dun & bradstreet

Country Insight Report
Zambia

July 2019

Written 21 July 2019

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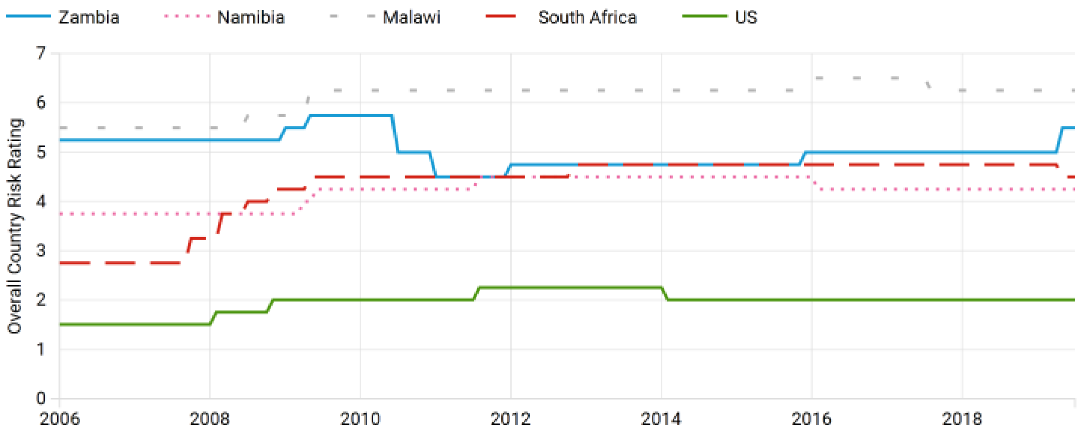
OVERALL COUNTRY RISK RATING: DB5c

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Deteriorating

Rating History



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

KEY HEADLINES

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Deteriorating

- Zambia's country risk rating was downgraded to DB5c in May as regulatory changes in the mining sector and disputes with the authorities affected output and investment.
- In 2019, mining sector output is expected to contract and real GDP is expected to grow by a paltry 1.3%, followed by slightly faster growth in 2020.
- The government is saddled with very high external debt servicing costs and has built up public sector payment arrears of around USD1.3bn, affecting a wide range of contracts.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable

- Drought conditions can curb hydroelectric power output from the Zambezi river (most notably from the Kariba dam), resulting in power shortages and blackouts.
- Zesco is expected to return with new demands for higher tariff levels and the current decision to put any increase on hold should be regarded as just a temporary delay.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

- The government plans to implement a non-refundable sales tax in September, in contrast to most other countries in southern Africa that operate a VAT system.
- Regulations can change at short notice and with little prior consultation, making policy uncertainty a particularly challenging aspect of the business environment.

POLITICAL ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

- President Edgar Lungu dismissed his finance minister in July and gave the role to Bwalya Ng'andu, who will attempt to restart negotiations with the IMF.
- The government placed Konkola Copper Mines in provisional liquidation in May and intends to reallocate its licence to another private sector investor.

KEY RECOMMENDATIONS

- Anticipate tight financing conditions and payment delays on public sector contracts.
- Be prepared for the risk of regulatory changes and import restrictions with little notice.
- Be aware of the high risk of contract reviews and disputes with the authorities.
- Secure political and security risk insurance, but expect high-risk premiums.

GLOBAL INSIGHT

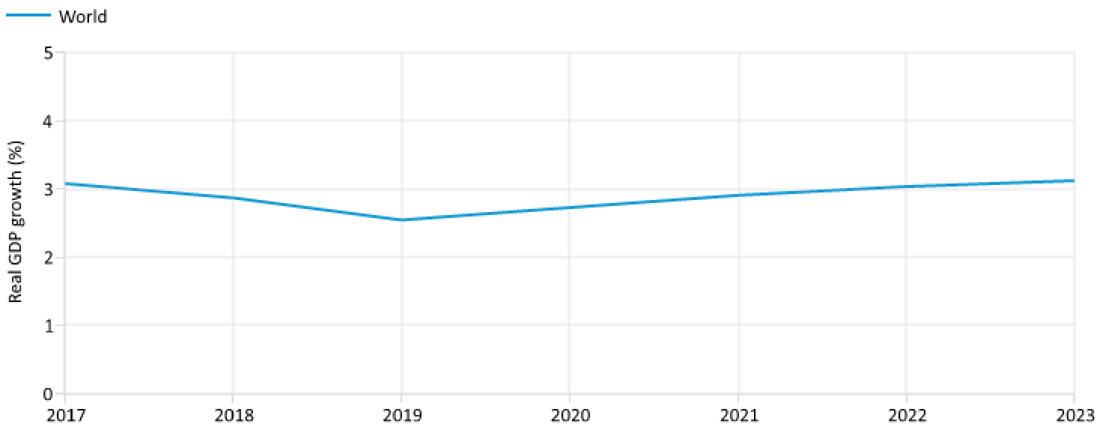
Trend: Stable

Headline Global Issues

- We expect the US central bank to cut rates once in 2019 as real GDP growth slows from 2.9% in 2018 to 2.6% this year.
- Political impediments to trade and investment will add to corrections in exposed technology and real estate sectors.
- Slowdowns in Europe and China have not yet made a global impact in H1 2019.

GLOBAL OUTLOOK

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Global Economic Outlook: Political risks remain elevated

Political and security uncertainties continue to undermine the global economic outlook. The three main issues are the Sino-US trade war, US/Saudi/Israeli-Iranian tensions in the Middle East, and Brexit – with no clear picture of how each situation will be resolved in the short term. Significantly, although there have been unclaimed attacks in the past six weeks on oil tankers in the Persian Gulf (through which around 35% of seaborne crude passes), oil prices have not increased sharply, as would have been the case before the US shale oil revolution; this reduces the potential negative impact on the global economy. However, the costs of transporting oil through the region have increased, with insurance costs and war premiums rising in response to the attacks, while gold prices hit an almost 60-month high in late June. Economic factors with a medium- to long-term horizon also threaten the outlook.

Following the long period of accommodative monetary policy pursued by a majority of central banks, the build-ups of sovereign, corporate and household debt remain concerns, and only further monetary easing will allay these concerns in the short term. In particular, a global set of real estate prices, both commercial and household, appear to have entered a corrections phase. Among some high-income countries – Canada, Australia, New Zealand, and most of Scandinavia – household mortgages levels are elevated, and valuations struggling, while in some emerging economies – as in parts of Brazil and the Gulf states – real estate prices have been falling for a number of months (and for years, in some cases). The 36 central bank interest rate cuts in 2019 (against 11 rate rises) are mostly in emerging markets and will not shore up prices in Vancouver, Melbourne, New York or London.

While expectations of global economic activity are clearly tilted to the downside, there was no obvious synchronous downturn or uniform shock across countries and sectors in Q1. At the very least, this implies that should any global downturn envelop our forecasts, the extent and timing will vary by region, country and sector.

Commodity Prices

Commodity	Mar 2019	Apr 2019	May 2019	2018	2019f	2020f	2021f	2022f	2023f
Aluminium (USD/tonne)	1,872	1,849	1,775	2,109	1,771	1,825	1,900	2,000	2,025
Copper (USD/tonne)	6,450	6,445	6,028	6,523	6,288	6,430	6,353	6,200	6,000
Gold (USD/ounce)	1,301	1,286	1,284	1,269	1,310	1,315	1,320	1,323	1,324
Oil (USD/barrel)	66.9	71.5	70.1	71.1	66.4	62.3	58.0	55.0	51.0
Cocoa (USD/kg)	2.2	2.33	2.32	2.29	2.21	2.26	2.26	2.26	2.26
Coffee (US cents/lb)	125.2	124.6	123.8	136.9	124.0	125.0	125.0	125.0	125.0
Phosphate (USD/tonne)	98.5	97.5	97.5	87.9	98.4	95.0	95.0	98.0	102.0
Platinum (USD/ounce)	843	886	832	879	851	815	805	820	845
Soybeans (USD/tonne)	370	360	337	411	360	379	383	388	400

Source: World Bank/Dun & Bradstreet

Exchange and Interest Rates

Metric	Mar 2019	Apr 2019	May 2019	2019f	2020f	2021f	2022f	2023f
EUR-USD	0.88	0.89	0.89	0.88	0.87	0.84	0.83	0.81
JPY-USD	111.14	111.64	109.97	110.0	107.0	115.0	110.0	125.0
GBP-USD	0.76	0.77	0.78	0.78	0.78	0.76	0.76	0.76
BRL-USD	3.83	3.89	3.99	3.84	3.88	3.9	3.94	4.0
CNY-USD	6.71	6.71	6.84	6.89	6.99	7.0	7.0	7.0
BOJ Interest Rate (EOP)	-0.06	-0.07	-0.06	-0.05	0.0	0.1	0.1	0.3
ECB Key Interest Rate (EOP)	0.0	0.0	0.0	0.0	0.5	1.0	1.75	2.5
US Federal Funds Rate (avg)	2.38	2.38	2.38	2.13	2.13	2.13	2.13	2.38

Source: Dun & Bradstreet, Haver Analytics, Federal Reserve Board, European Central Bank, Bank of Japan

Global Economic Outlook: Europe and China slowdowns fail to show global impact

While the trend arrows for our Asia-Pacific, Western Europe, and Middle East & North Africa regions are on 'deteriorating', those for Sub-Saharan Africa, Latin America, and North America were already on 'stable', joined by the Eastern Europe & Central Asia region in Q2. Real domestic demand, fixed investment and manufacturing output respectively fell y/y in 21%, 27% and 22% of reported economies in Q1, but real GDP only fell y/y in four of 64 reported economies.

Corporate profits have kept declining in key manufacturing economies such as Germany and Singapore, but still rose by 10.3% y/y in Japan in Q1, despite declining sales in China. The global pattern of retrenchment in Q2 was still centred on international manufacturing supply chains, which although they yielded reliable profits for decades, are far from the only source of economic growth. However, the increased number of negative government bond yields in Europe, once the ECB revealed the final supports of its current presidency in June, attested to pessimism, which is likely to feed into business decisions in the real economy into 2020. There is an evident pattern whereby high wage bill growth in Europe is not feeding into equal growth in private consumption, implying that workers with memories of the past decade remain cautious (a pattern also seen in Japan). China's economy, for its part, is due more financial stresses and lower output growth into 2020 even without the added burden of US Section 301 'List 4' tariffs on consumer items.

Recommendations

- Note that credit insurers expect to write more business in Asia-Pacific and Sub-Saharan Africa but also to receive more claims from Asia-Pacific and the Middle East in 2019.
- Look for opportunities in developed, emerging and frontier markets that are resilient to volatility in Chinese demand and global financial markets.
- Take note of sectors boosted by growing domestic demand that are not dependent on growth in international manufacturing supply chains.
- Track policy shocks to supply chains as trade diplomacy becomes more antagonistic.
- Maintain underwriting standards and limit medium-term exposure, even if your sector exhibits historically-low volatility.

REGIONAL INSIGHT

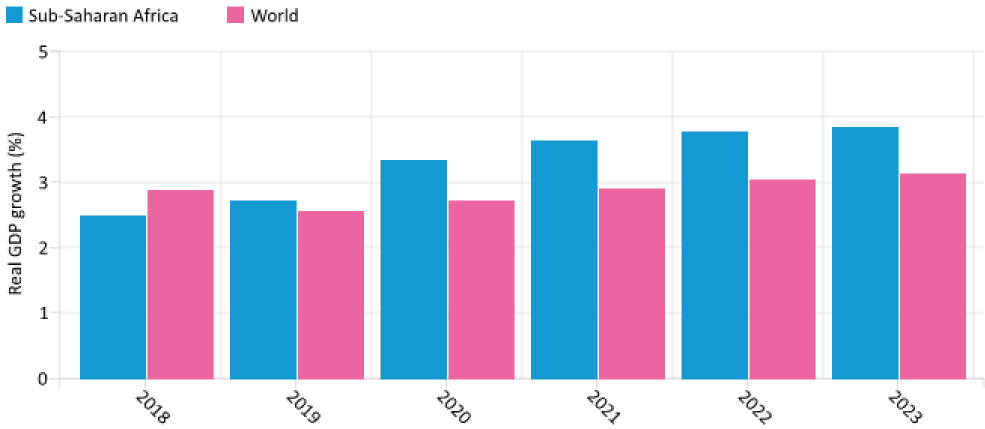
Trend: Stable

Headline Regional Issues

- Sub-Saharan Africa continues to see steady improvements in growth, with multiple economies in the region benefitting from a pick-up in global activity.
- Regional growth is expected to accelerate in 2019, helped by relatively-strong commodity prices - but geopolitical risks are substantial.
- Despite the broadly-upbeat regional outlook there are wide growth disparities between countries, with the largest economies growing the most slowly.
- Beyond the near term, a slowdown in global growth - allied to high public debt levels and refinancing needs - will impact growth prospects.

REGIONAL OUTLOOK

Regional Growth Forecast



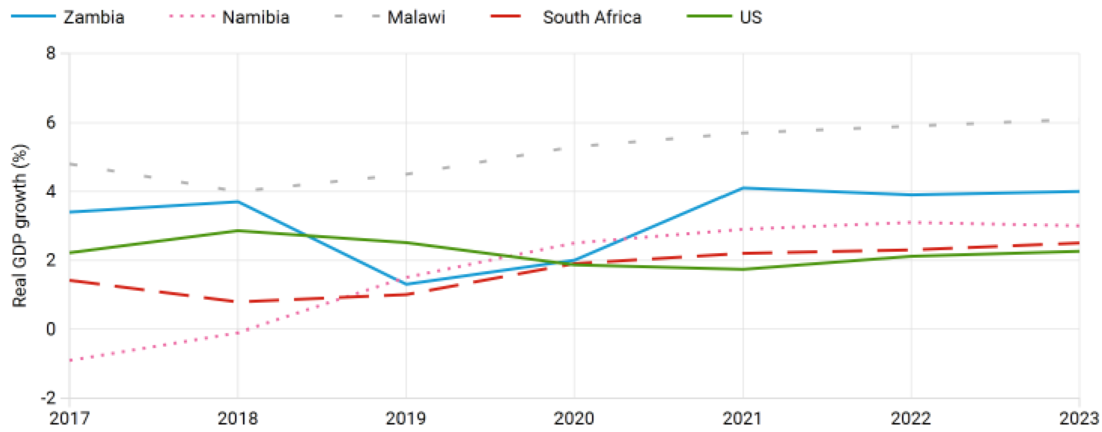
Source: Haver Analytics/Dun & Bradstreet

The regional outlook remains stable, albeit with uncertainties stemming from US-led protectionism and trade wars, slower global growth, and the prospect of a disorderly Brexit. Higher oil prices, despite some volatility, will benefit regional exporters such as Nigeria and Angola, at the expense of key importers, including Kenya and South Africa. Non-oil commodity prices will remain fairly buoyant, boosting mineral and cash-crop exporters, but are at risk from a global slowdown. In particular, an escalation of the US-China trade war risks denting Chinese growth, leading to both weaker demand and weaker prices for Africa's non-oil commodities. A strengthening US dollar poses risks to regional debt sustainability, especially for countries with a high level of US-denominated debt, although recent signs suggest US monetary tightening is on hold for at least 2019.

