Bank of Zambia

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Foreign Private Investment and Investor Perceptions in Zambia 2020

Fostering Investment and Diversification
Towards Economic Recovery and Sustainable Growth

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2020 Foreign Private Investment and Investor Perceptions in Zambia Survey Highlights

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

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Executive Summary

This report presents preliminary findings of the 13th Private Capital Flows and Investor Perceptions Survey for 2019 and the first half of 2020 in which 250 companies with foreign assets and liabilities were enumerated. The survey was undertaken on a quarterly and annual basis. The survey was administered electronically due to the COVID-19 pandemic. A total of 141 responded, translating into a response rate of 56.4 percent. Reduced working hours, rotational working sequences and work-from-home arrangements induced by the pandemic contributed to a lower response rate.

Private sector foreign liability inflows fell sharply to US$357.1 million in 2019 from US$924.7 million in 2018. The decline was largely attributed to debt repayments by the mining and quarrying, manufacturing, deposit-taking corporations, as well as information and communication sectors. Nonetheless, FDI liability flows grew by 52.3 percent to US$859.8 million following related party borrowings mostly in the mining and quarrying sector. Australia was the major source of FDI flows. Consequently, the private sector external debt stock grew by 4.0 percent to US$14.6 billion at end-2019. Switzerland continued to be the major source country for debt. In contrast, private sector foreign asset flows contracted by 31.8 percent to US$447.2 million. The decline was due to the reduction in currency and deposits by deposit-taking corporations.

With regard to investor perceptions, the survey findings showed that market potential, peace and security, political stability, favourable tax regime, good infrastructure and non-fiscal incentives were the major factors that influenced the decision-making process for respondents to re-invest in Zambia. Despite the deterioration in the ease of doing business, interventions in the foreign exchange market as well as the reduction in the policy rate by the Bank of Zambia were seen as positive measures that supported business activity. However, the increase in the rate of withholding tax, foreign and domestic borrowing by Government were cited as having adverse effects on businesses. Notably, the COVID-19 pandemic was perceived as a risk that was likely to constrain investment by limiting access to markets and raw materials. Further, the majority of firms highlighted political stability, consistency in Government policy, stable exchange rate, stable and sustainable tax system, infrastructure development, increased effort in the fight against corruption, lower borrowing cost, as well as enhanced private sector consultation as key measures expected to be undertaken by Government to spur investment.


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1.0 Introduction

The global economy was hit by the devastating COVID-19 pandemic in 2020. As a result, the domestic economy contracted by about 3.0 percent. Notwithstanding the challenges caused by the COVID-19 pandemic, the Zambian Government outlined measures in the Economic Recovery Plan (ERP) to resuscitate the economy. The ERP aims at restoring macroeconomic stability, attaining fiscal and debt sustainability, restoring growth and economic diversification, as well as dismantling of arrears and safeguarding social protection programmes. These measures are expected to create a favourable environment for the expansion of the export base and attraction of higher foreign investment inflows.

In response to COVID-19, the Bank of Zambia established a refinancing facility, the Targeted Medium-Term Refinancing Facility (TMTRF), to provide liquidity to eligible financial institution for onward lending to their customers on concessional terms to support businesses. In addition, Government provided tax relief to sectors adversely affected by the COVID-19 pandemic.

Going forward, the recovery in growth is expected to be mainly driven by the private sector while economic diversification will be anchored on agriculture, mining, manufacturing, tourism and energy sectors. Therefore, the 2020 Survey Report carries the theme *"Fostering Investment and Diversification Towards Economic Recovery and Sustainable Growth".*

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.

This report summarises the survey findings on foreign assets and liabilities and investor perceptions in Zambia for 2019 and the first half of 2020. It provides highlights on the magnitude, types and direction of foreign private capital assets and liabilities as well as investor perceptions.

The survey was undertaken on a quarterly and annual basis. Due to the COVID-19 pandemic, the survey was administered electronically. A total of 250 enterprises were sampled out of which 141 responded, translating into a response rate of 56.4 percent. This is lower than the 82.0 percent response rate recorded in 2018. Similarly, the average quarterly response rate fell to 79.3 percent from 82.8 percent recorded in 2018.

Reduced working hours, rotational working sequences and work-from-home arrangements induced by COVID-19 contributed to the poor response rate. The survey period was also extended because a large number of respondents took time to adjust to the current exclusively impersonal data collection method that includes electronic mail and telephone calls. In past surveys, actual physical visitation made a significant difference to achieve higher response rates of 80.0 percent and above.

The highest response rate was by the deposit- taking corporations (94.1 percent) followed by electricity, information and communication (75.0 percent), as well as mining and quarrying (70.0 percent) sectors (Table 1).

Table 1: Sample Distribution by Sector

Sector	Number of Enterprises Sampled	Number of Enterprises that Responded	Response Rate (Percent)
Accommodation and Food Services	12	2	16.7
Agriculture, Forestry & Fishing	12	4	33.3
Construction	13	6	46.2
Deposit Taking Corporations	17	16	94.1
Electricity	4	3	75.0
Information and Communication	12	9	75.0
Insurance and Other Financial	18	10	55.6
Manufacturing	52	24	46.2
Mining & Quarrying	30	21	70.0
Real Estates	9	4	44.4
Transport and Storage	16	10	62.5
Wholesale and Retail Trade	45	28	62.5
Administration & Support Service	3	0	-
Professional, Scientific and Technical	7	4	57.1
Grand Total	**250**	**141**	**56.4**

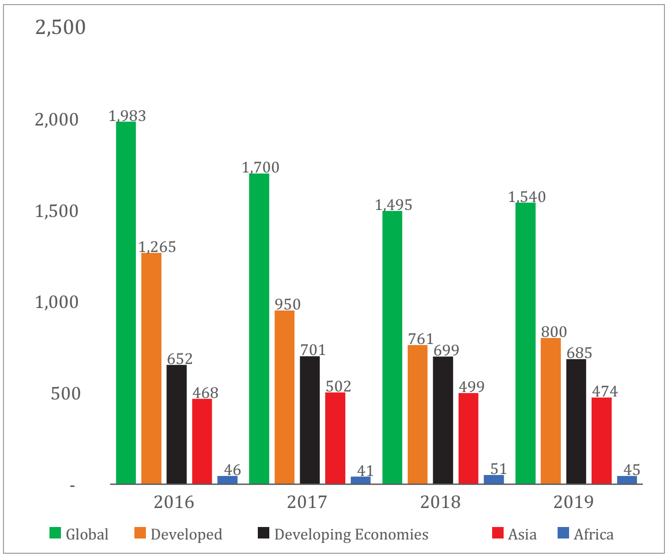
Source: Foreign Private Investment & Perceptions Survey, 2020

2.0 Global FDI Inflows

Global FDI flows rose

Global FDI flows grew by 3.0 percent to US$1.54 trillion in 2019 (Figure1). The rise was largely attributed to higher flows to developed economies as a result of the diminishing effects of the US tax reforms that started in 2017. These tax measures contributed to a rise in mergers and acquisitions and ultimately constrained flow of global FDI.

Figure 1: Global FDI Inflows 2016-2019 (US$ billions)



Source: World Investment Report, 2020

2.1 Regional Investment Trends

FDI inflows to Africa fell on low commodity demand

FDI flows to developed and transition economies rose but declined to developing economies . The share of developed countries in global FDI inflows rose marginally to 52.0 percent from 50.9 percent while that of developing countries decreased to 44.5 percent from 46.8 percent.

Specifically, FDI flows to Africa declined by 10.3 percent to US$45.4 billion in 2019 mainly due to by subdued demand for commodities coupled with lower economic growth (Figure 1).

2.2 Prospects for Global FDI

Sharp decline projected for FDI flows in 2020 and beyond due to COVID-19 Pandemic

UNCTAD, in its World Investment Report (2020), projects a sharp decline in FDI as a consequence of the COVID-19 pandemic. Global FDI is projected to drop severely and fall below the levels witnessed during the global financial crisis. In this regard, for 2020, global FDI was expected to fall below US$1 trillion for the first time since 2005. A further decline of between 5-10 percent is expected in 2021 while a rebound to pre-pandemic levels is projected for 2022. The outlook is uncertain as the duration of the health crisis is unknown and so is the effectiveness of the current policy interventions.

