

COUNTRY RISK REVIEW

EXECUTIVE SUMMARY

Zambia, a landlocked nation in Southern Africa with rich mineral resources, particularly copper, presents both opportunities and challenges for foreign investors. The country's economy is diversified yet heavily reliant on mining, agriculture, and services. This report provides an overview of Zambia's political, economic, social, and environmental landscape, highlighting key risks and opportunities for investment.

GEOGRAPHIC AND ECONOMIC OVERVIEW

GEOGRAPHIC CONTEXT

Zambia is bordered by eight countries, including Tanzania, Malawi, and Angola. It is endowed with natural resources, including copper, cobalt, gemstones, and fertile agricultural land, positioning it strategically within the Southern African region.

ECONOMIC STRUCTURE

Mining: The backbone of the economy, copper mining accounts for approximately 70% of export earnings. Zambia is one of Africa's largest copper producers, benefiting from global demand driven by the green energy transition.

Agriculture: Employing a significant portion of the population, agriculture contributes around 20% to GDP. Key crops include maize, tobacco, and cotton, with government initiatives aimed at modernization and diversification.

Manufacturing: While underdeveloped, the manufacturing sector has potential for growth, particularly in agro-processing and textiles.

Tourism: The sector is being revitalized post-COVID-19, with attractions like Victoria Falls drawing international visitors.

POLITICAL RISK ANALYSIS

GOVERNMENT STABILITY

Zambia's political landscape has experienced notable changes, particularly following the 2021 elections, where the United Party for National Development (UPND), led by Hakainde Hichilema, assumed power. This marked a shift from a decade-long administration by the Patriotic Front. The new government has expressed intentions to focus on economic recovery and anti-corruption initiatives. However, the political environment remains dynamic, with ongoing tensions and challenges that could impact governance and stability. Investors should remain informed about the political climate, as it can influence business operations and investment decisions.

FREEDOM OF EXPRESSION AND CIVIL LIBERTIES

Zambia has a history of regular elections and a commitment to upholding democratic principles. However, the political environment can be tense, particularly during election periods, which may lead to concerns about freedom of expression and civil liberties. Observers note that the government's response to dissent and opposition activities is a critical area for consideration. Investors should be aware of the social and political context, as these factors can influence the overall business climate.

ECONOMIC RISK ASSESSMENT GDP GROWTH AND INFLATION

Zambia's GDP growth has been inconsistent, recovering from a contraction in 2020 due to the pandemic. Growth is projected between 3-4% in 2024, but the economy remains vulnerable to external shocks, particularly commodity price fluctuations. Inflation has been persistent, with rates exceeding 20% in 2021, impacting consumer purchasing power.

DEBT LEVELS

Zambia faces significant debt challenges, with total public debt exceeding 120% of GDP. The country defaulted on Eurobond payments in 2020, prompting negotiations with the IMF for a bailout program aimed at debt restructuring and economic stabilization.

INDUSTRIAL PERFORMANCE

Mining Sector: Critical to economic stability, the mining industry faces challenges such as aging infrastructure and regulatory changes.

Banking Sector: The banking sector is relatively stable but struggles with high non-performing loans (NPLs). Regulatory reforms are being implemented to enhance financial stability and access to finance for SMEs.

SOCIAL AND ENVIRONMENTAL CONSIDERATIONS DEMOGRAPHICS AND SOCIAL STABILITY

Zambia's youthful population (over 60% under 25) presents opportunities for economic growth but poses challenges in job creation and education. Economic hardships and political tensions can lead to social unrest, impacting business operations.

HEALTH ISSUES

The country faces significant health challenges, including high rates of HIV/AIDS and malaria. Public health crises can strain government resources and affect productivity.

ENVIRONMENTAL RISKS

Zambia's mining sector poses environmental risks, including deforestation and water pollution. The government is under pressure to enforce environmental regulations and promote sustainable practices. Climate change also poses risks to agriculture and water resources, necessitating a focus on climate resilience.