Regional growth will gain from investment from a range of sources, especially China, but also from other emerging-market leaders, such as Brazil, Turkey and India, as well as traditional investors like France. Investment from the US will similarly increase, helped by a doubling in funding for development initiatives. Demographic trends - including brisk population growth and urbanisation - will support regional expansion, especially if accompanied by stronger social provision, including education and healthcare. Rising intra-African trade is an additional growth driver: the African Continental Free Trade Area (AfCFTA) formally came into effect at end-May, although further negotiations are required before it becomes operational. In early July, Nigeria said it would join the AfCFTA.

However, Sub-Saharan Africa's relatively-volatile political climate will remain a constraint, particularly in election years, when uncertainty is at its highest. With elections now complete in South Africa (in May) and Nigeria (in February) - the region's two largest economies - both can expect a mild bounce, helping to push up regional growth in 2019.

Outlook for Key Regional Countries



Source: Haver Analytics/Dun & Bradstreet

In South Africa, real GDP growth amounted to zero y/y in Q1 and fell by 3.2% on a seasonally-adjusted, annualised basis. Agriculture, mining, utilities and construction all shrank y/y, while other sectors grew slowly, as periodic power cuts dented activity. From a demand-side perspective, consumption growth was mildly positive but investment declined. Prospects for Q2 are slightly better, helped by a stable power supply. Investment will probably recover after Cyril Ramaphosa's installation as president for a full five-year term following the May election, which may speed reforms. The poor Q1 growth data highlights the major economic challenges confronting the new government.

Unveiled in mid-June, Kenya's budget for fiscal year 2019/20 (July to June) envisages a deficit of 5.6% of GDP, down from a provisional and upwardly-revised 6.8% of GDP in 2018/19. Fiscal consolidation is therefore advancing, but at a fairly slow pace. Budgeted revenues and spending are set to rise to 19.8% of GDP and 25.3% of GDP respectively in 2019/20, but revenue forecasts are typically overstated, meaning the final deficit could be higher. Foreign and domestic financing will play roughly equal roles. The treasury has again called for the bank lending rate cap to be repealed, but parliament's approval is needed. New data shows that real GDP growth eased to 5.6% y/y in Q1 because of dry weather, but remained healthy.

In Malawi, the constitutional court convened on 26 June to rule on an opposition petition challenging the validity of the presidential election in May because of numerous irregularities. Peter Mutharika was re-elected by a small 38.6% to 35.4% margin over his main challenger, Lazarus Chakwera. The timing and outcome of the verdict is uncertain. In Zimbabwe, on 24 June the government scrapped the multi-currency system in place since 2009 to drive usage of a new local currency, but rapid inflation (of 97.8% y/y in May) and black market trading will persist in view of ongoing FX constraints.

Recommendations

- Companies in resource extraction should expect payment delays to stabilise, and to start improving slowly.
- Investors should beware of forced contract renewals as governments attempt to maximise returns, with resource nationalism rising in the face of revenue constraints.
- We advise applying stricter trade terms for local counterparties.
- Monitor FX liquidity in countries with balance-of-payment difficulties and weak currencies.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Deteriorating

Current Issues

- Zambia's country risk rating was downgraded to DB5c in May as regulatory changes in the mining sector and disputes with the authorities impacted output and investment.
- in 2019, mining sector output is expected to contract and real GDP is expected to grow by a paltry 1.3%, followed by slightly faster growth in 2020.
- The government is saddled with very high external debt servicing costs and has built up public sector payment arrears of around USD1.3bn, affecting a wide range of contracts.

Risks and Opportunities

- The government is implementing wide-ranging austerity measures, which will undermine economic growth and threaten some public sector contracts.
- Pressure is mounting on the government to increase electricity prices in order to support the financially stressed national utility company Zesco.
- Many traders will continue to price their goods and services in US dollars to minimise FX risks, particularly as the Zambian kwacha remains volatile and weak.

Trade Terms

Description	
Minimum Terms	LC
Recommended Terms	LC
Usual Terms	90-180 days

Source: Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available, restrictions may apply
Atradius	ST cover available subject to approved LC, no discretionary limits. Enquire for LT cover
ECGD	Cover available, ST subject to LC
Euler Hermes UK	ST cover available, restrictions may apply

Source: Export Credit Agencies

Recommendations

- Anticipate tight financing conditions and payment delays on public sector contracts.
- Maintain contingency plans that account for a high risk of currency depreciation.
- Secure payment terms in US dollars or other major currencies, where possible.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable

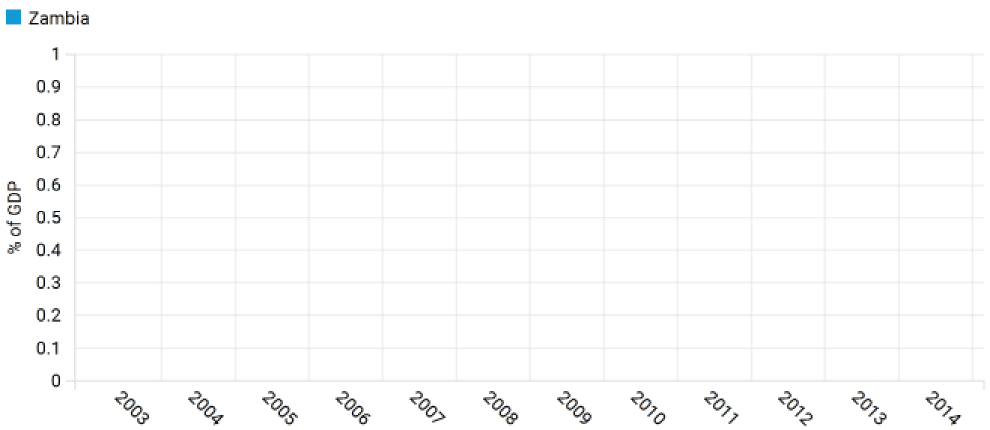
Current Issues

- Securing adequate and reliable water supplies can be highly problematic, especially given poor water-services infrastructure and the high risk of drought.
- Drought conditions can curb hydroelectric power output from the Zambezi river (most notably from the Kariba dam), resulting in power shortages and blackouts.

Risks and Opportunities

- Zesco is expected to return with new demands for higher tariff levels and the current decision to put any increase on hold should be regarded as just a temporary delay.
- Power shortages and blackouts are common; the government hopes to increase generation capacity from 2,200MW to closer to 6,000MW by 2020.

Natural Disaster Impact



Source: D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain

Recommendations

- Factor in the high risk of transport delays and elevated transport costs in the short term.
- Plan for regular power outages and ensure back-up supplies are in place.
- Expect inadequate and unreliable water supplies as a result of poor weather and infrastructure deficiencies.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

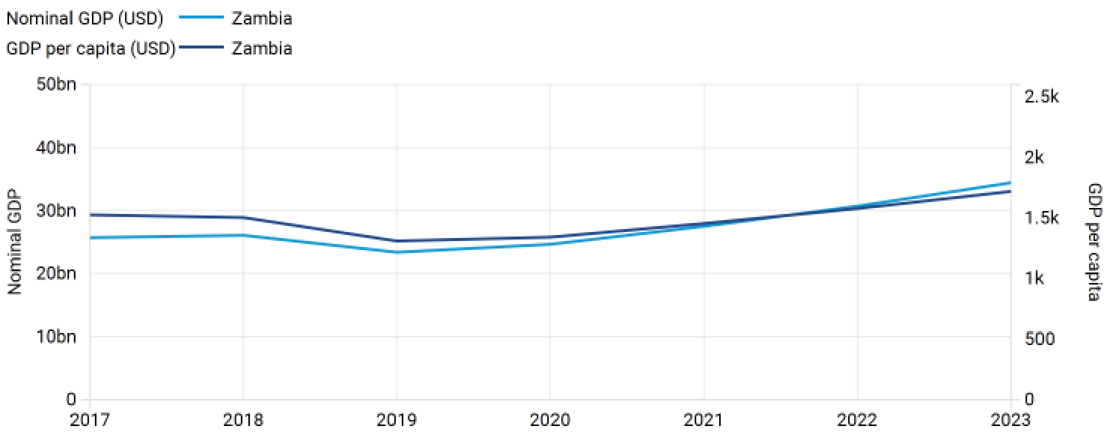
Current Issues

- The government plans to implement a non-refundable sales tax in September, in contrast to most other countries in southern Africa that operate a VAT system.
- Regulations can change at short notice and with little prior consultation, making policy uncertainty a particularly challenging aspect of the business environment.

Risks and Opportunities

- Zambia has trade and investment potential in various sectors, but the presence of a few large and well-established players can stifle opportunities for new entrants.
- The government is keen to promote export-processing zones and industrial parks where preferential trading terms are on offer, including tax breaks, deferrals and exemptions.

Nominal GDP and GDP per capita



Source: Haver Analytics/Dun & Bradstreet

Recommendations

- Be prepared to negotiate tax settlements and rebates with the tax authorities.
- Seek local experts adept in dealing with government departments and agencies.
- Cultivate relations with officials in order to keep up to date with regulatory changes.

POLITICAL ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Current Issues

- President Lungu has dismissed his finance minister and appointed Bwalya Ng'andu, who will attempt to restart negotiations with the IMF over a financing package.
- The government placed Konkola Copper Mines in provisional liquidation in May and intends to reallocate its licence to another private sector investor.

Risks and Opportunities

- Political tension and the risk of politically motivated violence will remain high ahead of the 2021 election, especially given the authoritarian stance of President Lungu.
- New lines of finance and debt restructuring involving China could involve various demands, including access to minerals, state assets and major construction projects.

Political Freedom

Location	Electoral Process	Pluralism and Particip.	Function'g of Govt.	Freedom of Express'n and Belief	Assoc. and Org. Rights	Rule of Law	Personal Autonomy and Individual Rights
Zambia	6	10	6	10	7	8	8
Sub-Saharan Africa	7	8	5	10	7	7	8
OECD Average	12	15	10	15	11	13	14

Source: Freedom House

Higher score = greater degree of freedom

Recommendations

- Be aware of the high risk of contract reviews and disputes with the authorities.
- Pursue disputes through international arbitration rather than the local legal system.
- Secure political and security risk insurance, but expect high-risk premiums.

DETAILED ANALYSIS

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

- Short-Term Economic Outlook
- Long-Term Economic Potential
- Market Potential
- FX Risk
- Transfer Risk
- Business Regulatory Environment
- Business Continuity
- Political/Insecurity Risk
- Expropriation/Nationalisation Risk

Descriptions for each of these categories can be found in the User Guide section of this report.

SHORT-TERM ECONOMIC OUTLOOK

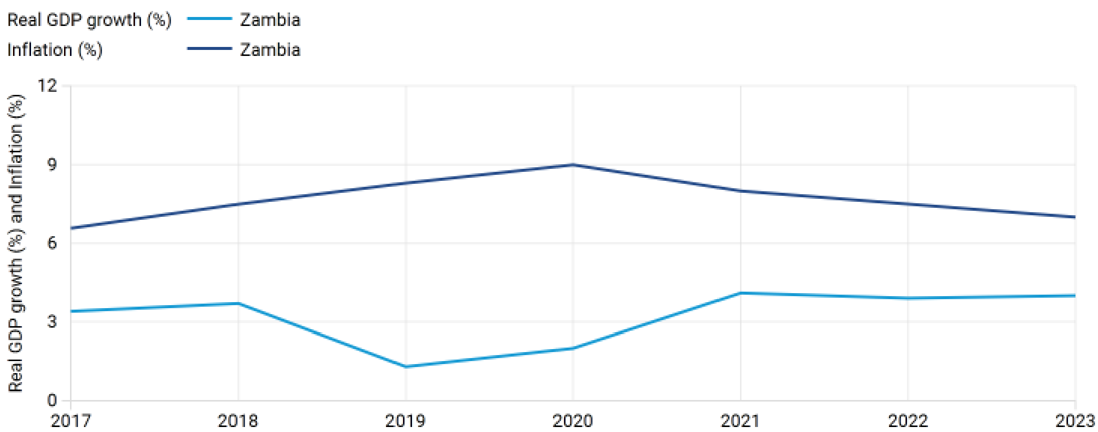
The overall country risk rating for Zambia was downgraded from DB5a to DB5c in May as regulatory changes in the mining sector and disputes with the authorities affected mine output and investment plans. In the Budget 2019, the government introduced a new tax regime for the mining sector. International mining companies have reacted by reducing mine output, laying off workers and revising their investment plans. The Mopani Copper Mines (MCM) plans to decommission two shafts, while Konkola Copper Mines (KCM) placed operations on care and maintenance. KCM is embroiled in a dispute with the authorities, which has resulted in the company being placed in provisional liquidation and the government declaring it will break all ties with Vedanta Resources (the majority owner of KCM). Other international mining companies have signalled that new investments have been placed on hold and are being reviewed in light of the changes to the fiscal regime and subdued commodity prices.

Mining sector output is expected to contract in 2019, which will have knock-on effects on public finances and other sectors of the economy. In addition, copper prices rallied slightly in Q1 but came under pressure again in Q2 2019. A subdued outlook will further trim export earnings from the mining sector in 2019. Adverse weather conditions are affecting agricultural sector output and power supplies at hydroelectric facilities, while ongoing fiscal austerity and debt-management programmes will contribute to slow economic growth in the short term. Currently, we expect real GDP to grow by 1.3% in 2019 and 2.0% in 2020.

