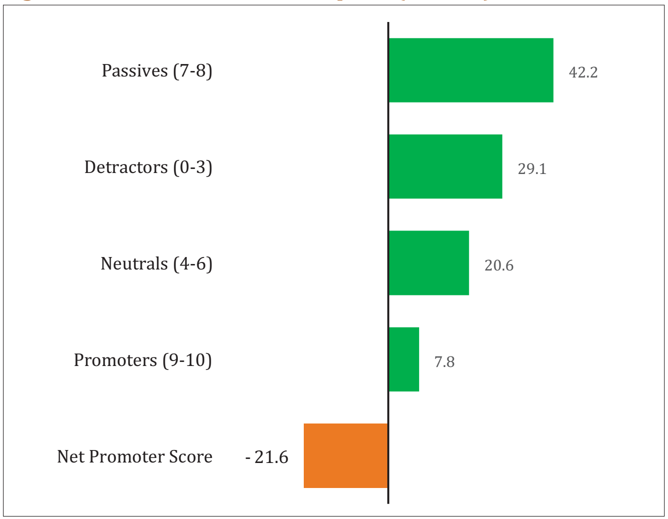


Source: Foreign Private Investment & Perceptions Survey, 2021

Overall Investor Perception

Most of the respondents from the financial, manufacturing, and service sectors were unlikely to recommend Zambia to someone as an investment destination (Figure 54)

Figure 54: Overall Investor Perception (Percent), 2020-2021



Source: Foreign Private Investment & Perceptions Survey, 2021

6.0 Conclusion

The 2021 survey was administered electronically due to the COVID-19 pandemic. It covered the calendar year 2020 and the first half of 2021. A total of 250 enterprises were enumerated out of which 135 responded, translating into a response rate of 54.0 percent, a decrease from 56.4 percent recorded in 2019.

The stock of private sector foreign liabilities reduced in 2020 by 4.9 percent to US$21.3 billion. This was largely due to the fall in the FDI stock owing to valuation effects on equity mostly held by the mining and quarrying sector. Nonetheless, FDI continued to account for the largest share of the private sector foreign liability stock. In terms of flows, net foreign liability outflows of US$73.8 million were recorded in 2020 against net inflows of US$357.1 million in 2019. This was due to loan repayments to non-affiliates by the mining, manufacturing, electricity as well as wholesale and retail trade sectors and the reduction in currency by non-residents in deposit-taking corporations. Private sector external debt, which accounted for 77.9% of foreign liabilities, increased by 5.4 percent to US$16.6 billion. This was due to revaluation changes in non-US dollar denominated loans mostly in the electricity, manufacturing, information and communication as well as real estate sectors. FDI liability inflows amounted to US$226.1 million in 2020 despite slumping by 70 percent. Reduced reinvested earnings and debt repayments, mostly by the mining and quarrying sector, accounted for the decline in FDI inflows. Canada was the major source of private sector foreign liabilities.

In contrast, the stock of private sector foreign assets increased by 16.1 percent to US$3.2 billion in 2020 mainly due to currency and deposits driven by the mining and deposit-taking corporations. At US$725.8 million, asset flows rose by 62.3 percent, mostly due to the surge in the holdings of currency and deposits. FDI asset acquisitions, however, slumped to US$62.8 million in 2020 from US$624.4 million in 2019 as a result of the reduction in the mining sector's debt flows to fellow enterprises. The United Kingdom was the major recipient of foreign asset flows and holds most of the asset stock.

During the first half of 2021, the stock of private sector foreign liabilities slumped further to US$19.7 billion following loan repayments and valuation effects on equity. However, liability inflows rose to US$643.3 million following an upswing in FDI inflows on account of higher reinvested earnings by the mining, deposit-taking corporation, manufacturing, electricity as well as information and communication sectors.

In terms of investor perception, political stability, ease of doing business, availability of resources, and market potential, were cited as the main factors that influenced re-investment in Zambia. The promotion of the use of digital financial services and the reduction in the Monetary Policy Rate were seen as positive measures that supported business activity. However, the temporary closure of some commercial bank branches and revision of banking operating hours due to the COVID-19 pandemic were perceived as having had a negative impact on investment. The COVID-19 pandemic was perceived as a major factor that constrained investment by limiting access to raw materials, finished goods and services.

The survey further revealed an investor dissatisfaction of 21.6 percent, particularly in the financial, manufacturing and service sectors.

The key measures recommended by majority of firms for Government to enhance investment relate to improvements in service delivery by the public sector, having a stable and sustainable tax system, maintaining stability in the exchange rate, preserving political stability, consistency in Government policy and continued investment in infrastructure development. Other areas highlighted include addressing high lending rates, increased efforts in the fight against corruption and reducing bureaucratic processes.