

# Zambia



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## **History:**

The territory of Northern Rhodesia was administered by the [British] South Africa Company from 1891 until it was taken over by the UK in 1923. During the 1920s and 1930s, advances in mining spurred development and immigration. The name was changed to Zambia upon independence in 1964. In the 1980s and 1990s, declining copper prices and a prolonged drought hurt the economy. Elections in 1991 brought an end to one-party rule, but the subsequent vote in 1996 saw blatant harassment of opposition parties.

The election in 2001 was marked by administrative problems with three parties filing a legal petition challenging the election of ruling party candidate Levy MWANAWASA. The new president launched an anticorruption investigation in 2002 to probe high-level corruption during the previous administration. In 2006-07, this task force successfully prosecuted four cases, including a landmark civil case in the UK in which former President CHILUBA and numerous others were found liable for USD 41 million. MWANAWASA was reelected in 2006 in an election that was deemed free and fair. Upon his abrupt death in August 2008, he was succeeded by his Vice-president Rupiah BANDA, who subsequently won a special presidential election in October 2008. (CIA World Factbook)

## **Macroeconomic Data:**

Zambia's economy has experienced strong growth in recent years, with real GDP growth in 2005-08 about 6% per year. Privatization of government-owned copper mines in the 1990s relieved the government from covering mammoth losses generated by the industry and greatly improved the chances for copper mining to return to profitability and spur economic growth. Copper output has increased steadily since 2004, due to higher copper prices and foreign investment. In 2005, Zambia qualified for debt relief under the Highly Indebted Poor Country Initiative, consisting of approximately USD 6 billion in debt relief.

Zambia experienced a bumper harvest in 2007, which helped to boost GDP and agricultural exports and contain inflation. Although poverty continues to be significant problem in Zambia, its economy has strengthened, featuring single-digit inflation, a relatively stable currency, decreasing interest rates, and increasing levels of trade. The decline in world commodity prices and demand will hurt GDP growth in 2009, and elections and campaign promises are likely to weaken Zambia's improved fiscal stance. (IMF)

With its heavy reliance on copper exports, Zambia is extremely vulnerable to further deterioration in the global economic crisis which is destroying demand for copper, particularly from the construction and electronics manufacturing sectors. We see real GDP growth turning negative in 2009, contracting by 0.3%, while falling copper prices and output emaciate the trade surplus seen in recent years, weighing on the current account deficit. The IMF has already agreed to send emergency funds, with potentially more coming from the EU and African Development Bank.

The kwacha, which sold off significantly at the end of 2008, continues to look weak as it sets new all-time lows, a development that is likely to retard the deceleration of consumer price growth despite weakening global commodity prices. In order to encourage mining companies to maintain operations, the government has reversed its April 2008 tax increases on the sector. While the domestic business environment may thus improve, the external context is likely to lead to a further scale back in operations. The government is even considering taking over mining operations to prevent further job losses. In response to constraints on output coming from irregular power supply, the government has launched a project to increase the country's generation capacity. Although reduced mining activity will limit power demand, greater capacity would improve domestic consumer supply. (BMI)

Mining is Zambia's main source of export revenues, and in the face of rising demand for natural resources from emerging Asia and elsewhere, will continue to be a key source of growth of export revenue. Dominated by copper, mining in recent years has diversified into other metals and minerals. Possibilities remain open for Zambia to capitalize on its deposits of nickel, zinc, lead, coal, emeralds, gold, silver and uranium.

**Population** – 11,862,740

**GDP and GDP per head** - \$17.83bn (2008) and \$1,500 per capita

**Most important industries**

Agriculture: 16.7%

Industry: 26%

Services: 57.3% (2008 est.) (CIA World Factbook)