Risks and Opportunities

- The government is implementing wide-ranging austerity measures, which will undermine economic growth and threaten some public sector contracts.
- Mining sector output, employment and investment are under threat from regulatory changes, fiscal reforms, disputes with the authorities and subdued commodity prices.
- Pressure is mounting on the government to increase electricity prices in order to support the financially stressed national utility company Zesco.

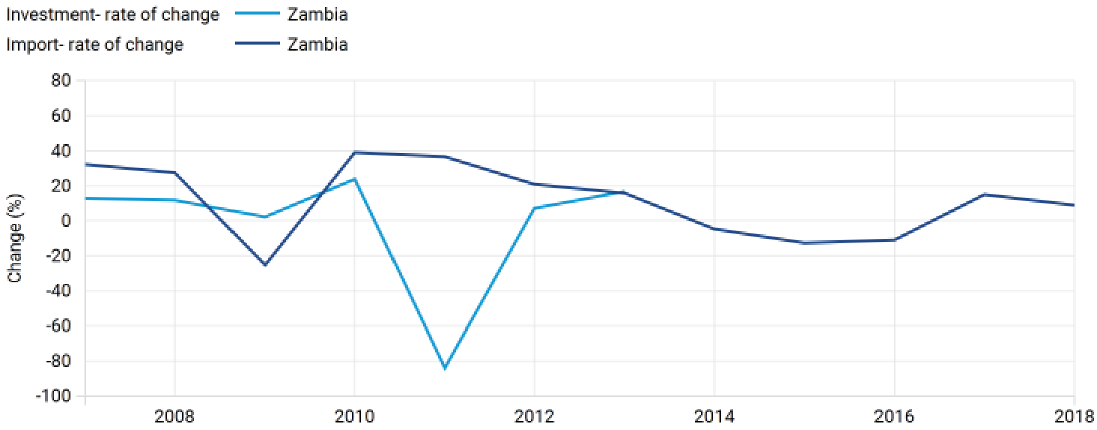
Real GDP Growth and Inflation



Source: Haver Analytics/Dun & Bradstreet

In H2 2019, annual consumer price inflation is expected to rise above the Bank of Zambia's target range of 6.0-8.0%. Inflation was recorded at 8.6% y/y in June and has averaged 7.9% during H1 2019. In addition to higher import prices (particularly for food and fuel), the government aims to reform its electricity tariff regime to impose higher tariffs that reflect the cost of production. Tariff hikes are currently on hold but might be implemented before the end of 2019, particularly as the government is keen to impose cost-reflective tariffs to ease financial pressure on the state-owned utility company Zesco.

Investment and Imports



Source: Dun & Bradstreet, Haver Analytics/Dun & Bradstreet

Mining sector investment could stall in 2019 and 2020 as a result of regulatory changes and tax-rate adjustments for mining firms, tax disputes in the sector and potentially much higher electricity tariffs. In addition, commodity prices have slipped following a small rally during Q1. Mining firms and the industry lobby group, the Zambia Chamber of Mines, continue to warn that mining sector policy changes and adverse conditions in the sector could lead to reduced output, job losses and delayed investment during 2019 and 2020. The seventh national development plan (NDP7) covering the period 2017-21 aims to stimulate industrialisation and diversification by leveraging domestic private investment and FDI. The opening up of some state-dominated areas of the economy such as energy and transport will be considered, but investors have been unnerved by recent economic policy (including expropriation), which could impede progress.

Recommendations

- Anticipate tight financing conditions and payment delays on public sector contracts.
- Expect a contraction in mining output and spillover effects on the wider economy.
- Be aware of rising price pressures and the prospect of much higher electricity tariffs.

LONG-TERM ECONOMIC POTENTIAL

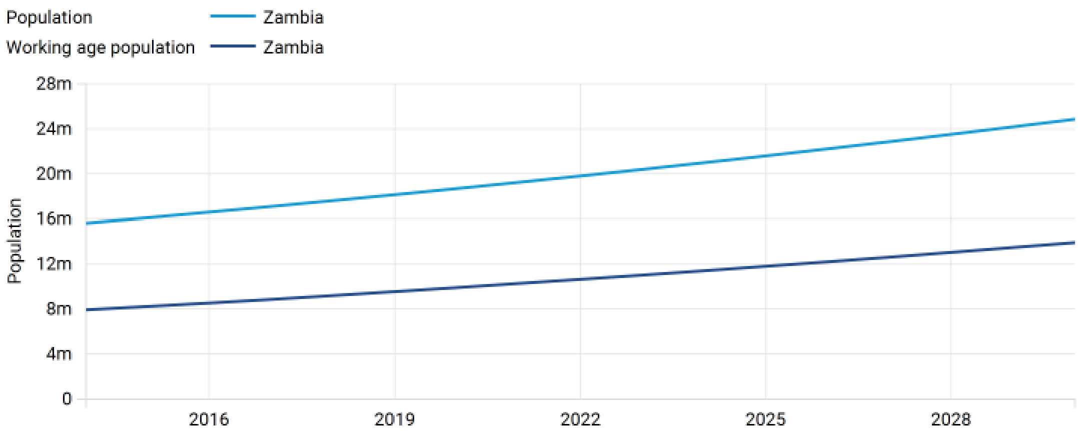
Zambia's long-term economic potential is linked to its vast mining sector resources, improving national and regional transport connections and growing domestic market. Foreign-investment-led growth in the mining sector and related industries will be the key driver of long-term economic growth, particularly as firms compete to secure high-grade solid mineral reserves (particularly copper). New and improved national and cross-border transport connections (including the development of transport corridors in southern and eastern Africa) should help improve trade opportunities and investment attractiveness. In addition, plans to improve power-generation capacity and distribution networks over the next five years should help support long-term growth prospects. Long-term economic diversification efforts will attempt to attract FDI to sectors such as export-oriented manufacturing, tourism services, energy production and distribution, commercial agriculture and agro-processing.

Risks and Opportunities

- Abundant, untapped and high-grade mineral deposits and vast tracts of under-exploited agricultural land create long-term economic potential.
- The government is attempting to encourage greater non-natural resource investment; progress will be slow because of the many barriers facing foreign investment in Zambia.
- Further regional integration, facilitated by evolving transport links and trade policy, could create long-term supply chain and market opportunities.

Human Capital

Population Dynamics



Source: UNPOP

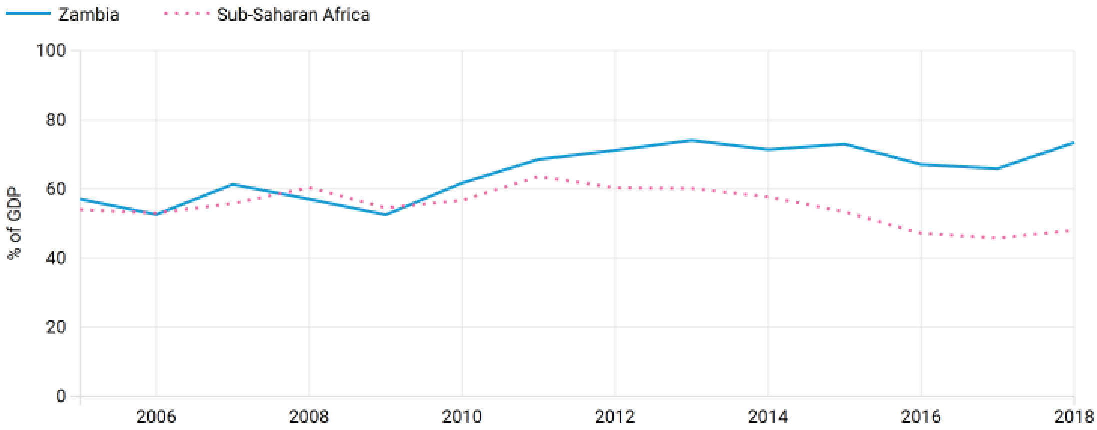
Zambia has a population of almost 15m, which is expected to rise to 25m by 2030. The major cities of Lusaka (the capital), Ktwe and Ndola are expected to grow rapidly, which will create larger and more vibrant markets but put pressure on urban infrastructure and public services. There is an abundance of unskilled labour in Zambia, but foreign firms are likely to remain confronted by a shortage of skilled and semi-skilled labour over the coming decade. The government will continue formally to allow employment of expatriate labour and facilitate visa applications (particularly for large-scale investments), whilst encouraging and looking favourably on foreign firms that employ and train locals.

Physical Capital

Productive capital (plant and machinery) beyond the mining sector is relatively poor due to years of under-investment in the industrial base. As part of the government's drive for greater diversification, it will target greater investment in transport, power and water infrastructure. This will be supported by private foreign investment in strategic sectors, such as commercial agriculture and agro-processing, light manufacturing, mining, tourism and logistics. The demand for agricultural equipment is expected to increase as vast tracts of currently underused or unused agricultural land are released in blocks for large-scale commercial farm use.

Openness

Exports and Imports



Source: IMFDOT/Haver

Zambia will remain heavily reliant on a very narrow export base (essentially mining sector output) for the majority of its export revenues over the coming decade, which will continue to expose the country to terms of trade shocks that can seriously undermine national finances. The government will attempt to diversify the export base in terms of products and partners, but progress will be slow and potentially disrupted by weak policy development and implementation capacity.

Competitiveness/Institutional Strength

Erratic policy development and implementation will continue to create uncertainty and unsettle investors. The situation will be driven by the continued presence of patronage networks and vested interests, which will hold undue influence over public policy, create inefficiencies and lead to misuse of public funds. This aspect of the business environment will take time to unravel and will undermine international competitiveness, even in the longer term.

Recommendations

- When planning for the long-term, factor in upgrades to transport networks and electricity generation.
- Plan for opportunities in strategic growth sectors and through regional integration.
- Expect shortages of skilled and semi-skilled labour and a need for qualified expatriates.

MARKET POTENTIAL

Zambia has trade and investment potential in various sectors including power generation and distribution, construction activity linked to real estate, power and transport development plans, mining operations, ICT infrastructure and services, logistics, tourism and retail services. However, most sectors are dominated by a few large and well-established players, which can restrict opportunities for new entrants. In addition, regulatory uncertainty, inefficient business bureaucracy, widespread corruption among officials, high logistics costs, high utility costs, and shortages of fuel, water and electricity can prove difficult and costly barriers, particularly for new entrants unfamiliar with the commercial territory.

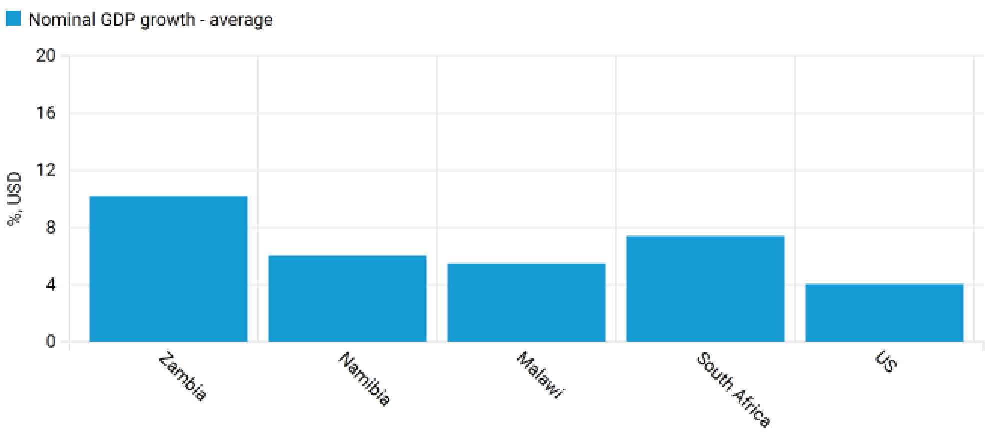
Official data can be scarce and unreliable, which makes market-sizing and growth exercises particularly difficult. Similarly, the difficulty in carrying out effective due diligence in Zambia can pose a barrier to market entry and expansion plans. The government is attempting to clamp down on trade in counterfeit goods, but this is proving difficult and legitimate firms operating across a wide range of sectors are threatened by fake goods and informal distribution channels.

Firms investing in priority sectors and multi-facility economic zones (MFEZs) benefit from administrative support and a range of financial incentives, such as waivers on customs duties, excise duties and VAT payments. However, the government introduced new customs excise duties as part of its fiscal reform and austerity programme presented in the Budget 2019, which includes an import duty of 5.0% on copper and cobalt concentrates and an export duty of 15.0% on precious metals and stones. The mining sector is shouldering the financial burden of revised tax policy, which also includes the replacement of value added tax with a non-refundable sales tax. Zambia has pushed back implementation of the sales tax to September 2019.

Risks and Opportunities

- Tariff and non-tariff barriers can prove difficult and costly, especially for new entrants unfamiliar with local market conditions and faced with large incumbent firms.
- The government plans to implement a non-refundable sales tax in September, in contrast to most other countries in southern Africa that operate a VAT system.
- The government is keen to promote export processing zones and industrial parks where preferential trading terms are on offer, including tax breaks, deferrals and exemptions.

Average Nominal GDP Expansion, 2019-23



Source: Dun & Bradstreet

Income per capita is estimated at around USD1,500 in 2018 and expected to slip to USD1,300 in 2019-20, owing to subdued economic growth and weakness of the kwacha against the US dollar. In later years, income per capita is expected to post some modest gains through to 2023 but will be low by regional standards. At the sub-national level, Lusaka, the capital, is one of the fastest-growing markets in southern Africa with rising purchasing power among the expanding middle class.

Zambian-based firms trading across the large regional markets of the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) can benefit from preferential trade terms on intra-regional trade, although strict rules of origin apply. Separately, Zambia benefits from duty-free access to the US under the African Growth and Opportunity Act (AGOA) and enjoys preferential access to the EU under an interim Economic Partnership Agreement.