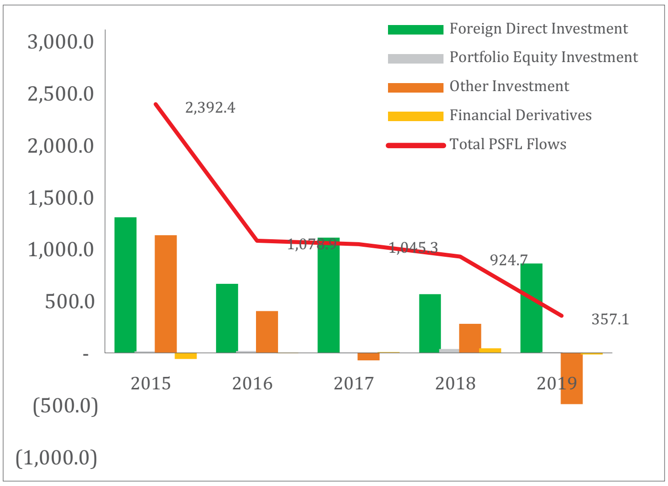
3.0 Private Sector Foreign Liabilities in Zambia

3.1 Private Sector Foreign Liability Flows

Lower liability flows recorded due to debt repayments to non-related parties

Private sector foreign liability (PSFL) net inflows were significantly lower at US$357.1 million in 2019 than US$924.7 million in 2018. The reduction was due to debt repayments to non-related parties, mainly by the mining and quarrying, manufacturing, deposit-taking corporations as well as information and communication sectors (Figure 2).

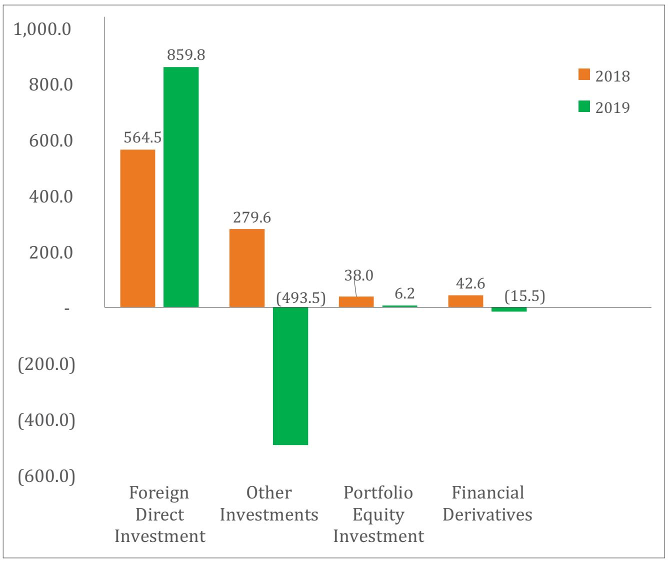
Figure 2: Private Sector Foreign Liability Inflows (US$ million), 2015-2019



Source: Foreign Private Investment & Perceptions Survey, 2020

Foreign direct investment liability inflows, however, grew significantly by 52.3 percent to US$859.8 million (Figure 3). This outturn was mainly due to the increase in related party borrowings to meet operational needs amid a rise in losses, especially in the mining and quarrying sector. However, net portfolio equity investment inflows reduced significantly to US$6.2 million from US$38.0 million in 2018 while financial derivatives registered a net outflow of US$15.5 million.

Figure 3: Private Sector Foreign Liability Inflows by Type (US$ million), 2018–2019



Source: Foreign Private Investment & Perceptions Survey, 2020

Net private sector foreign liabilities outflows of US$496.0 million were registered during the first half of 2020 against net inflows of US$9.5 million in the corresponding period in 2019. This was largely attributed to retained losses due to lower profitability and debt repayments to non-affiliates[1] by enterprises in the mining, manufacturing, information and communication, transport, deposit taking corporations as well as wholesale and retail trade sectors.

[1]Non-affiliates (Non-related enterprises) are entities with which your enterprise has no equity, voting rights or equivalent and do not share a common parent.

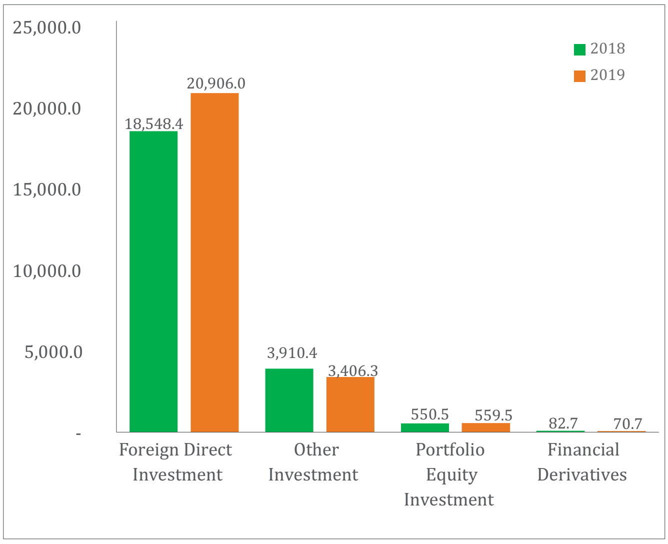
3.2 Private Sector Foreign Liability Stocks

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

The stock of private sector foreign liabilities marginally rose to US$24.7 billion from US$23.1 billion in 2018. This was largely explained by the rise in FDI following an increase in the debt stock partly due to valuation effects and higher equity inflows mostly in the mining and quarrying sector.

FDI continued to dominate the composition of private sector foreign liability stock (83.9 percent) followed by other investments (13.7 percent) as depicted in Figure 4.

Figure 4: Composition of Private Sector Foreign Liability Stocks (US $ million), 2018–2019



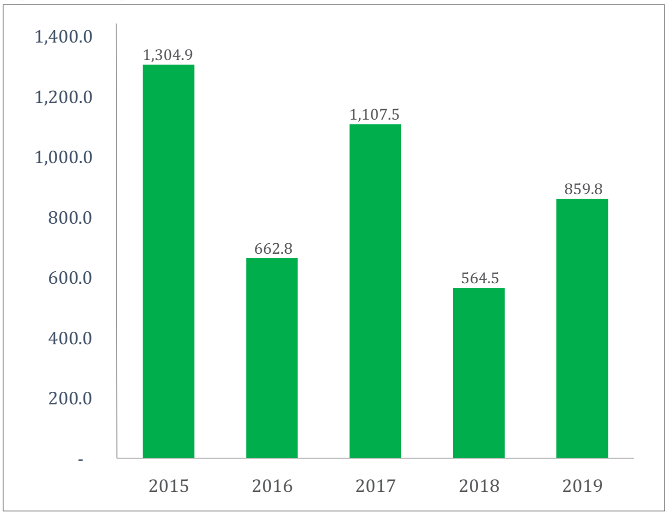
Source: Foreign Private Investment & Perceptions Survey, 2020

The stock of private sector foreign liabilities fell during the first half of 2020 by 12.3 percent to US$20.3 billion. This was driven by a drop in FDI stocks mainly as a result of losses mostly in the mining and quarrying sector.

4.0 Foreign Direct Investments into Zambia

FDI liability flows rose to US$859.8 million in 2019 from US$564.5 million in 2018 (Figure 5). This was attributed to borrowings from related parties to meet operational needs amid a rise in losses, especially in the mining and quarrying sector. The increase in retained losses moderated the rise in FDI liability inflows.

Figure 5: Foreign Direct Investment Liability Flows (US$ million), 2015-2019



Source: Foreign Private Investment & Perceptions Survey, 2020

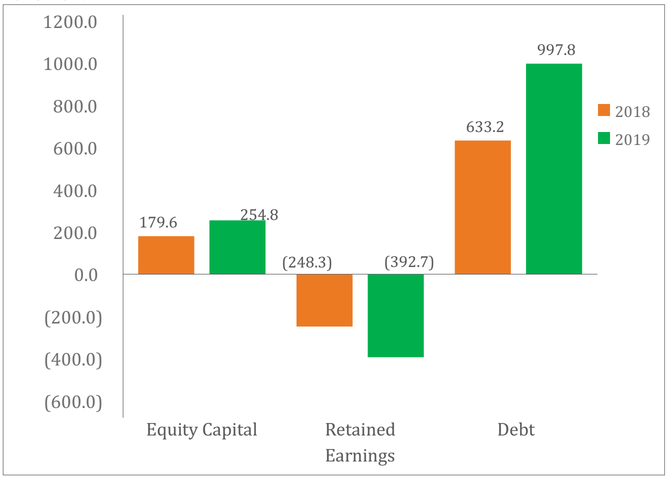
4.1 Foreign Direct Investment Liability Inflows and Stock by Type

Debt dominated FDI inflows

FDI liability inflows were largely in the form of borrowings from affiliates, which rose to US$997.8 million from US$633.2 million in 2018 (Figure 6). In addition, equity capital flows improved to US$254.8 million from US$179.6 million.