**Inflation** – 11.8% (2008)

**Unemployment** – 50% (2000)

**Growth rate** – 6.2% (2008)

Table 1. Zambia: Selected Economic Indicators

	2004	2005	2006	2007	2008	2009	2010
				Proj.	Proj.	Proj.	Proj.
	(In percent changes; unless otherwise indicated)						
<b>National account and prices</b>							
GDP at constant prices	5.4	5.2	6.2	6.2	6.5	6.5	6.0
GDP deflator	20.5	18.6	13.8	10.0	5.5	3.2	2.3
GDP at market prices (In billions of kwacha)	25,997	32,456	39,223	45,849	51,559	56,670	61,475
<b>Consumer prices (average)</b>							
Headline	18.0	18.3	9.0	10.8	7.3	5.9	5.0
Underlying (excluding food)	19.8	18.1	13.6	16.5	7.5	5.9	5.0
Consumer prices (end of period)	17.5	15.9	8.2	9.0	7.0	5.0	5.0
<b>External sector</b>							
Terms of trade (deterioration -)	34.6	6.8	54.8	5.4	-11.3	-20.3	-17.5
Average exchange rate (kwacha per U.S. dollar)	4,779	4,464	3,601	...	...	...	...
(in percentage change; depreciation -)	-1.0	6.6	19.3	...	...	...	...
Real effective exchange rate (depreciation -) <sup>1</sup>	3.0	24.1	32.3	...	...	...	...
<b>Money and credit (end of period)</b>							
Domestic credit to the private sector	47.7	18.7	54.3	35.0	21.0	...	...
Reserve money <sup>2</sup>	21.1	10.2	29.7	-12.6	13.1	...	...
M3	30.3	0.4	45.1	17.7	13.1	...	...
	(In percent of GDP)						
<b>National accounts</b>							
Gross investments	23.0	22.5	22.6	24.1	22.7	22.1	22.5
Government	8.7	7.0	4.1	5.7	5.8	6.3	7.5
Private	14.3	15.5	18.5	18.4	16.9	15.8	15.0
National savings	16.0	17.4	25.5	20.1	21.6	20.1	19.7
Gross foreign savings	7.0	5.1	-2.9	4.0	1.1	2.0	2.8
<b>Central government budget<sup>3</sup></b>							
Overall balance	-0.8	-2.6	18.6	-0.6	-1.9	-1.7	-1.7
(excluding grants)	-6.3	-8.3	-7.4	-5.4	-6.5	-5.9	-5.7
Revenue	18.2	17.4	16.9	18.4	18.4	18.7	19.0
Grants	5.5	5.6	26.0	4.9	4.8	4.1	4.0
Total expenditure <sup>4</sup>	24.5	25.7	24.3	23.8	24.8	24.5	24.7
<b>External sector</b>							
Current account balance							
(including official grants)	-7.0	-5.1	2.9	-4.0	-1.1	-2.0	-2.8
(excluding official grants)	-12.2	-10.9	-1.3	-8.8	-6.1	-6.8	-7.8
	(In percent of export of goods and services)						
NPV of external public debt (including IMF)	175.5	80.1	16.0	13.7	14.3	17.0	20.1

Sources: Zambian authorities; and IMF staff estimates and projections.

<sup>1</sup>Excludes Zimbabwe.

<sup>2</sup>The projected reduction in reserve money for December 2007 reflects the lowering of statutory reserve requirements from 14 to 8 percent on October 1, 2007.

<sup>3</sup>Grants in 2006 include MDRI debt cancellation amounting to 21.4 percent of GDP.

<sup>4</sup>Including discrepancy between the above-the-line balance and below-the-line financing.

#### Data sources:

<https://www.cia.gov/library/publications/the-world-factbook/geos/za.html>

<http://www.boz.zm/>

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ZAMBIAEXTN/0,,menuPK:375700~pagePK:141132~piPK:141109~theSitePK:375589,00.html>

[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/10/16/000333038\\_20081016032822/Rendered/PDF/442860ESW0P11314077B01OFF0USE0ONLY1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/10/16/000333038_20081016032822/Rendered/PDF/442860ESW0P11314077B01OFF0USE0ONLY1.pdf)

### **Banking System:**

Zambia's financial sector is relatively small and is dominated by banking. The sector, however, has one of the most liberal banking regimes in southern Africa. Recent developments have included the drive to privatize many sub-sectors of the financial sector. Zambia's banking sector consisted of 12 operational commercial banks as at December 2006, including several foreign-controlled banks. Concentration is high, with the five largest banks controlling the bulk of assets in the system. The Zambia National Commercial Bank, Zambia's only state bank and the country's largest domestic bank, which was privatized in 2006, alone controls 24% of the retail banking market.

In February 2004, the Bank of Zambia, the central bank, announced that it would lead the formation of a credit reference bureau, which will provide commercial banks with information on borrowers. There is no formal deposit insurance system in Zambia. Zambia's insurance sector made moves toward privatization in 2003 with the restructuring of the Zambia State Insurance Company and the emergence of five private insurance firms. However, the privatization efforts for the state-owned insurance corporation have temporarily stalled. (Africa Fixed Income Handbook)

According to Zambia's ICA (World Bank, 2004a), in 2003, nearly 50 percent of larger firms (over 100 employees) had a loan, while only 19 percent of small firms (10-49 employees) had a loan. The cost of these loans to small firms was also more than 10 percentage points higher than those to large firms. Similar differentials existed between the cost of capital of exporters and non-exporters, as well as domestic and foreign companies. Informal firms, not represented in the survey, typically face even steeper constraints when it comes to cost and access to capital. These firms have to finance their operations largely from own funds. Poor access to capital for small formal firms gives informal companies little incentives to become formal. The reason for the poor access to and high cost of finance for small and micro firms appears to be poor financial intermediation rather than low domestic savings or bad international finance.