INVESTMENT CLIMATE AND OUTLOOK CAPITAL MARKET PERFORMANCE

The Lusaka Stock Exchange (LuSE) is relatively small, with limited liquidity and a narrow range of listed companies. Efforts are ongoing to enhance market depth and attract foreign investment, including improvements in corporate governance and transparency.

Economic Outlook

The overall economic outlook for Zambia is cautiously optimistic, driven by ongoing reforms, infrastructure investment, and a focus on economic diversification. The government's commitment to restoring fiscal stability and improving the business environment is expected to support recovery and sustainable growth.

KEY OPPORTUNITIES

Mining: Investment in copper and other minerals is encouraged, especially with the global shift toward green energy.

Agriculture: Modernization and diversification efforts present opportunities for growth in the agricultural sector.

Infrastructure Development: Investment in infrastructure, including energy projects and transportation, is a government priority.

Conclusion

Zambia presents a complex yet promising landscape for foreign investors, characterized by its rich natural resources and potential for economic diversification. The country's heavy reliance on copper mining, which constitutes about 70% of its export earnings, offers significant opportunities, particularly in light of the global transition towards renewable energy and increased demand for copper. However, this reliance also exposes the economy to vulnerabilities associated with fluctuating commodity prices, necessitating a strategic approach to investment.

POLITICAL STABILITY AND GOVERNANCE

The political environment in Zambia has undergone significant changes, especially following the 2021 elections that brought the UPND to power. While the new administration has made strides in promoting anti-corruption measures and restoring public trust, ongoing political tensions and the harassment of opposition parties remain concerning. Investors must remain vigilant and assess the

political climate continuously, as stability is crucial for long-term investment success. Engaging with local stakeholders and understanding the political dynamics will be essential for navigating potential risks.

ECONOMIC RECOVERY AND STRUCTURAL REFORMS

Zambia's economy is on a recovery path post-COVID-19, with projected GDP growth of 3-4% in 2024. However, the country faces significant challenges, including high public debt exceeding 120% of GDP and persistent inflation, which has previously reached over 20%. The government's commitment to fiscal reforms and debt restructuring, particularly through negotiations with the IMF, is a positive sign for economic stability. Investors should closely monitor these developments, as successful implementation of reforms will enhance the overall business environment and investor confidence.

SECTORAL OPPORTUNITIES

The mining sector remains the cornerstone of Zambia's economy and presents substantial investment opportunities, particularly in copper and cobalt production. The government's focus on attracting foreign investment in these areas, alongside efforts to modernize infrastructure, creates a favorable environment for mining operations. Additionally, the agriculture sector, which employs a significant portion of the population, is ripe for modernization and diversification. Initiatives to improve agricultural productivity through access to technology and resources can lead to fruitful investment opportunities.

The manufacturing sector, though currently underdeveloped, also holds potential for growth, especially in agro-processing and textiles. The government's push to reduce dependency on imports and promote local manufacturing could benefit investors willing to engage in these sectors.

SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

Zambia's youthful population offers both opportunities and challenges. While a large, young workforce can drive economic growth, it also necessitates significant investment in education and job creation to avoid social unrest. Investors should consider corporate social responsibility initiatives that contribute to community development and job training, thereby fostering goodwill and stability.

Environmental sustainability is another critical factor for investors. The mining sector poses risks to the environment, including deforestation and water pollution. As global awareness of environmental issues grows, investors should prioritize sustainable practices and engage in initiatives that promote environmental stewardship. This not only mitigates risks but also aligns with global trends toward responsible investing.

In summary, while Zambia offers significant opportunities, particularly in its mining and agricultural sectors, investors must approach the market with a comprehensive understanding of the associated risks. Thorough due diligence, continuous engagement with local stakeholders, and an adaptable investment strategy will be crucial for navigating Zambia's evolving landscape. By addressing the challenges of political stability, economic volatility, and social dynamics, investors can position themselves to unlock Zambia's economic potential and contribute to the country's sustainable development. The proactive approach of the Zambian government, coupled with its rich natural resources, provides a foundation for optimism regarding the future of foreign investment in the country.