Retained losses of US$392.7 million, were however, recorded reflecting losses mostly in the mining and quarrying, as well as the information and communication sectors.

Figure 6: Foreign Direct Investment Liability Inflows by Type US $ million), 2018-2019



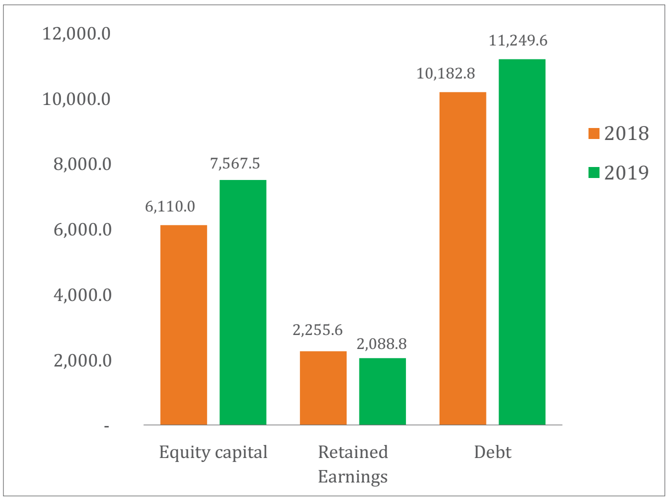
Source: Foreign Private Investment & Perceptions Survey, 2020

Debt dominated as FDI liability stock rose

The stock of FDI liability increased by 12.7 percent to US$20.9 billion due to borrowings and higher equity capital flows as well as revaluation effects on reserves and loans especially in the mining and quarrying sector (Figure 7).

FDI liability stock mostly consisted debt of US$11.2 billion (representing 53.8 percent of the total stock).

Figure 7: Foreign Direct Investment Liability Stock by Type US $ million), 2018-2019



Source: Foreign Private Investment & Perceptions Survey, 2020

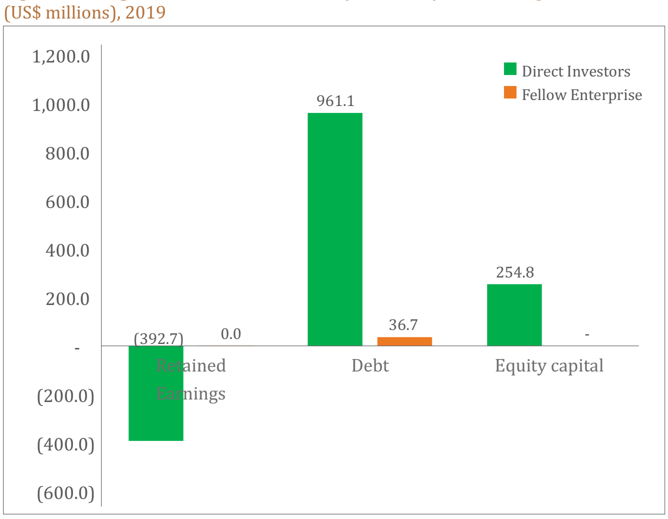
FDI liability net outflows of US$295.0 million were registered during the first half of 2020 against net inflows of US$392.1 million recorded in the corresponding period in 2019. This outturn was due to losses as well as debt repayments and lower equity capital flows in the mining and quarrying, manufacturing, information and communication, transport, deposit taking corporations as well as wholesale and retail trade sectors.

4.2 Foreign Direct Investment Liability Inflows and Stocks by Relationship

Direct investors largest contributor to FDI inflows and stocks

FDI liability inflows in 2019 were mainly from direct investors who contributed US$961.1 million largely in form of debt (Figure 8).

Figure 8: Foreign Direct Investment Liability Inflows by Relationship (US$ millions), 2019



Source: Foreign Private Investment & Investor Perceptions Survey, 2020

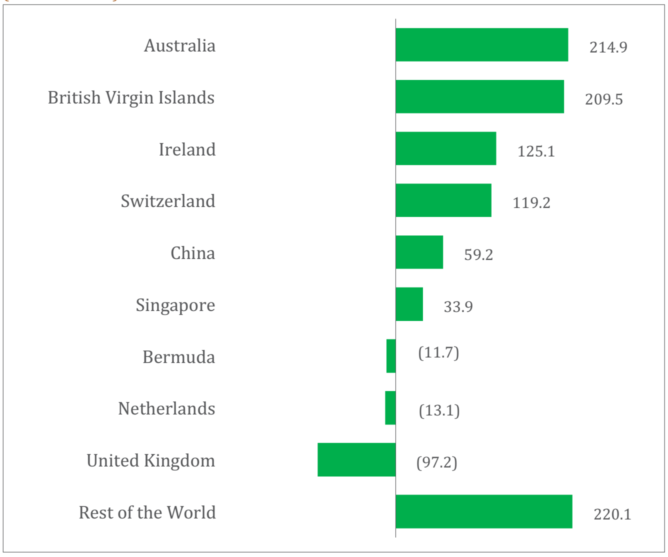
Direct investors represented 90.4 percent of the total stock, which stood at US$18.9 billion at end-2019. Fellow enterprises accounted for the remainder.

4.3 Foreign Direct Investment Liability Inflows and Stocks by Source Country

Australia major source of FDI Inflows into Zambia

The major source country for FDI liability flows in 2019 was Australia, accounting for a net inflow of US$214.9 million mostly equity and debt (Figure 9). Net inflows from British Virgin Islands, Ireland, Switzerland, China and Singapore amounted to US$546.9 million. Net outflows to the United Kingdom, Netherlands and Bermuda were due to accumulated retained losses and debt repayments.

Figure 9: Foreign Direct Investment Liability Inflows by Source Country (US $ millions), 2019



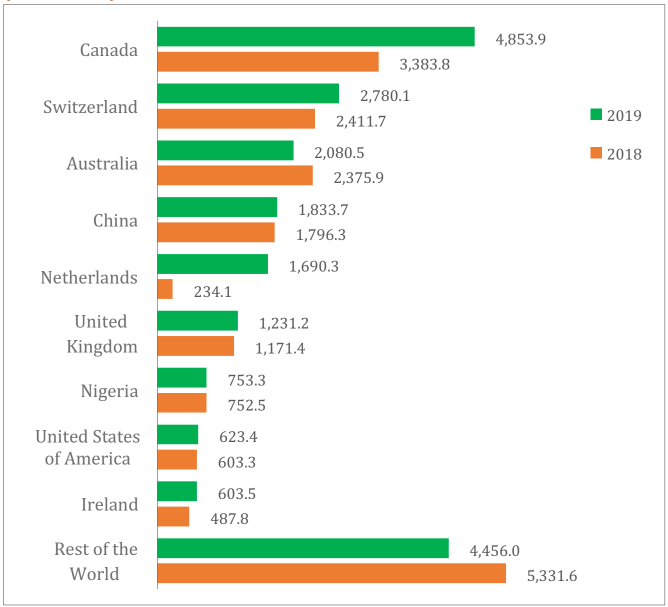
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

Canada, Switzerland, Australia, China, Netherlands and the United Kingdom major contributors to FDI liability stocks

The top six source country contributors to FDI liability stocks in 2019 were Canada, Switzerland, Australia, China, Netherlands and the United Kingdom (Figure 10). These countries accounted for 69.2 percent of the total stock, an increase from 61.3 percent in 2018.