Main Restrictions on Imports

Tariff Barriers	Zambia	Namibia	Malawi	S. Africa	US
Overall Weighted Mean Tariff	6.2	0.9	4.8	4.6	1.7
Manufactures Weighted Mean Tariff	7.4	0.6	5.0	5.3	1.7
Primary Products Weighted Mean Tariffs	4.0	1.7	4.1	2.6	1.5
Overall MFN Tariff	27.1	22.2	30.4	23.1	6.0
Manufactures MFN Tariff	24.8	29.3	29.9	23.5	4.6
Primary Products MFN Tariff	42.3	19.5	34.9	16.2	10.1
Services Restrictiveness Index	21.0	37.0	34.2	34.5	17.7

Source: Haver Analytics/World Bank

Tariff levels are high and non-tariff barriers can be problematic for firms trading with or investing in Zambia. Import and export taxes and trade bans are prone to change with little prior notice or consultation, which can complicate trade proposals and investment decisions by foreign firms. For instance, the government imposed temporary bans on poultry and fish imports in 2017 and some food products from South Africa in 2018, amid health scares. Temporary export bans on some unprocessed minerals and some food products have been imposed in recent years. Also, as part of its 2019 budget, the government imposed new excise duties on imports and exports affecting the mining sector. These erratic changes can prove highly disruptive for traders and investors engaged with Zambia.

Recommendations

- Be prepared to negotiate preferential trade and investment terms with officials.
- Seek local experts adept in dealing with government departments and agencies.
- Exercise caution when assessing market size and purchasing power in Zambia.

FX RISK

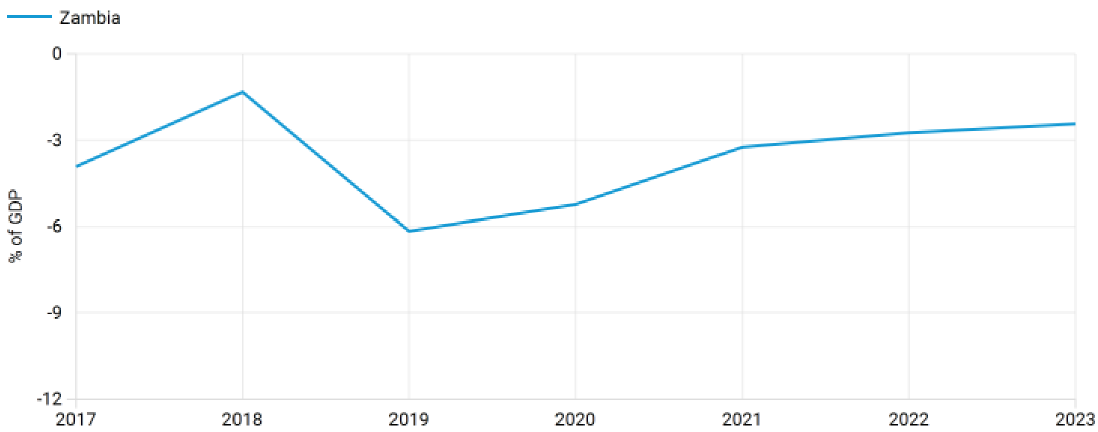
FX and liquidity risks are very high in Zambia, which reflect persistent fiscal and current account deficits, low levels of FX reserves, exchange rate volatility and unsustainable levels of external debt. President Edgar Lungu dismissed his finance minister in July and gave the role to Bwalya Ng'andu, a former deputy governor of the central bank, former managing director of the Development Bank of Zambia and the National Savings and Credit Bank, and director-general of the Zambia Investment Centre. Ng'andu will oversee fiscal austerity measures and attempts to tackle the country's large public debt, which the president hopes will shore up investor confidence in his administration and help stabilise the exchange rate. The Zambian kwacha exchange rate against the US dollar weakened sharply in September and October 2018, stabilised during Q1 2019 but fell to a new low of around ZMW:14:USD in May as the widening current account deficit and sovereign credit risks weighed on investor sentiment and the local currency.

Further volatility and possible slippage in the exchange rate should be anticipated in 2019 and 2020, particularly as mining sector output is falling, inflation is rising and agreement on a new financing package with the IMF appears unlikely. Securing a deal with the IMF is crucial to help refinance the country's stock of Eurobond debt on more favourable terms. Separately, the government secured another debt write-off from China in July, which takes total Chinese debt cancellation to USD90m, while the new credit of USD30m was agreed. China is by far Zambia's largest bilateral creditor and these recent financial developments come at a time when Chinese businesses are attempting to tighten their grip on strategic mineral supplies in Zambia, which could include a play for assets held under Konkola Copper Mines, which the government has put into provisional liquidation.

Risks and Opportunities

- The new finance minister will attempt to restart negotiations with the IMF over a new financing package but prospects look bleak for a confidence-boosting new loan.
- The government is saddled with very high external debt-servicing costs and has built up public sector payment arrears of around USD1.3bn, affecting a wide range of contracts.
- Many traders will continue to price their goods and services in US dollars to minimise FX risks, particularly as the Zambian kwacha remains volatile and weak.

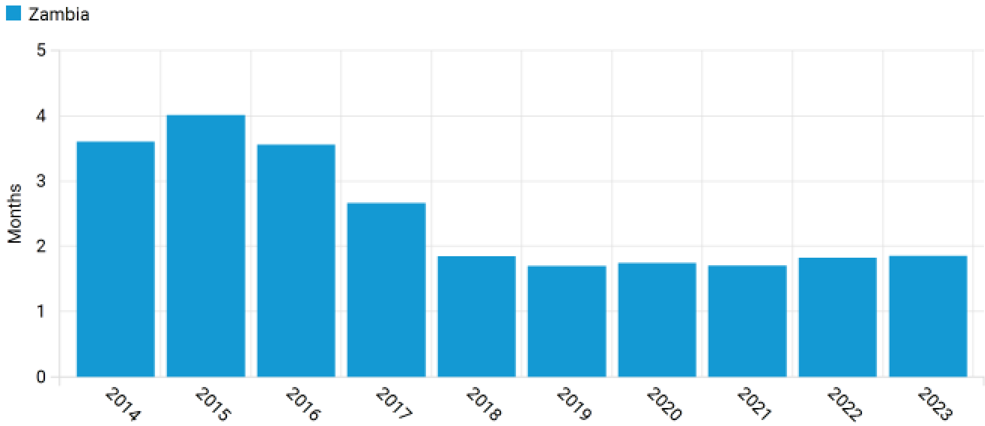
Current Account Balance



Source: Haver Analytics/Dun & Bradstreet

The overall current account deficit is estimated at around USD350m in 2018 and expected to expand to USD1.4bn in 2019, largely as a result of lower mining sector output and subdued commodity prices. Financial disagreements and ongoing disputes between mining firms and the government over electricity prices, regulation and tax-policy changes are expected to reduce export volumes and revenues from the sector in 2019-20. The country's import bill will remain high, largely due to imported supplies and services for the infrastructure development programme, import dependence on a wide range of consumer goods and services and the weakness of the kwacha against the US dollar.

Import Cover



Source: Haver Analytics/Dun & Bradstreet

Zambia's FX reserves are low and add to liquidity concerns for investors and traders. FX reserves are expected to remain below USD1.5bn in 2019-20, providing less than 2.0 months of import cover. Low levels of FX reserves provide the Bank of Zambia with little scope to protect the kwacha and smooth out currency volatility should the need arise, whilst creating liquidity shortages in the banking system. These undermine the ability of local counterparts to fulfil payment terms and conditions, leading to potentially large and lengthy payment arrears on public and private sector contracts.

Recommendations

- Formulate and maintain contingency plans that take into account the high risk of further currency depreciation.
- Avoid increasing credit to local suppliers given Zambia's economic fragility.
- Secure payment terms in US dollars or other major currencies, where possible.

TRANSFER RISK

Transfer risk is elevated for Zambia due to weak national finances, the need to address external debt pressures and generally poor payment performance. The government's debt-sustainability analysis of mid-2018 placed the country's total external debt stock at USD9.3bn and domestic debt at USD5.3bn at the end of March 2018, which together represent almost 60% of GDP. The finance minister reported that external public debt rose to more than USD10bn by the end of 2018. The government acknowledges that these levels of national debt are unsustainable, create a high risk of debt distress and require remedial action. The government has imposed a range of debt-management policies to address the external debt burden and reassure investors and lenders of its economic policy intentions. Fiscal austerity and a debt-reform programme is being carefully managed to avoid unsettling the country's main trade and investment partner (China) whilst courting favour with the IMF. China remains engaged with Zambia and recently agreed a small debt write-off and new credit facility, while negotiations with the IMF have stalled amid concerns over the management of public finances. The new finance minister (Bwalya Ng'andu) intends to restart negotiations with the IMF in the hope of securing a USD1.3bn loan package.

Risks and Opportunities

- Contracts with the government and public entities stand a substantial risk of not being fulfilled given stretched national finances and fiscal austerity initiatives.
- The government is attempting to reduce the enormous payment arrears it has built up, which is largely to the detriment of local contractors and suppliers.
- Foreign capital transfers can be impeded by the underdeveloped banking system and slow-moving business bureaucracy.

Transfer Situation

Type	Delay
FX/Bank Delays	0-2 months
Local Delays	0-1 month

Source: Dun & Bradstreet

Financial Sector/Capital Flows Provisions

Provision	Active
Restrictions on Inward Direct Investment	No
Special Treatment for Deposits held by Non-Residents	No
Special Treatment for Deposits in Foreign Currency	No
Special Treatment for Lending to Non-Residents	No

Source: International Monetary Fund

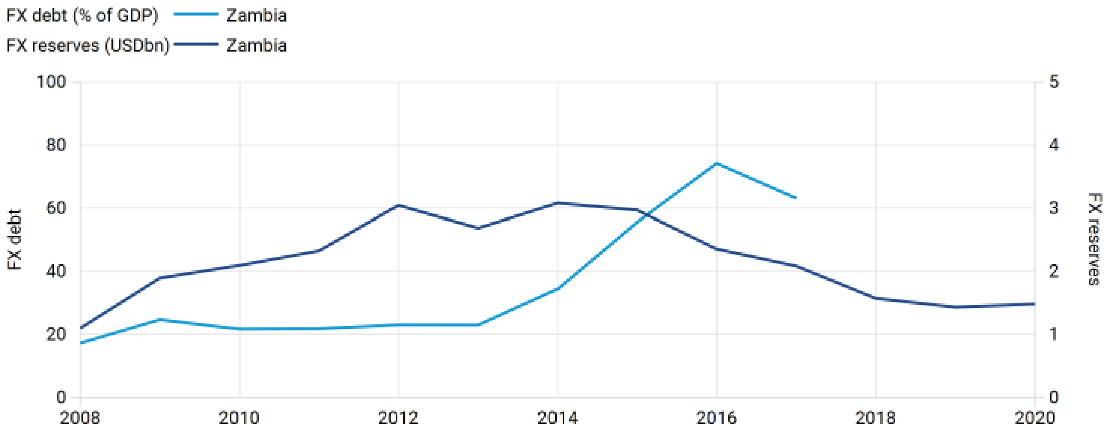
Trade Payment Restrictions

Trade Payment Restriction	Zambia	Sub-Saharan Africa	OECD Average
Restrictions on non-Residents' Accounts	0	0.24	0.06
Restrictions on Payments for Imports	1	1.29	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	1.81	0.35

Source: International Monetary Fund

There are no restrictions or limitations on foreign transfers relating to investments in Zambia (including remittances of investment capital, earnings, loan repayments or lease payments), and the government is expected to resist the temptation to impose new transfer controls. Instead, the authorities will attempt to boost confidence in the economy among investors, creditors and donors through more prudent management of public funds and policy reforms. Also, they will continue to encourage foreign firms to reinvest a greater share of export earnings in the local economy. The government estimates that it loses around USD2bn each year as a result of tax avoidance and transfer pricing by foreign companies, which could prompt new capital controls once the economy is on a stronger footing.

Total Foreign Debt and Foreign Reserves



Source: Haver Analytics/Dun & Bradstreet

External public medium- to long-term debt is estimated at just over USD10bn at end-2018 and this is accompanied by private medium- to long-term debt estimated at USD6bn and short-term trade credit of USD1bn. Total external debt in the region of USD17bn, high servicing costs and roll-over requirements are a major headache for the Zambian authorities. External debt is expected to edge higher in 2019 and 2020 as the government pushes ahead with debt-financed development projects, and servicing costs will become more of a burden - in part as a result of exchange rate weakness. Full details on the composition and terms of Zambia's external debt remain unclear and this presents a major obstacle to the government's attempts to secure a new funding package from the IMF. China is expected to extend new lines of credit to Zambia to help finance infrastructure development projects (often involving Chinese contractors) and help secure access to strategic mineral deposits and agricultural products.

Key policy measures to shore up the public finances and curtail the rise in national debt following the debt-sustainability analysis of 2018 included a suspension of new debt issuance, the annulment of some existing debt contracts, attempts to refinance bilateral debt on improved terms, the removal of debt guarantees for insolvent parastatals and a temporary ban on the issuance of letters of credit and guarantees to state-owned enterprises. In addition, the government has suspended public funding for projects that are less than 80% complete, and has slashed unnecessary current spending by government departments and ministers. However, implementation of these policies has been inconsistent; looking ahead, adherence to this strategy is uncertain.

Recommendations

- Be prepared for unexpected transfer delays and lengthy payment arrears.
- Monitor payment performance closely; when required, be prepared to revise trade terms at short notice.
- Factor in only a low risk of new foreign transfer or remittance restrictions.

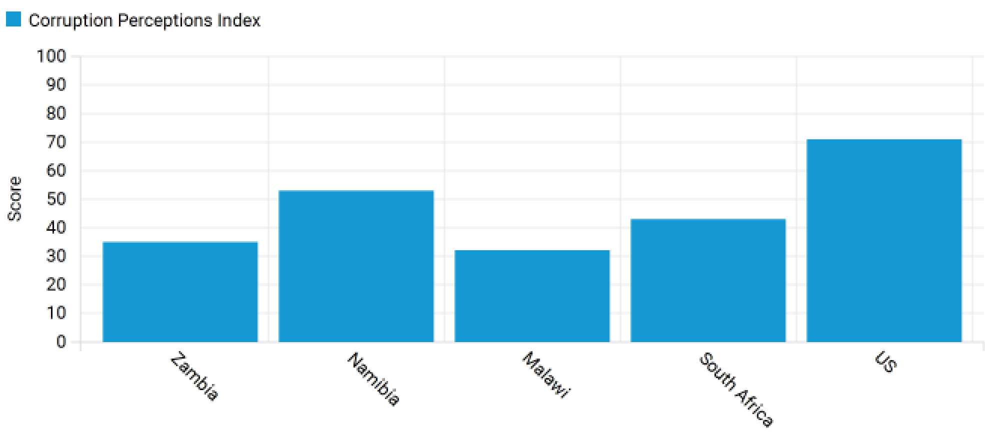
BUSINESS REGULATORY ENVIRONMENT

Zambia's business regulatory environment poses significant challenges for foreign businesses and investors. Sector-specific rules and regulations are inconsistently applied and can change with little prior consultation or advance notice. For instance, the government produced a statutory instrument in early 2018 that requires miners and other businesses to transport 30% of their bulk and heavy cargo by rail (rather than road); the 2019 budget has raised the tax burden on mining firms with effect from January 2019; and the launch of a non-refundable sales tax (to replace value added tax) has been pushed back from April to September. These changes have heightened tension between mining firms and the authorities, which miners have stressed will result in mine closures, job losses and withheld investment. Separately, businesses operating within the mining sector (and wider economy) are exposed to ad hoc fiscal audits, evolving local content requirements and contract reviews, which raise the risk of unexpected tax bills or licences being revoked when investment decisions are deemed not to have been met.