FDI liability stocks remain 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), 2018-2019



Source: Foreign Private Investment & Investor Perceptions Survey, 2020

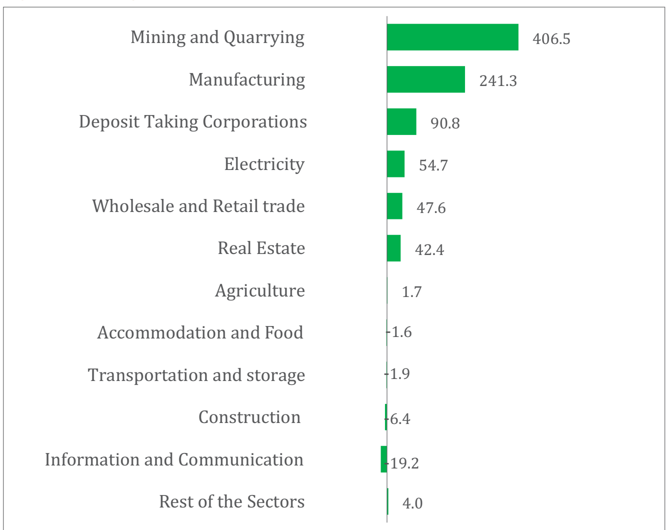
4.4 Foreign Direct Investment Liability Inflows and Stocks by Sector

Mining and quarrying sector major recipient of FDI debt inflows

The mining sector recorded the highest net inflows of US$406.5 million in 2019 mainly in form of debt, representing 47.3 percent share of total inflows (Figure 11). Other sectors that recorded net inflows were manufacturing, deposit-taking corporations, electricity, wholesale and retail, real estate as well as agriculture.

Net outflows were, however, recorded in the information and communication, construction, transport as well as accommodation and food sectors explained by retained losses.

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



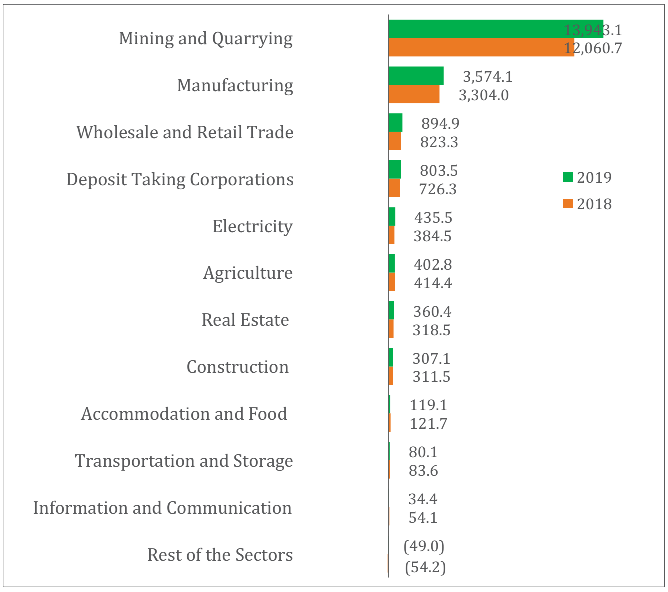
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

FDI stock concentrated in mining and quarrying sector

With regard to the sectoral distribution of FDI liability stock, mining and quarrying contributed the largest share at 66.7 percent mainly in form of debt (Figure 12). Manufacturing was second, at 17.1 percent, following a growth of 8.2 percent due to reinvested earnings. The remaining sectors collectively contributed 16.2 percent to the total stock.

The overall growth in FDI stock was mostly attributed to the mining and quarrying, manufacturing, wholesale and retail, deposit-taking corporations, electricity as well as real estate sectors.

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



Source: Foreign Private Investment & Investor Perceptions Survey, 2020

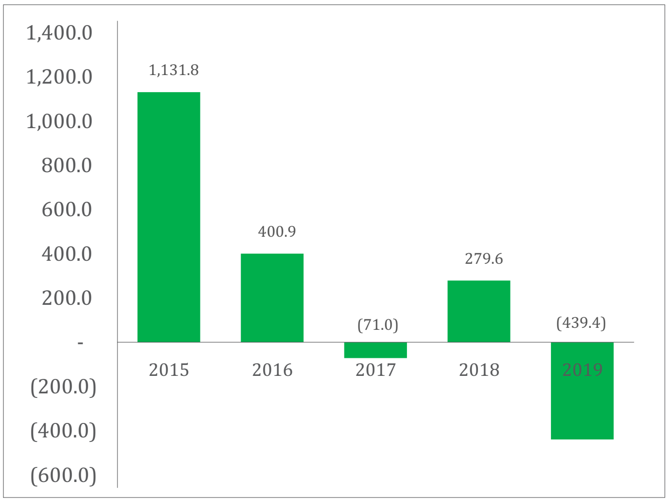
5.0 Other Investments

Debt repayments pushed other investments lower

There was a net outflow of other investments[2] amounting to US$493.4 million against net inflows of US$279.6 million in 2018 (Figure 13) Loan repayments by the mining, manufacturing, as well as information and communication sectors accounted for this outturn. There was also a reduction in currency and deposits by the deposit-taking corporations. As a result, the stock of other investments declined by 12.9 percent to US$3.4 billion in 2019.

[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. In addition, this 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), 2015-2019



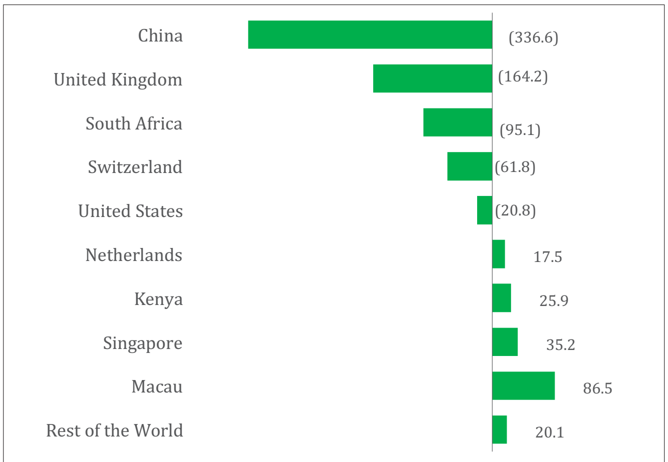
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

5.1 Other Investment Inflows and Stocks by Source Country

China recorded the highest other investment liability net outflows

Total net outflows of US$678.6 million were recorded with China ranked highest followed by the United Kingdom, South Africa, Switzerland and the United States of America (Figure 14). Net inflows were, however, recorded for Macau, Singapore, Kenya and the Netherlands.

Figure 14: Other Investment Inflows by Source Country (US $ millions), 2019

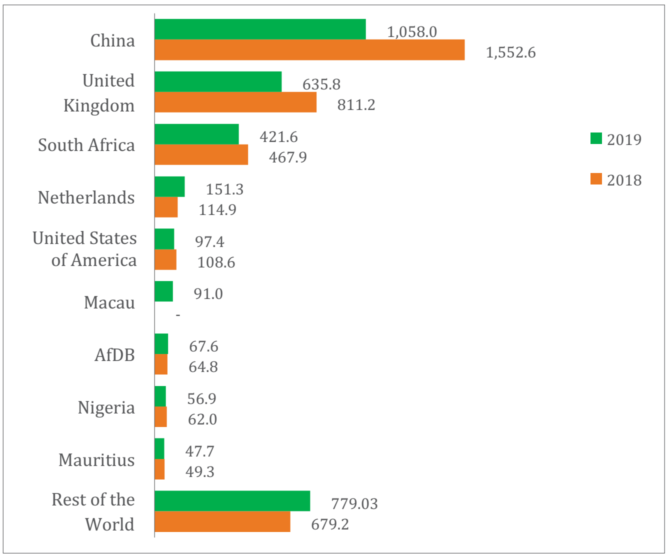


Source: Foreign Private Investment & Investor Perceptions Survey, 2020

China largest contributor to other investment liability stocks

China accounted for the largest share of other investment liability stocks, recording US$1.1 billion, representing 31.1percent (Figure 15). The United Kingdom was second (18.7 percent) followed by South Africa (12.4 percent) and the Netherlands (4.4 percent).

Figure 15: Other Investment Stocks by Source Country (US$ millions), 2018 and 2019



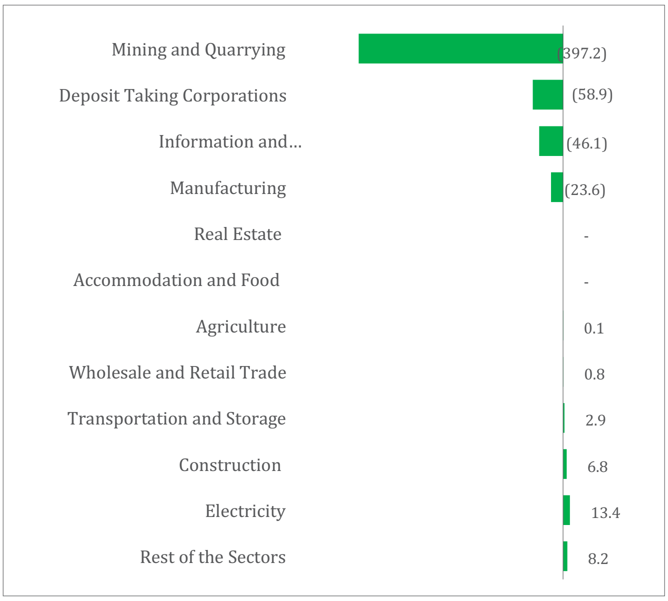
Source: Foreign Private Investment & Investor Perceptions Survey, 2020

5.2 Other Investment Inflows and Stocks by Sector

Net outflows largely recorded by mining and quarrying sector

The highest net outflows of US$397.2 million were recorded by the mining and quarrying sector. The deposit-taking corporations, manufacturing, as well as information and communication sectors collectively recorded net outflows of US$128.6 million (Figure 16). Nevertheless, electricity, construction, transport, wholesale and retail, as well as the agriculture sectors registered net inflows in loans, trade credits and advances.

Figure 16: Other Foreign Investment Inflows by Sector (US$ millions), 2019

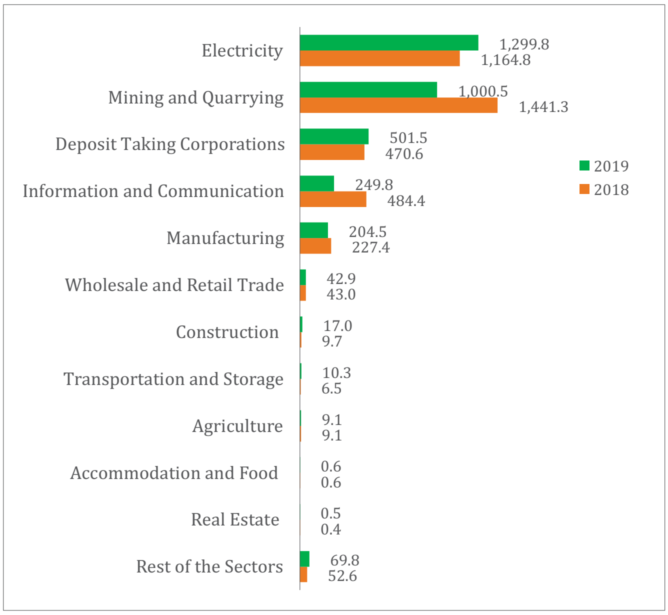


Source: Foreign Private Investment & Investor Perceptions Survey, 2020

Electricity sector accounted for largest share of other investment stock

The electricity sector accounted for the largest share of other investment stock, at 38.2 percent, following a growth of 11.6 percent to US$1.3 billion (Figure 17). The mining and quarrying sector accounted for 29.4 percent despite registering a 30.6 percent decrease in stock to US$1.0 billion. The deposit-taking corporations, information and communications, as well as manufacturing sectors collectively accounted for 28.1 percent.

Figure 17: Other Foreign Investments Stocks by Sector (US$ millions), 2018 – 2019



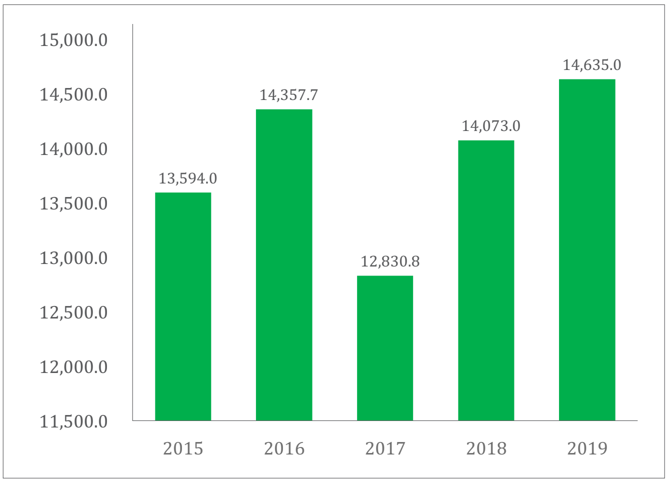
Source: Foreign Private Investment & Investor Perceptions, 2020

6.0 Private Sector External Debt Stock

Long-term debt dominated rising private sector debt

The private sector[3] external debt stock rose further to US$14.6 billion at end-2019 from US$14.1 billion at end-2018, representing a growth of 4.0 percent (Figure 18). The increase was due to net loan disbursements mostly in the mining and quarrying sector. Long-term borrowing accounted for 92.7 percent. The debt stock, however, declined to US$14.2 billion at end-June 2020 .

Figure 18: Stock of Private Sector External Debt (US$ millions), 2015–2019



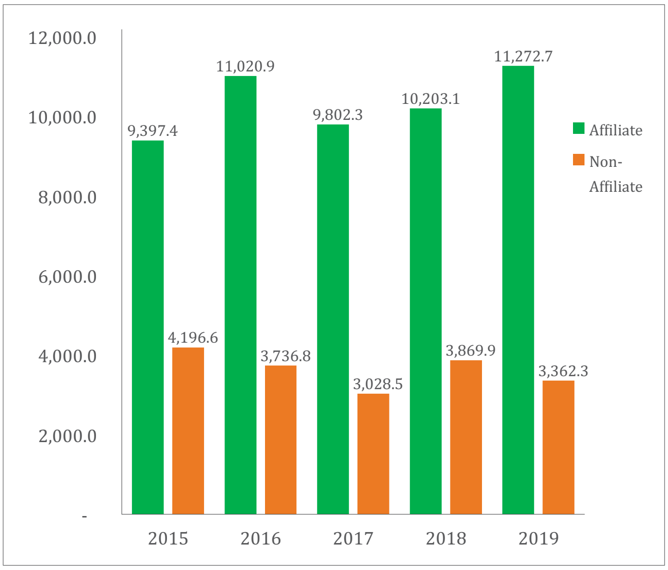
Source: Foreign and Private Investment and Investor Perception Survey, 2020

6.1 Private Sector External Debt Stock by Investor Relationship

Private debt largely from foreign affiliates

Borrowing was mainly from foreign affiliates (US$11.3billion) representing 77.0 percent of total stock (Figure 19).

Figure 19: Private Sector Debt Stock by Relationship (US$ millions), 2015-2019



Source: Foreign and Private Investment and Investor Perception Survey, 2020

6.2 Private Sector External Debt Stock by Sector

Mining and quarrying dominates

Total private external debt was mostly concentrated in the mining and quarrying sector, accounting for 71.7 percent, mostly in loans (Figure 20). The electricity and manufacturing sectors accounted for 9.6 and 8.1 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.

During the first half of 2020 the stock of private sector mostly consisted of loans amounting to US$13.7 billion (representing 96.4 percent of the total stock). The mining and quarrying sector accounted for the largest share of stock (77.0 percent), followed by manufacturing (7.0 percent) and electricity (6.8 percent).

Figure 20: Private Sector External Debt Stock by Sector (US $ millions), 2018 and 2019

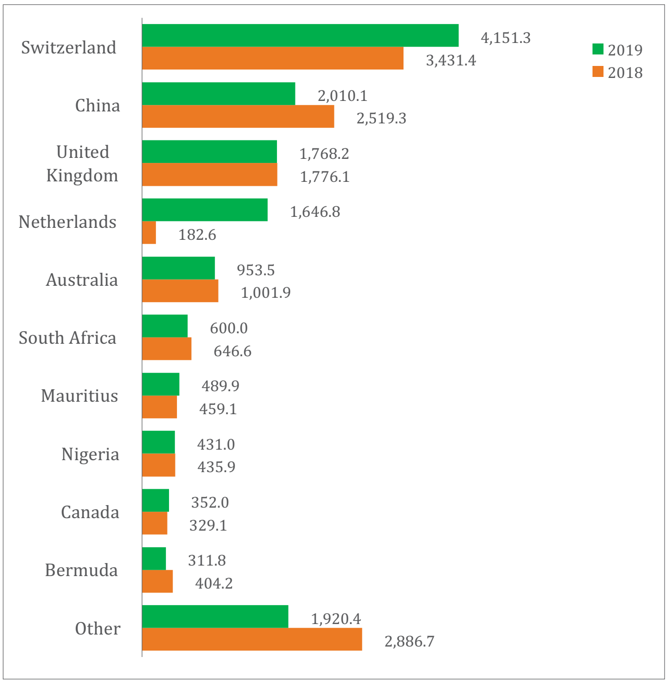
Source: Foreign and Private Investment and Investor Perception Survey, 2020

6.3 Private Sector External Debt Stock by Source Country

Switzerland major contributor to stock of debt

The major source country for private sector external debt was Switzerland, accounting for 28.4 percent. This was followed by China (13.7 percent), the United Kingdom (12.1 percent) and the Netherlands (11.3 percent) as depicted in Figure 21.