Risks and Opportunities

- The 2019 budget will affect mining firms, with new and higher taxes and removal of some rebates, which the industry claims is threatening operations at some mines.
- The Zambian Revenue Authority is carrying out an audit of the fiscal accounts of mining firms for the past five years, which could result in unexpected tax bills.
- Regulations can change at short notice and with little prior consultation, making policy uncertainty a particularly challenging aspect of the business environment.

Corruption Perceptions Index, 2018

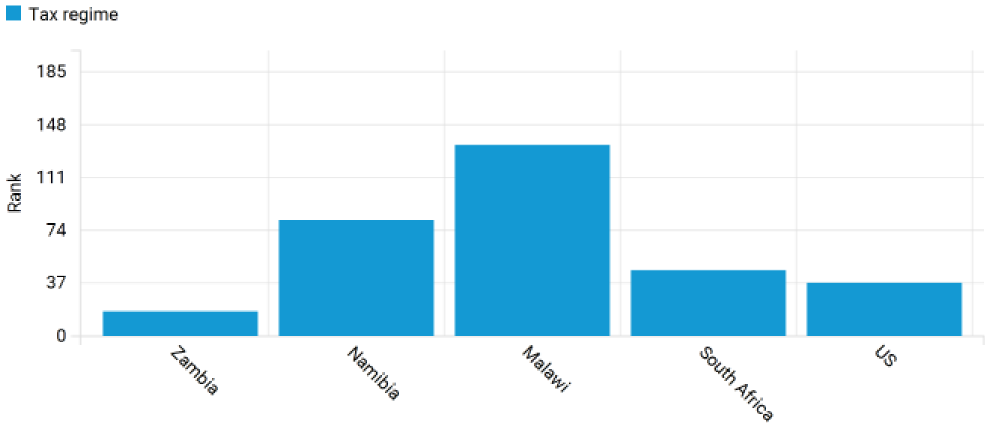


Source: Transparency International, 'Corruption Perceptions Index'

Note: 100 = least corrupt, 0 = most corrupt

Corruption creates compliance risks and increases costs for foreign firms, particularly in the fields of government procurement, dispute settlement and dealing with trade and security officials. The government has identified corruption as an obstacle to business investment and is attempting to address the issue as part of its reform efforts, with the aim of securing new lines of international credit. However, patronage networks and vested interests are well entrenched in the public and private sectors, and corrupt practices will take a long time to unravel. Bribery, kickbacks, facilitation fees and demands for unofficial payments will remain common features of the trade and investment environment in Zambia, despite the Anti-Corruption Commission's increased efforts to tackle the problem.

Ease of Paying Taxes, 2019



Source: World Bank, 'Doing Business Report'

Ranking: Low score = best, High score = worst

The 2019 Budget introduced various changes to the tax regime that aim to boost fiscal revenues in the years ahead. Major changes to the mining tax regime include: an increase to mining royalty rates and non-deductibility of mineral royalties for income tax purposes; the introduction of a 5% import duty on copper and cobalt concentrates; a 15% export duty on precious metals and gemstones; and the replacing of value added tax (VAT) with a non-refundable sales tax. Tax changes specific to the mining sector (together with earlier electricity tariff increases) have brought into question the profitability and feasibility of running high-cost older mines. The authorities remain embroiled in a tax dispute with the mining firm Konkola Copper Mines (majority owned by the India-based firm Vedanta Resources), which has resulted in the provisional liquidation of KCM (and a severing of ties with Vedanta Resources) and Vedanta challenging the Zambian authorities through international arbitration. More generally, attempts to increase income tax and withholding tax (WHT) include an increase in the rate of WHT from 15% to 20% on dividend, interest and profit remittance payments to non-residents. Also, to tackle aggressive tax planning the authorities have limited the amount of deductible interest when determining taxable profits to 30% of a company's earnings before interest, tax, depreciation and amortisation (EBITDA).

Recommendations

- Be prepared to negotiate tax settlements and rebates with the tax authorities.
- Cultivate relations with officials in order to keep up to date with changes to regulations.
- Plan for and establish clear guidelines for dealing with widespread corruption and requests for unofficial payments.

BUSINESS CONTINUITY

Business continuity risks are created by inadequate and unreliable power and water supplies, poor transport connections and bottlenecks on key transport routes. Electricity shortfalls in recent years have restricted mining operations, which are the largest consumers of electricity in Zambia. Electricity shortages have been created by drought conditions, which have curbed hydroelectric power output from the Zambezi river (most notably from the Kariba dam). The government hopes to increase electricity generation capacity from current levels of 2,200MW to closer to 6,000MW by 2020, largely through new hydroelectric facilities and smaller investment in solar power plants. The government aims to deploy around 500MW of solar power generation over the next few years, in and around Lusaka, and spread along the Copperbelt, Central and Eastern provinces.

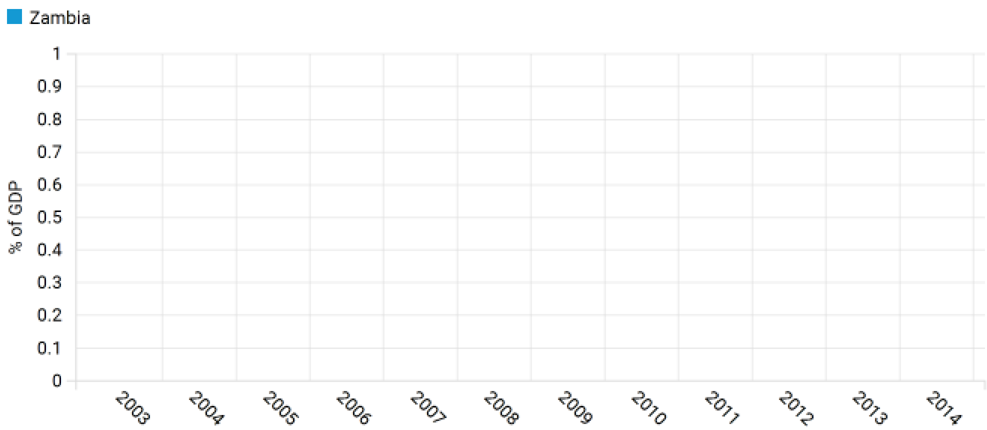
In addition to poor power supplies, the authorities plan to increase electricity tariffs even further to better reflect the cost of power production, which will ease pressure on the financially stressed national electricity company Zesco but will increase costs for some businesses (particularly those in the mining sector). The government has put electricity tariff increases on hold for now, but much higher prices are anticipated by the end of 2019 or in early 2020.

Chinese companies are heavily involved in transport infrastructure development projects, such as development of airports (including the new terminal at Kenneth Kaunda International Airport and the new Copperbelt airport), major roads (including the new Ndola-Lusaka dual carriageway) and rail links (including an extension and upgrade to the TAZARA line connecting Zambia and Tanzania). Chinese firms remain fully engaged in Zambia but delivery of some of these projects could be threatened by Zambia's stretched national finances.

Risks and Opportunities

- Power shortages and blackouts are key businesses disruptors in Zambia, due to low generation capacity, poorly maintained infrastructure and low water levels in dams.
- Securing adequate and reliable water supplies can be highly problematic, especially given poor water-services infrastructure and the high risk of drought.
- Zesco is expected to return with new demands for higher tariff levels and the current decision to put any increase on hold should be regarded as just a temporary delay.
- Shippers face long transit times and high costs due to poor infrastructure and inefficient customs clearance, but national and regional transport improvements are ongoing.

Natural Disaster Impact

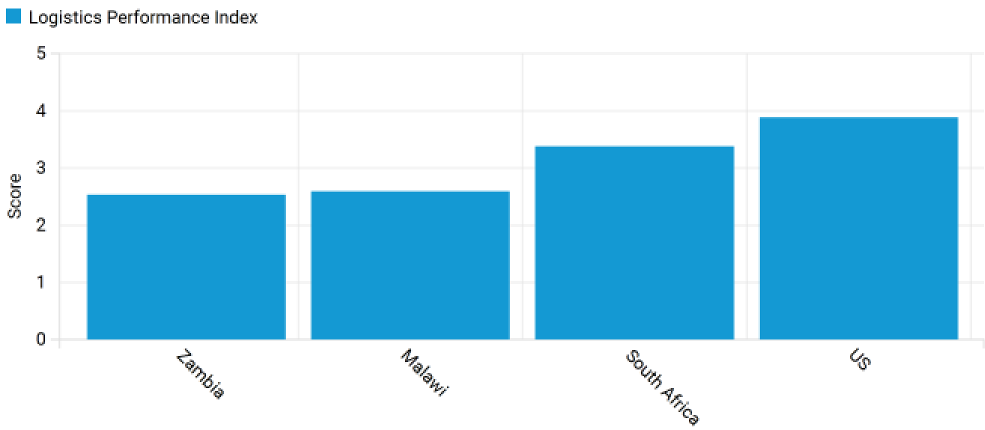


Source: D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain

Natural Disaster Risk: Zambia is prone to natural disasters, including droughts and floods, which can interrupt power supplies, disrupt logistics networks and undermine business activity. The rainy season from November to April can bring intense thunderstorms, flooding and landslides. Zambia can experience drought conditions that reduce water levels and output at hydroelectric facilities (particularly the Kariba dam) and exacerbate electricity and water shortages in Lusaka and other main cities.

The country suffers from occasional seismic activity and has experienced the effects of a few moderate earthquakes (measuring between 5.5 and 6.0 magnitude on the Richter scale, with epicentres in or near its national borders) over the past 12 months. Zambia has a high HIV/AIDS infection rate and many firms will need to have a clear policy for dealing with the effects of the disease in the workplace.

Logistics Performance Index, 2018



Source: World Bank

Note: 1 = worse performance, 5 = better performance

Logistics and Infrastructure: Transport costs can be high by regional standards due to Zambia's landlocked position, poor transport infrastructure and inefficient customs clearance. Long delays occur at checkpoints and border posts along the main transport corridors that connect Zambia to key seaports in Angola (Lobito), Namibia (Walvis Bay), Mozambique (Beira), and Tanzania (Dar es Salaam). Ongoing and planned transport sector investment in neighbouring countries and across southern Africa (such as the Nacala Corridor Development) include road, rail and port development, which should benefit Zambia in the medium to long term.

At a national level, road development is ongoing under the Link Zambia 8,000 and the Lusaka 400 and Copperbelt 400 projects, while construction of the 'Great North Road' dual carriageway linking Lusaka to Ndola (on the border with Democratic Republic of Congo) was launched in September 2017 and is scheduled to be complete within 48 months. Construction and rehabilitation of the rail networks and rolling stock is another policy priority, with planned new greenfield rail infrastructure projects including the Chipata-Petauke-Serenje rail line and the Nseluka-Mpulungu rail line part financed by China. Improvement to the TAZARA line connecting with Tanzania is in the pipeline.

Recommendations

- Factor in the high risk of transport delays and elevated transport costs in the short term.
- Plan for regular power outages and ensure back-up supplies are in place.
- Expect inadequate and unreliable water supplies due to poor weather and deficient infrastructure.

POLITICAL / INSECURITY RISK

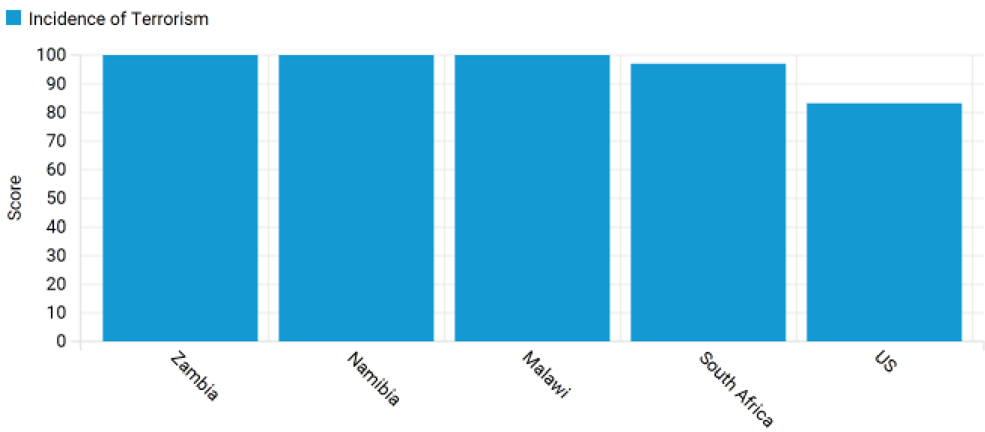
The political and social situation in Zambia is tense due to intense rivalry within the ruling Patriotic Front (PF), unease among civil groups over the authoritarian stance of President Edgar Lungu, the weak economy and the perception that corruption is getting worse. In addition to this, there is unease over the role of China in Zambia and a growing suspicion that in order to get new lines of credit and debt relief the government will sell key state assets to China and provide access to strategic resources.

The build-up to the 2021 presidential and legislative elections could prove a particularly volatile period, especially as the government is likely to constrain the political opposition and forcefully control any public demonstrations. The National Dialogue Forum (NDF) completed draft bills to amend the constitution and adjust pre-existing legislation, which includes a draft Public Order Bill that gives the security forces new wide-ranging powers. Also, the Constitutional Court has ruled that President Lungu can stand for re-election in 2021 without breaching the two-term limit, which effectively discounts the one-and-a-half years he held office after replacing Michael Sata, who died whilst president in mid-2015. These developments have exacerbated tension within the ruling PF and with opposition parties. The PF is split between the more conservative 'old guard' hopeful of a new leader in 2021 and those closely aligned with Lungu, which is making policy development and implementation difficult. The president and his allies will continue to attempt to stifle political opposition, which will include intervention by the police and security forces to break up public protests and demonstrations, as well as intimidation and potential arrest of dissenting voices and opposition leaders.