Figure 21: Private Sector External Debt Stock by Source Country (US$ millions), 2018- 2019



Source: Foreign and Private Investment and Investor Perception Survey, 2020

7.0 Private Sector Foreign Assets

Foreign asset flows mainly in form of FDI

Overall private sector asset flows contracted by 31.8 percent to US$447.2 million in 2019. The decline was largely attributed to a drawdown in currency and deposits mainly by the deposit-taking corporations. The reduction in assets were mostly with the United Kingdom, South Africa and China.

The accumulation of FDI assets, however, increased to US$624.4 million from US$47.6 million in 2018 (Figure 22). This was due to the increase in debt (loans) to affiliated enterprises mostly by companies in the mining and quarrying sector, with the United Kingdom as the major recipient country.

In 2019, the private sector foreign assets stock increased to US$3.2 billion from US$2.6 billion at end-2018, representing a growth of 22.3 percent. This was due to increased FDI assets mainly in form of debt.

The stock of other investment assets, however, marginally declined to US$2.1billion from US$2.2 billion at end-2018. Other investment assets accounted for the largest share at 67.5 percent of the total stock of assets. FDI assets stock, at US$1.0 billion, represented 31.8 percent of the total stock.

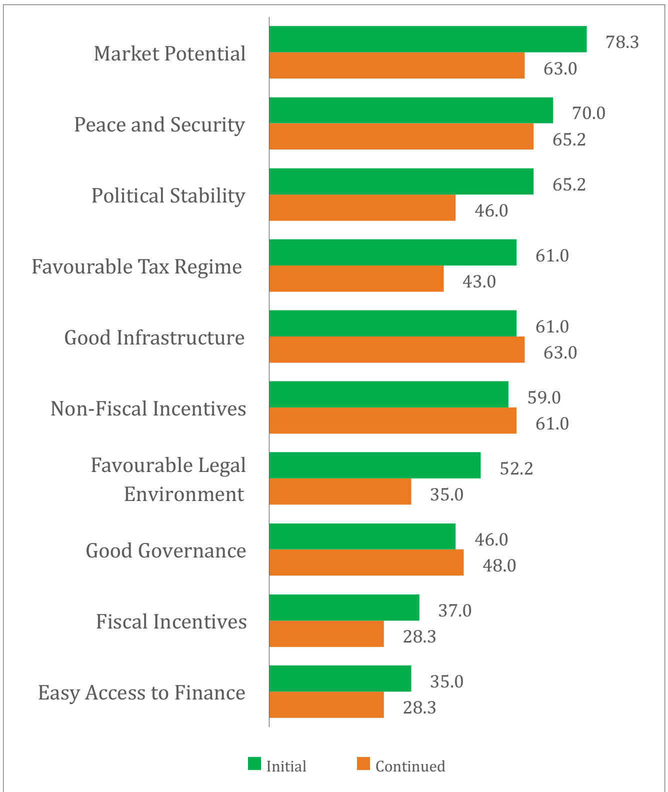
Figure 22: Private Sector Foreign Assets Transactions by Type (US$ million), 2018 – 2019

Source: Foreign Private Investment & Investor Perceptions Survey, 2020

8.0 Investor Perceptions

The findings from the 2020 survey showed that market potential, peace and security, political stability, favorable tax regime, good infrastructure as well as non-fiscal incentives are the key factors that influence re-investment in Zambia (Figure 23).

Figure 23: Factors Motivating Investment and Re-Investments in Zambia (percent),2020

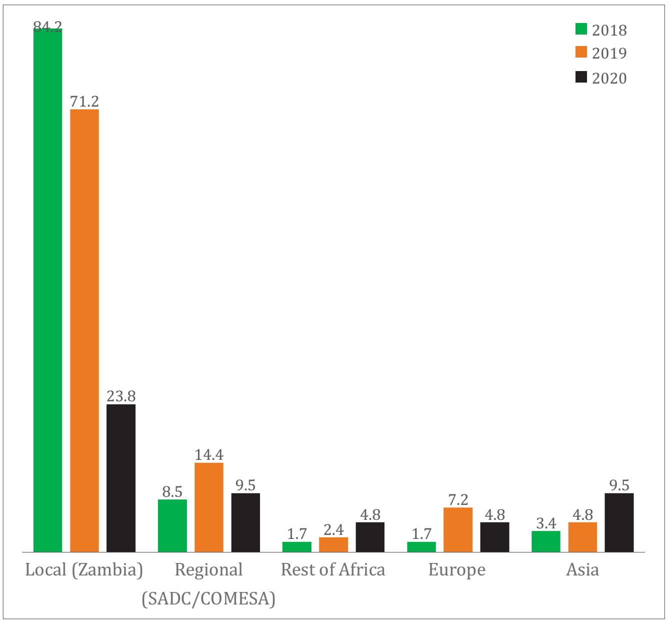


Source: Foreign Private Investment & Perceptions Survey, 2020

8.1 Export Orientation: Markets for Products

The majority of the respondents continued to produce for the local market followed by the regional market (Figure 24).

Figure 24: International Trade Orientation, 2020

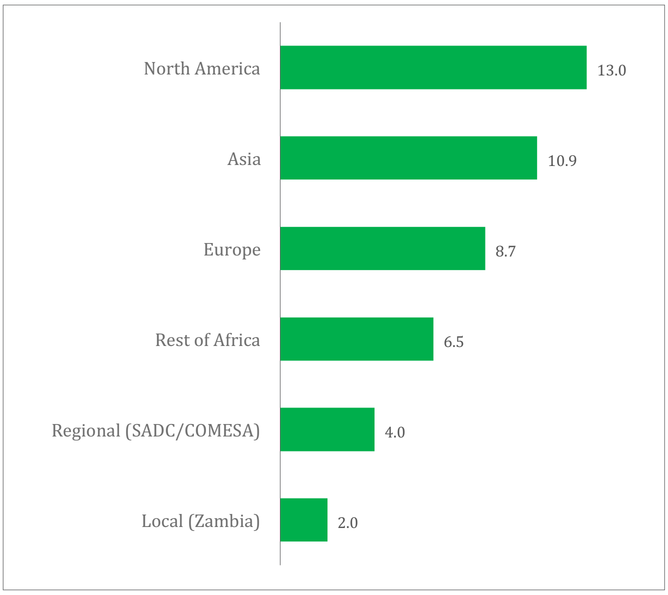


Source: Foreign Private Investment & Perceptions Survey, 2020

8.2 Markets for Services

The findings showed that North America was the leading recipient of Zambian services, followed by Asia and Europe. (Figure 25).

Figure 25: Market for Services (Percent), 2020

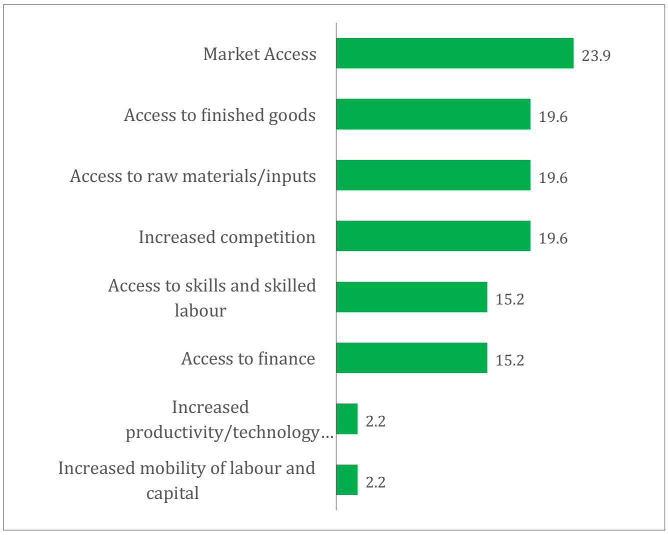


Source: Foreign Private Investment & Perceptions Survey, 2020

8.3 Benefits of Membership of the AfCFTA

Market access, access to finished goods and raw materials, as well as increased competition were reported as benefits that will accrue to Zambia's membership to the AfCFTA (Figure 26).

Figure 26: Benefits of membership to the AfCFTA (Percent), 2020

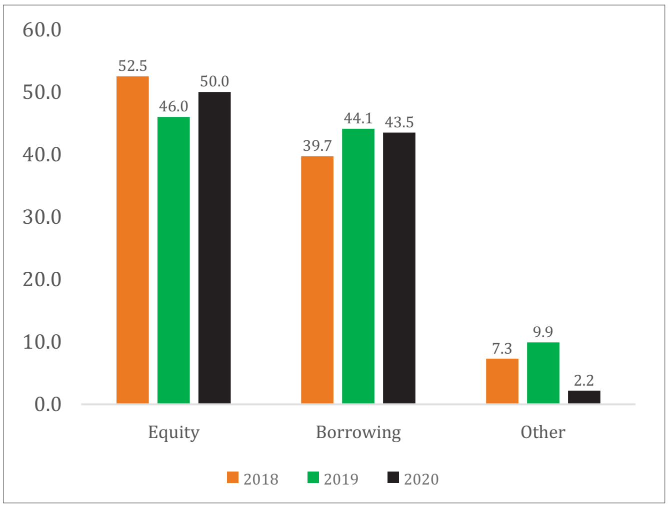


Source: Foreign Private Investment & Perceptions Survey, 2020

8.4 Source of Financing for Re-investment

Equity and debt were reported as the major source of finance for re-investment (Figure 27).

Figure 27: Sources of Finance (percent), 2020



Source: Foreign Private Investment & Perceptions Survey, 2020

8.5 Government Policies and Measures to Stimulate Investment

Road infrastructure development was perceived as the most significant Government measure aimed at stimulating investment in the country (Figure 28). In contrast, the ban/suspension of imports or exports of specific products were perceived as not being conducive for investment and growth.

Figure 28: Government Policies & Measures at Promoting Growth and Investment (Percent), 2020

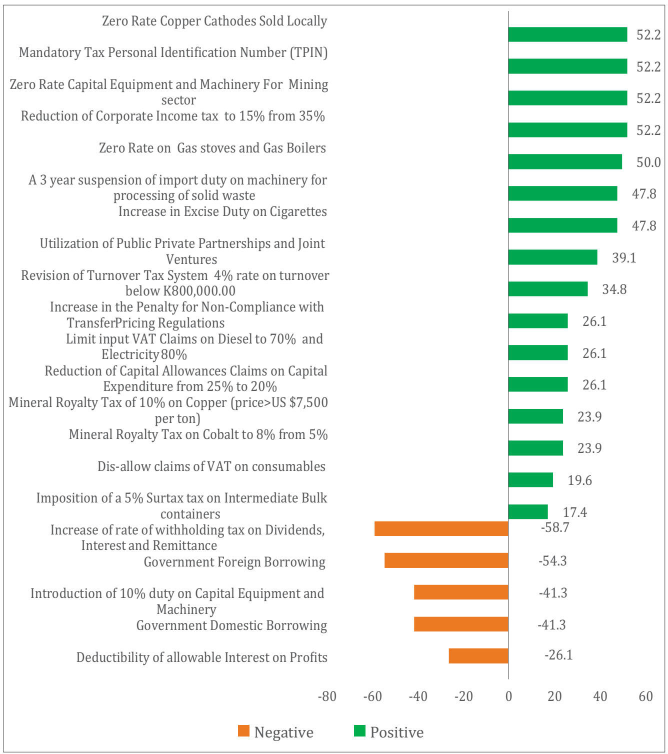
Source: Foreign Private Investment & Perceptions Survey, 2020

8.6 The Impact of Fiscal Policy Measures on Private Sector Investment

The changes in the fiscal regime were viewed as having a positive impact on investment by the majority of the firms. These included the zero rating of copper cathodes sold locally, enforcement of the mandatory Tax Personal Identification Number (TPIN), zero rating of capital equipment and machinery for the mining sector, reduction of corporate income tax and zero rating of the supply of gas stoves, other gas cookers and gas boilers (Figure 29).

However, some respondents revealed that increments of withholding tax on dividends, interest and remittance of branch profits to non-residents to 20.0 percent from 15.0 percent will have a negative bearing on their investments.

Figure 29: Performance of Government Fiscal Measures (Percent), 2020

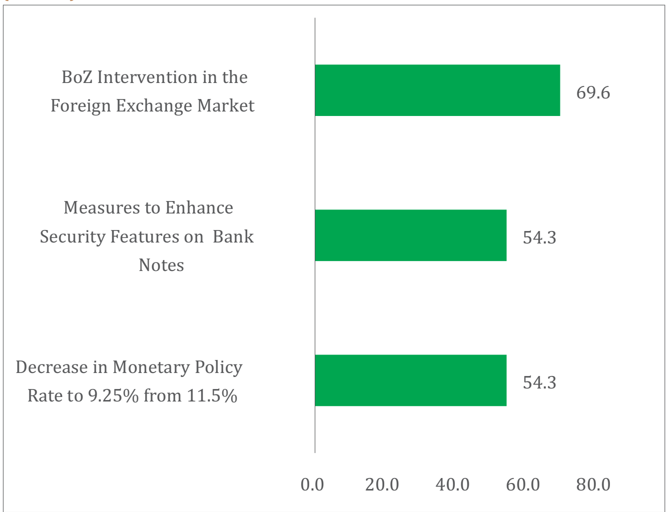


Source: Foreign Private Investment & Perceptions Survey, 2020

8.7 Results of Monetary Policy Measures on Private Sector Investment

The reduction in the monetary policy rate to 9.25 percent from 11.5 percent as well as interventions in the foreign exchange markets were perceived to have had a positive effect on private sector investment (Figure 30).

Figure 30: Effects of Monetary Policy Measures on Private Sector Investment (Percent), 2020

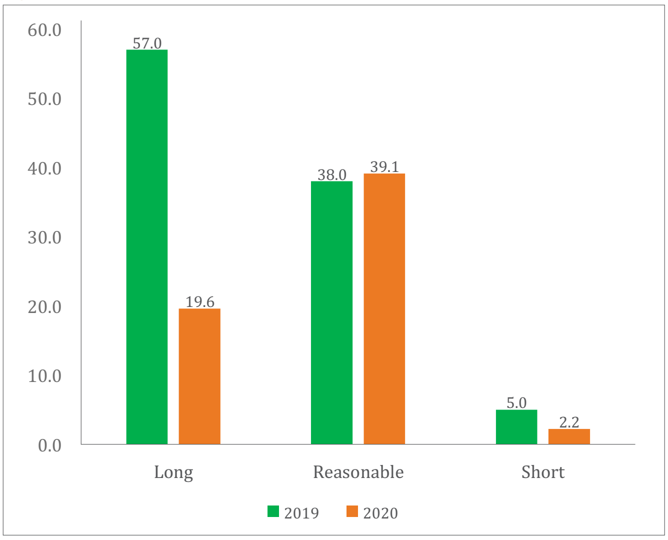


Source: Foreign Private Investment & Perceptions Survey, 2020

8.8 Border Clearance Time and Efficiency

Respondents reported significant reduction in the time spent clearing goods at the border (Figure 31). This was attributed to the full operationalization of One Stop Border Posts at Chirundu and Nakonde.

Figure 31: Border Clearance Times and Efficiency (Percent), 2019 - 2020



Source: Foreign Private Investment & Perceptions Survey, 2020

8.9 Service Delivery by Government Institutions

The Patents and Company Registration Authority (PACRA) and the National Pensions Scheme Authority (NAPSA) continued to be the highest positively rated institutions in terms of service delivery in 2020. Other positively rated institutions included the Zambia Development Agency (ZDA) and Bank of Zambia (BoZ). In contrast, the Food and Drugs Control Laboratory, Zambia Medicines Regulatory Authority and the Zambia Metrology Agency were the least rated Government institutions.

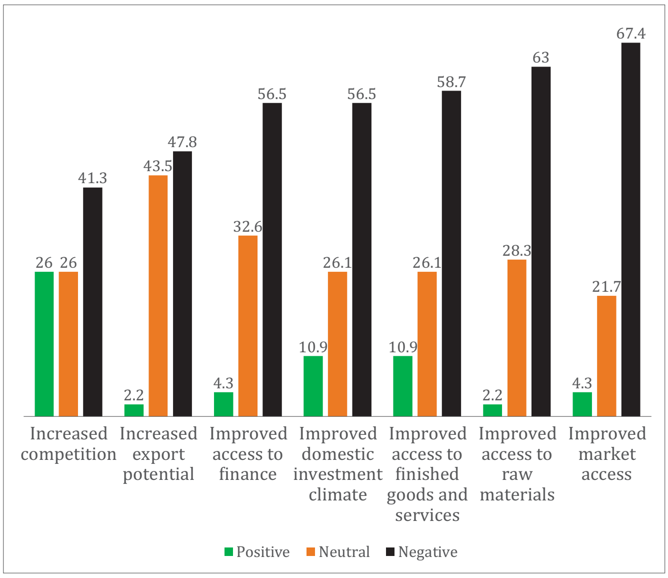
Overall there has been a steady decline in the ratings of all Government institutions in the last three years with the exception of NAPSA, which improved in 2020.