Risks and Opportunities

- Political tension and the risk of politically motivated violence will remain high ahead of the 2021 general election, especially given President Lungu's authoritarian stance.
- Disruptive demonstrations and protests could emerge in 2020, due to concerns over low living standards, job losses and a perception of rising levels of corruption.
- Domestic security and high levels of crime are a concern, compounded by the fact that the police force is underfunded, under-resourced and suffers from corruption.

Incidence of Terrorism, 2018

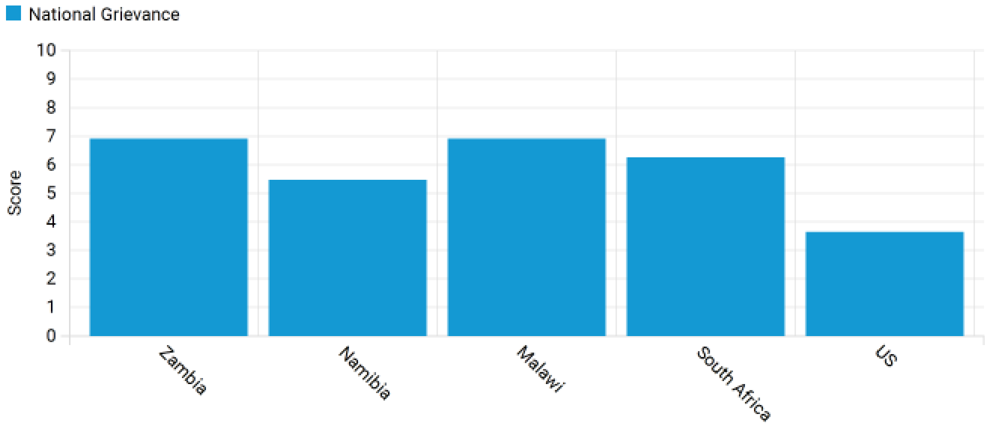


Source: World Economic Forum, 'Global Competitiveness Report'

Note: 0 = very high, 100 = no incidence

Terrorism risk is limited for business, but the cost of crime is much higher and can create the need for additional security measures. Thefts, assaults, burglaries and carjackings are the most common forms of crime, but are not considered an excessive risk to property, premises and staff. Zambia has a vibrant private security industry, with many firms from South Africa operating in the country. Road safety is a major issue and hazardous conditions can adversely affect workers, business operations and logistics services. For instance, there is a high incidence of road accidents and fatalities and the security forces can set up unsanctioned and impromptu road blocks.

Level of National Grievance, 2018



Source: Fund for Peace, 'Fragile States Index'

Note: 1.0 = lowest grievance, 10.0 = highest grievance

The level of national grievance is high due to little improvement in living standards in recent years, high levels of unemployment and discontent with the ruling political elite. The ruling PF is pursuing a process of fiscal consolidation, which is exacerbating the feeling of discontent in some locations and sectors. The domestic political scene is highly polarised along geographic and ethnic lines, which increases the risk of public demonstrations and politically motivated violence. There is a growing sense of unease over President Lungu's authoritarian stance and concerns over the increasing role of China in the Zambian economy. For instance, there is a growing belief that new lines of finance and debt restructuring involving China are likely to involve various demands, such as access to strategic minerals and agricultural projects, debt-for-equity swaps on state-owned enterprises and the award of infrastructure contracts to Chinese contractors.

Recommendations

- Regularly review official contacts in Zambia and official policy proposals.
- Secure political and security risk insurance, but plan for higher-risk premiums.
- Seek advice from local security firms in order to improve the safety of staff, premises and logistics.

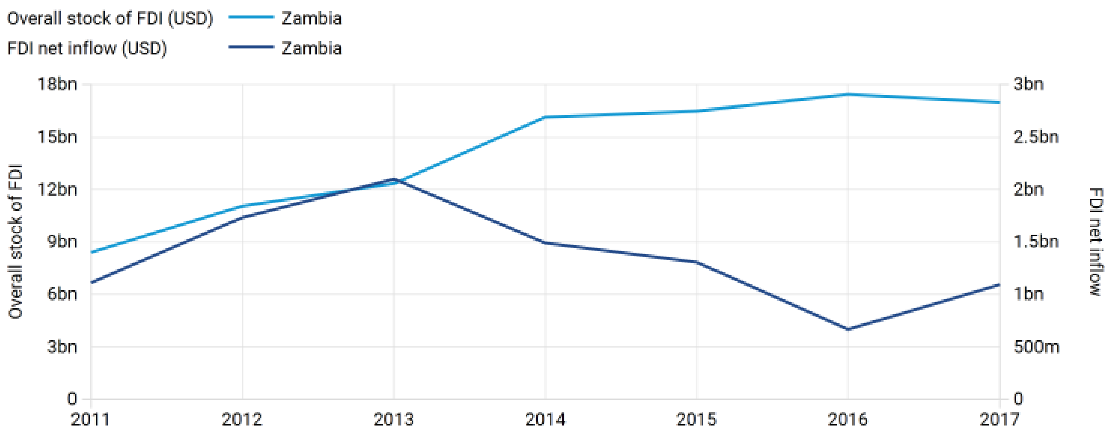
EXPROPRIATION / NATIONALISATION RISK

Expropriation risk and a lack of legal protection are major concerns for investors considering opportunities in Zambia at present. Zambia has a history of expropriation and nationalisation, as well as a tendency to carry out contract reviews that lead to disputes between foreign companies and with the authorities. Mining firms are subject to regulatory changes and fiscal audits that could adversely affect the financial stability and even viability of operations in Zambia. The Zambian government is in dispute with the owners of the Konkola Copper Mines (KCM). The Zambian authorities intend to strip KCM of its mining licence over alleged breach of licence terms and conditions and have broken commercial ties with the majority owner (Vedanta Resources). In May, the government filed a legal notice to seize KCM assets and the High Court appointed a local legal firm to act as provisional liquidator of KCM. The government intends to reallocate the licence to another private sector investor whilst retaining a stake in the venture, although Vedanta Resources are challenging the government through international arbitration. These developments reflect the authorities' struggle to increase beneficiation from the country's natural resource sectors, and has raised concerns among international mining companies about increased government intervention and involvement in the economy.

Risks and Opportunities

- Foreign investment is actively encouraged and there are no legal or regulatory restrictions on foreign participation or ownership, with the exception of land holdings.
- The government frequently intervenes in the mining sector and other sectors by changing fiscal rules and investment regulations, and by carrying out contract reviews.
- The legal framework for trademark protection is adequate, but enforcement is often weak, which raises the risk of infringement of trademark or intellectual property rights.

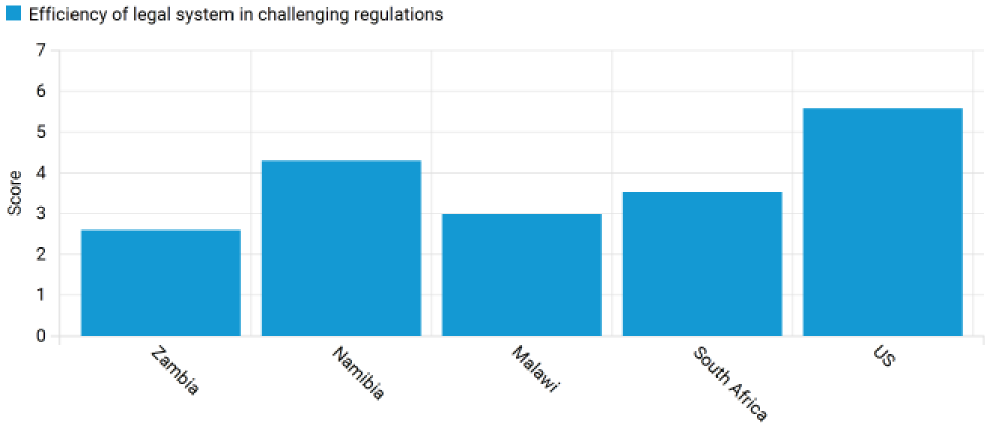
Foreign Direct Investment



Source: UNCTAD

FDI inflows to Zambia were just USD569m in 2018 and the stock of FDI was USD20.4bn, according to the *World Investment Report 2019* published by the United Nations Conference on Trade and Development (UNCTAD). Inflows of FDI in 2018 were below the levels achieved in the previous three years. FDI in Zambia is dominated by large mining (and related industrial) investments from Canada, Switzerland, India, Australia, the UK, Brazil, South Africa and China. Disruption to the mining sector in 2018 meant that some mining firms put planned investments on hold. Beyond the mining sector, China continues to invest in transport infrastructure (airports, roads and railways), healthcare, manufacturing and agriculture.

Efficiency of Legal System in Challenging Government Regulations, 2018



Source: World Economic Forum, 'Global Competitiveness Report'

Note: 1 = extremely inefficient, 7 = highly efficient

Contractual and property rights enforcement is weak and disputes can take an excessively long time to resolve, while the judicial system has a mixed record in upholding the sanctity of contracts. The Commercial Court, a division of the High Court, deals with disputes arising from commercial transactions. The local (including commercial) legal system allows for extra-judicial resolution processes in the form of arbitration, mediation and negotiation. The local court system recognises and enforces foreign arbitral awards. There is a risk that the government or powerful local interests will interfere with judicial processes and influence proceedings.

Recommendations

- Be aware of the high risk of contract reviews and disputes with the authorities.
- Pursue disputes through international mediation or out-of-court processes.
- Be prepared for unexpected changes to laws and regulations with little prior engagement or warning.

PERSPECTIVES

The following sections provide an overview of the broader/longer-term factors that influence the way that business is done in Zambia. These factors provide the foundations upon which the economy is built, the frameworks within which business is done and provide a richer insight into the background influences that lie beyond the raw data and focused insight that is supplied elsewhere in the report.

THE ECONOMY

Economic Overview

Zambia is a lower-middle-income country with aspirations to become a diversified and solid middle-income country by 2030 (Vision 2030). Currently, the Zambian economy relies heavily on its mining sector, particularly copper mining, which exposes the economy to external shocks. Foreign investment in Zambia is dominated by mining ventures and largely sourced from China, Canada, Australia and UK-based firms. The agricultural sector is the major employer in Zambia and employs around 70% of the workforce, although the majority of agricultural activity is small-scale subsistence farming and involves informal employment arrangements. Only a small proportion of potential farm land is cultivated.

The government is committed to a process of economic diversification, as highlighted in successive five-year National Development Plans (NDPs), and is attempting to attract foreign investment to non-mining sectors such as commercial agriculture, light manufacturing and services. Around 60% of the population lives below the poverty line and 42% are considered to be in extreme poverty. Foreign donors and multilateral organisations are engaged in Zambia, and provide support for the economy through financial and technical assistance.

Economic Framework

Industrial Relations and the Labour Market

Zambia has a labour force of almost 7m people, an abundance of unskilled labour and a severe shortage of skilled and semi-skilled labour. The majority of people work in agriculture and in the informal sector, where child labour is common. The Department of Immigration controls expatriate employment and is mandated to issue work permits for priority areas where there is a scarcity of local personnel. However, foreign companies are able to negotiate the number of work permits they can obtain for expatriates on a project-by-project basis.

The law recognises the right of workers to form and join trade unions, conduct legal strikes and bargain collectively. The latter is used widely by trade unions. Industrial disputes and strike action are most common in public services and the mining sector, although there are strict statutory restrictions and limitations that make legal strike action difficult. For instance, the process of exhausting the legal alternatives to a strike is lengthy, certain activities are exempt from the right of strike action, and strikes can last for a maximum of 14 days.

Fiscal Framework

Fiscal policy is guided by five-year National Development Plans (NDPs). The sixth NDP originally covered 2011-15 but was extended to 2016 and the seventh NDP runs from 2017-21. Following the downturn in commodity prices in recent years, the government is pursuing an economic recovery programme, Zambia Plus, which focuses on restructuring public finances and boosting job creation. Successive NDPs and the Zambia Plus programme have overarching aims of encouraging sustainable growth, reducing poverty, diversifying the economy, and improving competitiveness.

Monetary Regime

The Bank of Zambia (BoZ, the central bank) formulates and implements monetary policy, largely through the regular meetings conducted by its Monetary Policy Committee. The bank's main goal is to achieve price stability. To this end, the BoZ manipulates its benchmark interest rate and the reserve requirements of commercial banks (the latter remain crucial given the still-weak interest-rate transmission mechanism). Also, the BoZ intervenes in the FX market to help stabilise the local currency and curtail imported inflation.

Exchange Rate Regime

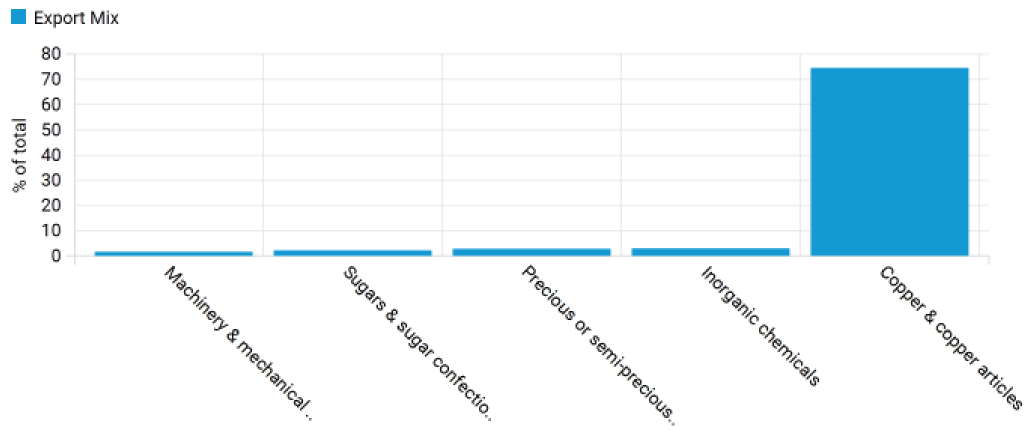
Zambia's exchange-rate policy is based on an 'independently' floating exchange-rate system, which enables both the nominal and real exchange rates to adjust freely to changing economic circumstances. However, the currency is volatile due to its susceptibility to swings in investor sentiment and changes in commodity prices. The central bank actively intervenes in the FX market in an attempt to stabilise the currency and curtail imported inflation.