8.10 Impact of COVID-19 on Business

Respondents indicated that restrictions on foreign travel as well as the closure of borders by some Zambia's trade partners in response to the COVID-19 pandemic limited access to markets and raw materials (Figure 32).

The findings revealed that the pandemic was perceived to have the least impact on competition and export potential.

Figure 32: The Impact of the COVID-19 Pandemic Enterprises (Percent), 2020



Source: Foreign Private Investment & Perceptions Survey, 2020

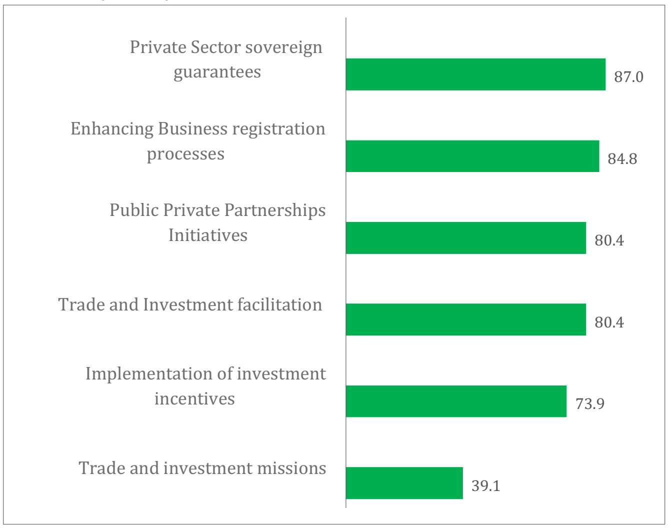
8.11 Ease of Doing Business

Broadly, respondents did not find starting a business in Zambia difficult. However, they indicated that the ease of doing business has generally deteriorated since 2017.

8.12 Effectiveness of Government Measures in Promoting Investments

The survey 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 33).

Figure 33: The effectiveness of Government Measures aimed at Promoting Investment (Percent), 2020

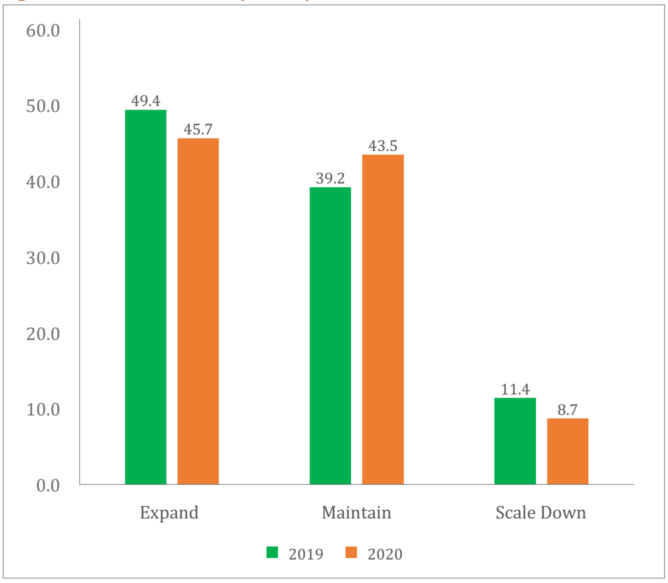


Source: Foreign Private Investment & Perceptions Survey, 2020

8.13 Investor Outlook

Relative to 2019, the number of firms intending to either expand or scale down businesses reduced while those planning to maintain current levels of investment increased (Figure 34).

Figure 34: Investors' Outlook (Percent), 2019-2020



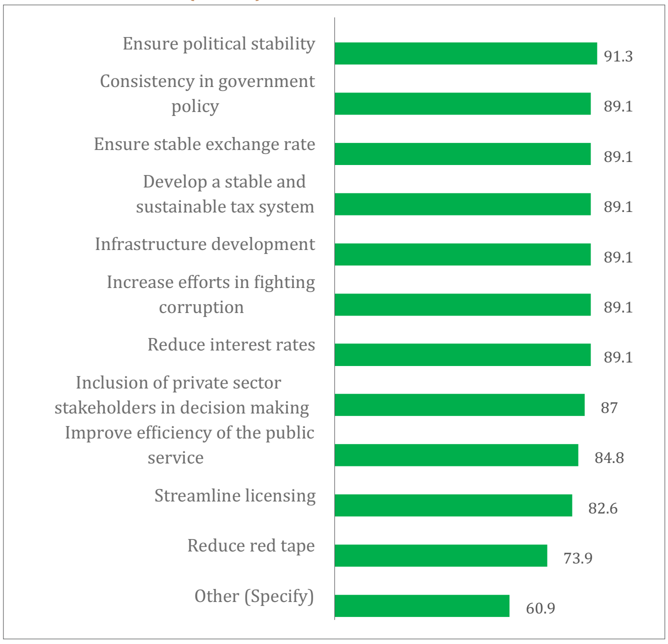
Source: Foreign Private Investment & Perceptions Survey, 2020

8.14 Policy Recommendations to Government to Encourage Foreign Investment in Zambia

As shown in Figure 35, the majority of the firms highlighted the following as key factors to encourage foreign investment:

a) Political Stability;
b) Consistency in Government policy;
c) Stable exchange rate;
d) Stable and sustainable tax system;
e) Infrastructure development;
f) Increased effort in the fight against corruption;
g) Lower borrowing cost; and
h) Enhanced private sector consultation.

Figure 35: Proposed Policy Measures to Government to Encourage Foreign Investments in Zambia (Percent), 2020



Source: Foreign Private Investment & Perceptions Survey, 2020

9.0 Conclusion

The 2020 survey was undertaken on a quarterly and annual basis and was concluded between August and September. It covered the calendar year 2019 and the first half of 2020. The survey was administered electronically due to the COVID-19 pandemic. A total of 250 enterprises were surveyed out of which 141 responded, translating into a response rate of 56.4 percent. This was lower than the 82.0 percent response rate in 2018. Reduced working hours, rotational working sequences and work-from-home arrangements induced by COVID-19 contributed to the lower response rate. The survey period was also extended because a large number of respondents took time to adjust to the current exclusively impersonal data collection method that includes electronic mail and telephone calls.

Overall private sector foreign liability flows into Zambia significantly declined to US$357.1 million in 2019 from US$924.7 million in 2018. The decrease was due to debt repayments to non-related parties by the mining and quarrying, manufacturing, deposit- taking corporations as well as information and communication sectors. In contrast, foreign direct investment inflows grew by 52.3 percent to US$859.8 million. Related party borrowings, largely in the mining and quarrying sector, explained the outturn. Australia was the major source for FDI flows. Subsequently, the stock of private sector external debt rose to US$14.6 billion at end-2019 from US$14.1 billion at end-2018 with Switzerland being the major source.

Private sector holdings of foreign assets abroad contracted by 31.8 percent to US$447.2 million due to the drawdown in currency and deposits mainly by deposit- taking corporations in the United Kingdom, South Africa and China.

In terms of investor perception, the survey findings revealed that market potential, peace and security, political stability, a favourable tax regime, good infrastructure as well as non-fiscal incentives are the major factors that influenced the decision-making process for respondents to re-invest in Zambia.

Despite the deterioration in the ease of doing business, interventions in the foreign exchange market as well as the reduction in the policy rate by the Bank of Zambia were seen as positive measures that supported business activity. However, the increase in the withholding tax as well as continued foreign and domestic borrowing by Government were cited as having adverse effects on their businesses. Notably, the COVID-19 pandemic was perceived as a risk that was likely to constrain investment by limiting access to markets and raw materials.

Further the majority of the firms highlighted political stability, consistency in Government policy, stable exchange rate, stable and sustainable tax system, infrastructure development, increased effort in the fight against corruption, lower borrowing cost, as well as enhanced private sector consultation as key measures the Government is expected to undertake in order to encourage investment in Zambia.