Export Profile

Zambia is dependent on mineral exports, particularly copper, which typically account for around 70-80% of goods exported by value. Zambia exports other metals such as cobalt, zinc, lead and uranium, albeit in small quantities. The non-metal sector is weak due to an underdeveloped industrial base, infrastructure deficiencies and general business sector deficiencies (including lack of finance, excessive bureaucracy and corruption) that impede international competitiveness.

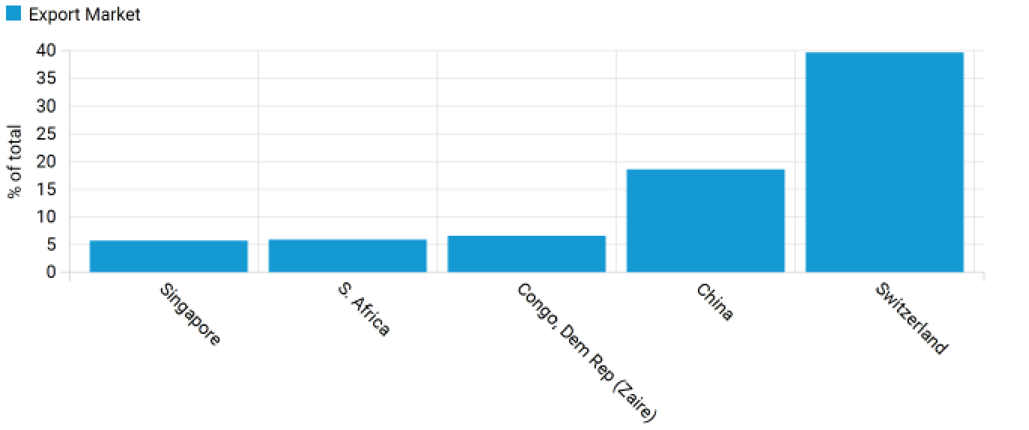
China is by far the largest export market and is where most of the country's copper and cobalt exports are sold. Other Asian (India and South Korea) and African (South Africa and the Democratic Republic of Congo) states are smaller but main export markets, while European countries continue to play a key role as a destination for Zambian exports.

Export Mix (Top 5)



Source: Comtrade/Dun & Bradstreet

Export Markets (Top 5)

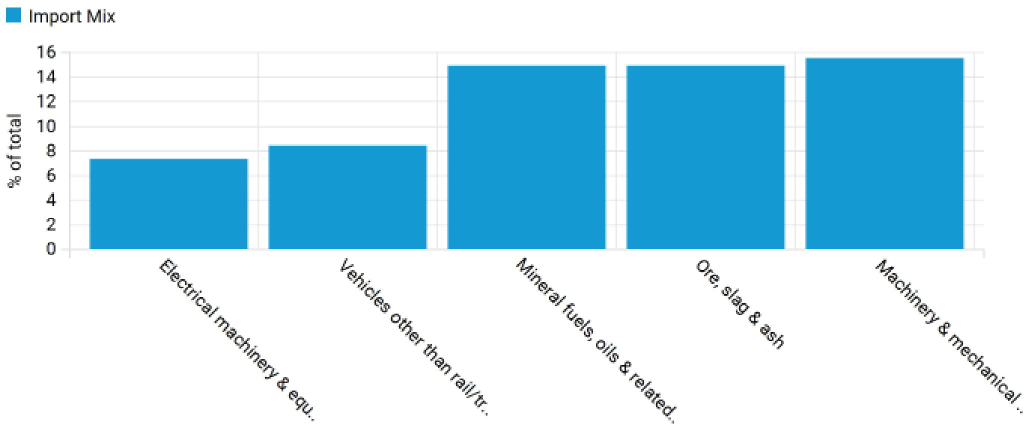


Source: IMF DOTS/Dun & Bradstreet

Import Profile

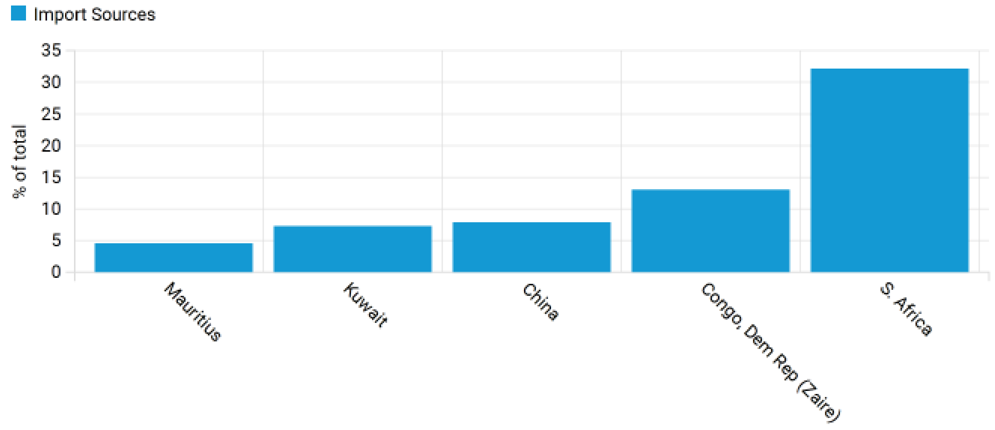
Zambia's poor industrial base means that imports include a wide range of capital and consumer goods, as well as energy supplies. Plant and machinery, electrical machinery and equipment, food and beverages, building materials, household items and consumer goods are traded from neighbouring countries and overseas suppliers. South Africa supplies the largest share of Zambian imports, followed by the Democratic Republic of Congo. Imports from China have grown rapidly as commercial ties have deepened between the two countries, which in part reflects Chinese supplies for major development projects and competitively priced imports for consumers.

Import Mix (Top 5)



Source: Comtrade/Dun & Bradstreet

Import Sources (Top 5)



Source: IMF DOTS/Dun & Bradstreet

POLITICS

Zambia has held six multiparty general elections since 1991 (following five-year terms). The current president, Edgar Lungu, of the Patriotic Front (PF), was elected as head of state in snap elections in January 2015 (following the death of former president Michael Sata in October 2014). Presidential and parliamentary elections took place in August 2016 when Lungu won a full five-year term in office. The PF is the largest party in the national assembly (with 89 of a total 166 seats), followed by the main opposition United Party for National Development (UPND) (58 seats), and 14 independents. Separately, there are traditional chiefs who command a great deal of respect but hold little decision-making power, except when it comes to land distribution.

Constitutional Arrangements

Zambia's current constitution provides for a democratic republic. Zambia adopted a new constitution in 1991, effectively replacing one-party politics with a multiparty democratic system. The constitution was amended shortly before the 1996 presidential and parliamentary elections. The amendment prevents a president from serving more than two terms in office and requires both parents of a presidential candidate to be of Zambian origin. The constitution was subject to a referendum in the general elections of 2016, which included contentious constitutional amendments (including the bill of rights and the way presidents are elected), but proposed changes failed to receive the required level of support to be implemented.

Legislature

Legislative power is held by a unicameral national assembly. The national assembly has 166 members: 156 are elected in single-seat constituencies for a five-year term and ten members are appointed by the president. Currently, the PF holds 89 (or 54%) of the 166 seats in parliament. The constitution gives the national assembly substantial oversight powers over the executive; however, in practice the legislature has provided only a limited check on presidential authority. Legislation passed by the legislature must receive presidential assent in order to become law.

Executive

Executive power is held by the president, who is chief of state and head of government, and is elected by universal suffrage for a five-year term, renewable once. The constitution allows the president to choose the cabinet from within parliament. If the president dies in office, the vice-president becomes the acting head of state, and a presidential by-election must be held within 90 days of the death of the incumbent. The president's immunity from prosecution can be lifted if a minimum two-thirds parliamentary majority vote in favour of the motion.

Political Parties

Zambia has many political parties, but three large parties dominate the political scene: the Patriotic Front (PF), the United Party for National Development (UPND) and the Movement for Multiparty Democracy (MMD). Most of the parties are focused on personalities rather than on programmes or ideologies, and tend to have regional strongholds that are based, in most cases, on ethnicity. Crucially, all parties are highly factionalised and prone to numerous defections. Of a total of 166 seats in parliament, the PF holds 89 seats in the national assembly, the UPND 58 seats, independents 14 seats, the MMD four seats, and the Forum for Democracy and Development one seat.

Interest Groups

Ethnic Groups

Zambia has many ethnic groups. The Bemba people, in the northeast and the Copperbelt, comprise the largest group, accounting for around 30% of the population. Other large ethnic groups include: the Nyanja in the eastern provinces; the Tonga in the Southern Province; and the Lozi, who are found predominantly in the Western Province. Tension between these groups has generally been low, but the significant and growing disparity in living standards between the Western Province and the remainder of the country has fomented inter-regional tension.

Labour Unions

Around half of Zambia's employed population is unionised. Unionisation rates are lowest in the private sector: some 30% of private sector workers in the transport and communications sector are unionised, about 25% in agriculture, and just below 30% in manufacturing. Unionisation in the public sector is higher, at around 60%. Two unions cover the economically important mining sector: the Mineworkers' Union of Zambia and the National Union of Mining and Allied Workers. The two main groupings of trade unions are the Zambia Congress of Trade Unions (ZCTU) and the Federation of Free-Trade Unions in Zambia (FFTUZ). These two federations unite at times to strengthen the workers' socio-political representation and the labour union movement as a whole.

Religious Groups

Around 75% of Zambia's population is Christian. Muslims and Hindus comprise around 25%, with followers of traditional religions and non-believers comprising the remainder. These groups co-exist harmoniously, for the most part, and conflict along religious lines is rare.

International Environment

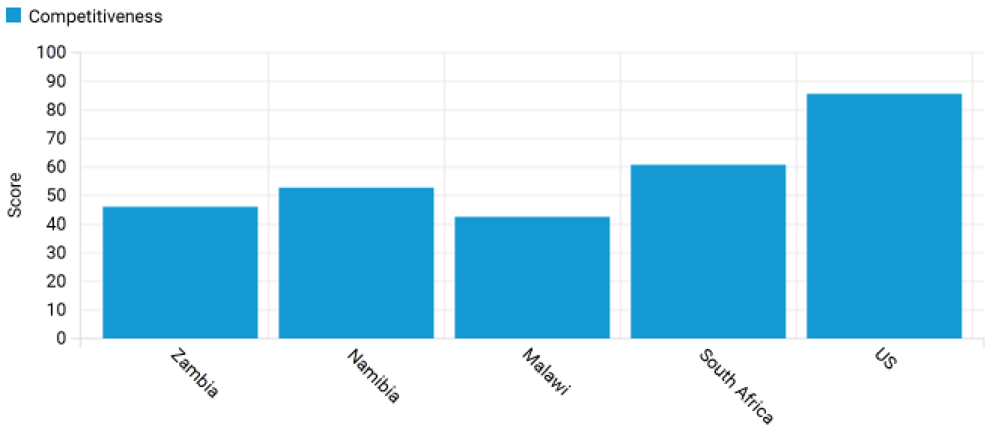
Zambia is an important player in global commodity markets, particularly as it is one of the world's largest copper producers. The country is a key source of copper for China, while relations have been strengthened by various Chinese infrastructure and manufacturing investments in Zambia. Zambia engages with the Western financial community, including the IMF and the World Bank, and is a member of various regional political and economic organisations: the Common Market for Eastern and Southern Africa (COMESA); the Southern African Development Community (SADC); and the African Union (AU). Zambia is a member of the UN and the WTO.

Zambia is not a signatory to the EU's interim economic partnership agreement (EPA) due to concerns over the abolition of taxes and levies, as well as the removal of the protection of infant industries. Zambia's 'least-developed country' status grants it universal tariff and quota-free access to the EU market under the Everything But Arms initiative. It is currently negotiating a full EPA with the EU as part of the Eastern and Southern Africa (ESA) trade bloc.

COMMERCIAL CULTURE

The commercial environment in Zambia is complicated by excessive and time-consuming business bureaucracy, uncertainty surrounding trade and investment rules and regulations, weak legal protection and widespread corruption among officials. Zambia neither prohibits nor discriminates against foreign investment in its economy. The authorities actively court FDI through investment incentives and administrative support. The Zambian Development Agency promotes FDI in Zambia and screens all investment proposals, which tend to be routine and subject to a relatively quick turnaround.

Competitiveness, 2018



Source: World Economic Forum, 'Global Competitiveness Report'

Note: 0 = least competitive, 100 = most competitive

Infrastructure

Zambia relies heavily on cross-border transport corridors connecting to seaports in neighbouring South Africa, Mozambique and Tanzania, as well as connections to ports in Namibia and Angola. One of the main links is the north-south transit corridor connecting southern African ports, via the Copperbelt in Zambia, to Dar es Salaam in Tanzania. Others extend from Zambia to the ports of Beira and Nacala in Mozambique. Heading west, the Trans-Caprivi Rail Corridor links Zambia with the Port of Walvis Bay in Namibia, while the refurbished Benguela rail line in Angola allows access to the Port of Lobito (through connections in the southern part of the Democratic Republic of Congo).

The national road network is improving, but road conditions remain challenging in many areas beyond the main highways. The government is implementing an ambitious Link Zambia 8000 Road Project (building 8,000km of quality single- and dual-lane roads throughout the country), which is improving the national road network in and between major cities, and with rural areas.

The Zambian rail network is the dominant mode of transport for internationally traded goods (particularly mining outputs), but generally operates well below its original design capacity, due to poor track conditions and a lack of quality rolling stock. The main rail route is Zambia Railways (owned and operated by the government) which runs from Livingstone, bordering Zimbabwe, through Lusaka to Kitwe in the north.

The TAZARA line (jointly owned by the Tanzanian and Zambian governments) connects with Zambia Railways at Kapiri Mposhi, then runs through northeast Zambia into Tanzania and to the port at Dar es Salaam. The Chipata-Mchinji rail link provides connectivity to Malawi and through to Mozambique.

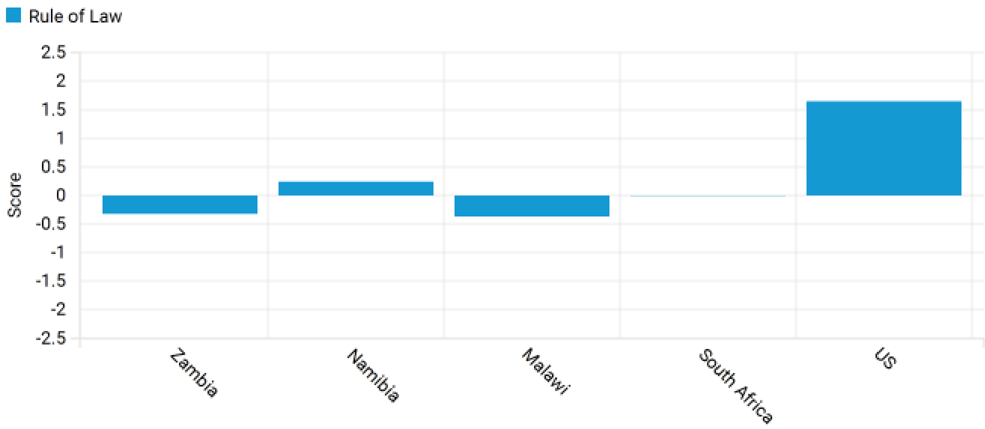
Air transport infrastructure is relatively well developed by African standards, and Zambia has three international airports at Lusaka, Livingstone and Ndola, which handle passengers and cargo largely routed from other airports in southern and eastern Africa.

The energy supply is erratic and unreliable, which often leads to blackouts and brownouts. There is substantial ongoing and planned investment in electricity generation and transmission, with the electricity sector master plan aiming to more than double electricity generation (currently around 2,200MW) by the early 2020s, mainly through large hydroelectric projects.

Zambia's fixed-line telecommunications service is generally unreliable and inadequate, but mobile networks are much more extensive. Mobile penetration rates were estimated at around 78% at end-2016, while fixed-line and internet-penetration rate estimates were 0.7% and 20%, respectively.

Legal and Regulatory Environment

Rule of Law, 2017



Source: World Governance Indicators/World Bank

Note: -2.5 = worse performance, +2.5 = better performance

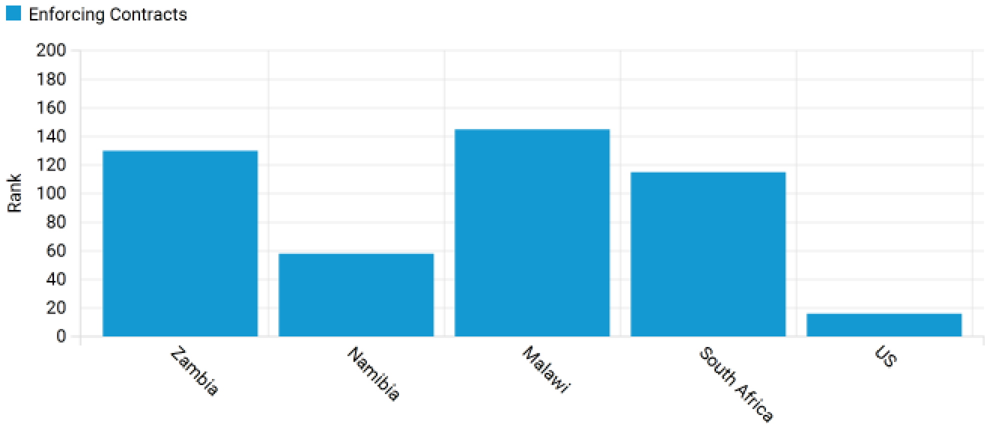
Judicial Environment

Zambia has a dual legal system that combines general or statutory law (based on the English Common Law system) with tribe-specific customary law. The legal system is under-resourced and inefficient, contract and property right enforcement is weak, the decision-making process can be very long, and judicial processes and outcomes are vulnerable to interference by politicians and other well-connected local stakeholders.

Zambia is a member of the International Centre for the Settlement of Investment Disputes (ICSID) and the United Nations Commission of International Trade Law (UNCITRAL). It is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the World Bank Multilateral Investment Guarantee Association (MIGA) and the 'Washington Convention', the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

Enforcement of Contracts / Arbitration

Enforcing Contracts, 2019



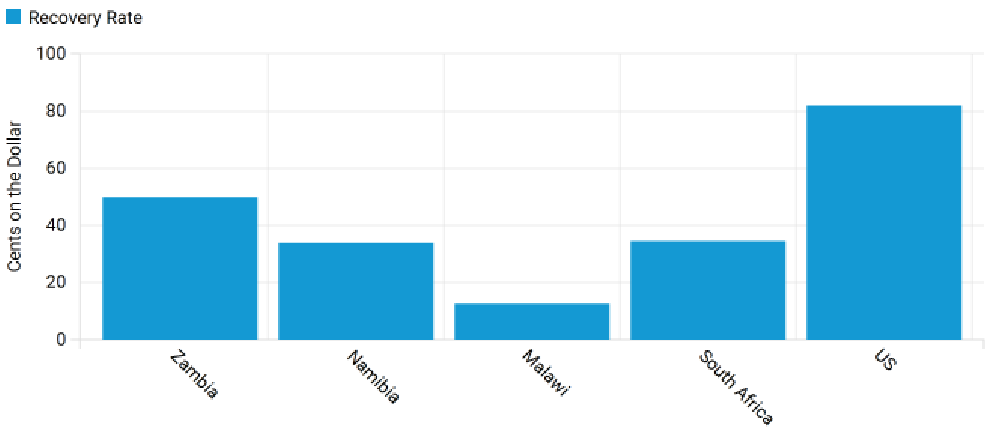
Source: World Bank 'Doing Business Report'

Ranking: Low score = best, High score = worst

Zambia has a written commercial law and the Commercial Court (a division of the High Court) deals with disputes arising from commercial transactions. Enforcement of contractual and property rights is relatively weak and court decisions on contractual disputes can take a prohibitively long time and prove costly. Importantly, the Zambian state recognises the decisions and awards reached at international arbitration as binding. Arbitration awards are enforced in the High Court of Zambia, and any judgment enforcing or denying enforcement of an arbitration award can be appealed to the Supreme Court.

Bankruptcy and Insolvency

Recovery Rate, 2019



Source: World Bank, 'Doing Business Report'

The administration of bankruptcy of the estates of debtors and provision for punishment of offences committed by debtors is covered by the Bankruptcy Act, Chapter 82 of the Laws of Zambia. The Act provides reciprocity in bankruptcy proceedings between Zambia and other countries and applies to individuals and local and foreign investors. Bankruptcy judgments are made in local currency, but can be paid in any international convertible currency.

Corporate Governance

Zambia strives to adhere to the OECD Guidelines on Corporate Governance. Companies listed under the Lusaka Stock Exchange (LuSE) are obliged to publish interim and annual financial statements within three months after the close of the financial (calendar) year. All company directors must generate annual account reports after the end of each financial year, while an auditors' report should also be generated. These reports (annual account, auditors' report and directors' report) are distributed to the authorities and interested parties (for instance shareholders and persons entitled to notice of annual general meetings). Foreign businesses are allowed to establish a subsidiary, branch franchise, joint venture or licensing relationship. The most common forms of business organisation in Zambia are a private or public limited liability company, an external company (a branch of a foreign company), a partnership trading trust, or a sole trader.

Corruption

Corruption is a serious impediment to business activity and is present among all levels of public administration. Zambia has ratified the UN Convention Against Corruption and the African Union Convention on Preventing and Combating Corruption. It is party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Domestic anti-corruption mechanisms are in place, but laws and regulations are inadequately enforced. Moreover, courts and government enforcement bodies lack effectiveness in investigating and willingness to prosecute corruption cases, especially high-profile scandals.

Sanctions

There are currently no known international sanctions imposed on Zambia.

STATISTICAL REFERENCE

Key Indicators and Forecasts

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	4.7	2.9	3.8	3.4	3.7
Nominal GDP in USDbn	27	21	21	26	26
Nominal GDP in local currency (bn)	167	183	216	245	273
GDP per Capita in USD	1,764	1,338	1,281	1,525	1,503
Population (year-end, m)	15.4	15.9	16.4	16.9	17.4
Exchange rate (yr avge, USD-LCU)	6.2	8.6	10.3	9.5	10.5
Current Account in USDbn	-0.4	-0.8	-1.0	-1.0	-0.3
Current Account (% of GDP)	-1.5	-3.6	-4.6	-3.9	-1.3
FX reserves (year-end, USDbn)	3.1	3.0	2.4	2.1	1.6
Import Cover (months)	3.6	4.0	3.6	2.7	1.8
Inflation (annual avge, %)	7.8	10.1	17.9	6.6	7.5
Govt Balance (% GDP)	-5.9	-8.1	-10.5	-6.1	-7.6

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.3	2.0	4.1	3.9	4.0
Nominal GDP in USDbn	23	25	28	31	34
Nominal GDP in local currency (bn)	299	333	374	418	465
GDP per Capita in USD	1,309	1,341	1,454	1,578	1,719
Population (year-end, m)	17.9	18.4	18.9	19.5	20.0
Exchange rate (yr avge, USD-LCU)	12.8	13.5	13.6	13.6	13.5
Current Account in USDbn	-1.4	-1.3	-0.9	-0.8	-0.8
Current Account (% of GDP)	-6.2	-5.2	-3.2	-2.7	-2.4
FX reserves (year-end, USDbn)	1.4	1.5	1.5	1.6	1.7
Import Cover (months)	1.7	1.7	1.7	1.8	1.9
Inflation (annual avge, %)	8.3	9.0	8.0	7.5	7.0
Govt Balance (% GDP)	-9.0	-8.0	-7.6	-7.0	-6.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Zambia	Namibia	Malawi	S. Africa	US
Income per Capita (USD)	1,309	5,675	392	6,092	65,057
Country Population (m)	17.9	2.4	19.7	58.6	329.1
Internet users (% of population)	25.5	31.0	9.6	54.0	76.2
Real GDP Growth (% p.a., 2019 - 2028)	3.3 - 5.0	4.0 - 5.0	4.5 - 6.2	1.5 - 2.5	1.8 - 2.5

Source: Various sources/Dun & Bradstreet

USER GUIDE

Ratings and Indicators

Traffic Light System

The traffic light system used in this report gives you a speedy way of assessing the balance of risks and opportunities in a given country or category of analysis for that country. Three traffic lights are used:

G	Green: indicates that positive factors/influences dominate.
A	Amber: indicates that there is a balanced mixture of negative/positive factors/influences.
R	Red: indicates that negative factors/influences dominate.

The traffic light indicators act as a quick guide to the overall balance between the detailed analytical components covered elsewhere in the report. This allows you to rapidly identify areas of concern or promise, which you can then explore further, either elsewhere in the report or via the content of theother products in our portfolio. You should always use the more detailed analysis as the basis for any further investigation/assessment/decision-making.

Dun & Bradstreet Risk Indicator

Dun & Bradstreet's Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7. Each band is subdivided into quartiles (a-d), with 'a' representing slightly less risk than 'b' (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.
DB2	Low Risk	Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight Risk	Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

HEADLINE CATEGORY DESCRIPTIONS

These headline categories combine the analysis from a number of detailed sub-categories in order to provide focused insight for business-critical issues.

Credit Environment Outlook

This category assesses the factors that affect the country's credit environment, and helps cross-border traders and investors understand the level of risk related to non-payment or delayed payment.

Supply Environment Outlook

This category covers the factors that could disrupt supply chains associated with the country, thus allowing cross-border traders and investors to assess risks in this area.

Market Environment Outlook

This category provides an assessment of the factors affecting the market environment over the short-to long-term; this assessment will help businesses involved in cross-border trade and/or investment to make informed decisions about increasing, maintaining or decreasing business links in a country.

Political Environment Outlook

This category helps cross-border traders and investors to understand the risks associated with expropriation/nationalisation, and also takes account of intentional human actions that could affect the quality of the business environment.

DETAILED ANALYTICAL CATEGORY DESCRIPTIONS

These analytical categories provide our most detailed, in-depth coverage of the core components of risks and opportunities associated with a given country. Together, they embody our broadest, deepest assessment of a country's risk and opportunity environment.

Short-term Economic Outlook

Analyses the economy/business cycle over the next 2-8 quarters, identifying recession, recovery, growth or stagnation. Helps businesses anticipate the impact of short-term developments in the sphere of aggregate supply and demand.

Long-term Economic Potential

Assesses long-term economic prospects over the next 5-15 years on the basis of trends in the physical environment, natural and human capital, and demographics and labour supply. Helps businesses foresee the long-term impacts on market potential of factors such as ageing, resource depletion and innovation.

Market Potential

Covers the ability of foreign providers of goods and services to access a target country's markets. This helps businesses understand the practical and regulatory barriers, as well as incentives and opportunities.

FX Risk

Looks at the risk of lack of FX, significant devaluation or depreciation, or any instability of the exchange rate over the next 90-180 days. This helps businesses anticipate the pressures facing customers billed in foreign currency, or the risks if their receivables are in local currency.

Transfer Risk

Covers the risk of existing or new regulations, requirements or other government actions preventing, delaying or burdening cross-border transactions. This helps businesses to anticipate risks related to cross-border payments arising from the regulatory environment.

Business Regulatory Environment

Assesses the risks and opportunities in the business environment associated with regulations, institutions and business culture. This helps businesses assess how intangible aspects of the business environment can facilitate business operations or otherwise.

Business Continuity

This category looks at factors that could affect the physical supply chain due to the effects of natural phenomena or other unintended consequences. This helps businesses anticipate the likely/current impacts of extreme weather, seismic activity and inadequate/improved infrastructure.

Political / Insecurity Risk

This covers the risk of disruption of business operations and the services of a functioning economy due to the negative effects of intentional human action on civil peace and internal/cross-border security. This helps businesses to understand the context and risk spectrum for threats arising from social and political disturbances.

Expropriation / Nationalisation Risk

This category assesses the risk of forcible/compulsory, full/partial loss of control or ownership of assets at the hands of a sovereign government, and whether or not there is compensation or judicial redress. This helps businesses understand the country's track record in this respect and highlights the risks posed by acts of expropriation/nationalisation.

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