Domestic saving as a share of GDP climbed up from just 6 percent in the 1990s to 16.5 percent in 2000s (Table 10). In 2006 Zambia's domestic saving as a share of GDP surpassed the corresponding average for SSA. Foreign direct investment and aid were higher than the averages for SSA and LICs both in the 1990s and 2000s. Financial intermediation is limited both by the small size of the banking sector, its volatility, and an inadequate supporting financial infrastructure (e.g. public registries). At less than 5 percent, the percentage of people with a bank account is much lower than that in other African countries, suggesting that the depth of Zambia's financial sector is very low (Figure 25). Furthermore, according to FinScope data in 2005

two thirds of Zambians were not served by formal or informal financial institutions and only 5 percent of adults and 8 percent of business owners used microfinance (FinTrust, 2007). (IMF)

Commercial Banks in Zambia
African Commercial Bank, Lusaka
Barclays Bank of Zambia, Lusaka
Capital Bank, Lusaka
Citibank Zambia, Lusaka
Development Bank of Zambia, Lusaka
Finance Bank Zambia, Lusaka
First Alliance Bank, Lusaka
Grindlays Bank International, Lusaka
Indo-Zambia Bank, Lusaka
International bank for Reconstruction and Development, Lusaka
Kafironda, Lusaka
Lima Bank, Lusaka
Manifold Investment Bank, Lusaka
Meridien Bank Zambia, Lusaka
Meridien International Bank, Lusaka
National Savings and Credit Bank of Zambia, Lusaka
Stanbic Bank Zambia, Lusaka
Standard Chartered Bank Zambia, Lusaka
Union Bank, Lusaka
Zambia Export and Import Bank, Lusaka
Zambia National Commercial Bank, Lusaka
Zambia National Commercial Bank (Zanaco). Listed on Lusaka Stock Exchange. 49% stake held by Rabobank

Source: <http://www.portalino.it/banks/zm.htm>

Table 4. Zambia: Monetary Accounts <sup>1</sup>  
(In billions of kwacha, unless otherwise indicated)

	2005	2006		2007		2008
		Jun. Act.	Dec. Act.	Jun. Act.	Dec. Proj.	
<b>I. Monetary Survey</b>						
Net foreign assets	-282	1,886	3,953	3,947	4,420	5,425
Net domestic assets	6,123	4,823	4,524	4,810	5,555	5,858
Claims on general government (net)	2,387	2,383	2,374	1,492	1,927	2,027
Of which: Central government (net)	2,416	2,404	2,440	1,515	1,960	2,050
Claims on private sector	2,437	2,942	3,760	4,302	5,076	6,139
Claims on public enterprises	230	560	224	246	246	300
Other items (net) <sup>2</sup>	1,068	-1,263	-1,834	-1,430	-1,893	-2,609
Money and quasi-money (M3)	5,841	6,289	8,477	8,557	9,975	11,282
Broad money (M2)	3,860	4,281	5,763	5,513	...	...
Foreign exchange deposits	1,981	2,008	2,714	3,044	...	...
<b>II. Bank of Zambia</b>						
Net foreign assets	-1,235	1,283	2,807	3,120	3,337	4,325
Of which: IMF (net)	-3,057	-110	-138	-277	-338	-366
Net domestic assets	3,132	845	-348	-798	-1,187	-1,893
Claims on central government (net)	1,070	593	844	-140	-184	-184
Claims on nongovernment	375	817	309	337	338	340
Claims on private sector	53	52	47	56	58	60
Claims on public enterprises	96	343	0	0	0	0
Claims on commercial banks	226	222	262	280	280	280
Other items (net) <sup>2</sup>	1,687	-565	-1,502	-995	-1,341	-2,050
Of which: Open market operations	-401	-379	-766	-897	-800	...
Reserve money <sup>3</sup>	1,896	1,928	2,459	2,321	2,150	2,431
Currency outside banks and cash in vaults	962	999	1,224	1,329	...	...
Commercial bank deposits	928	924	1,228	986	...	...
<b>Memorandum items:</b>						
(12-month percentage change over beginning period broad money)						
<b>Monetary survey:</b>						
Net foreign assets	29.0	81.3	72.5	36.2	5.5	10.1
Net domestic assets	-28.6	-74.6	-27.4	-0.2	12.2	3.0
Claims on central government (net)	-1.7	-5.3	0.4	-13.7	-5.0	1.0
Claims on private sector	6.6	3.9	22.6	21.6	15.5	10.7
(In 12-month percentage change; unless otherwise indicated)						
Reserve money <sup>3</sup>	10.2	1.6	29.7	20.4	-12.6	13.1
M3	0.4	6.6	45.1	36.1	17.7	13.1
Credit to the private sector	18.7	8.3	54.3	46.2	35.0	21.0
M3-to-GDP ratio (in percent)	18.0	18.0	21.6	18.7	21.8	21.9
Money multiplier (M3/reserve money)	3.1	3.3	3.4	3.7	4.6	4.6
Credit to the private sector (in percent of GDP)	7.5	7.5	9.6	9.4	11.1	11.9
Gross foreign exchange reserves of the						
Bank of Zambia (in millions of U.S. dollars)	331	393	595	816	850	1,007
Exchange rate (kwacha per U.S. dollar)	3,509	3,569	4,407	3,771	...	...

Sources: Zambian authorities; and Fund staff estimates and projections.

<sup>1</sup>End of period.

<sup>2</sup>Include valuation and HIPC Initiative Account (balances were K3,253 billion and K2,209 billion at end-2005 and end-2006, respectively).

<sup>3</sup>The projected reduction in reserve money for December 2007 reflects the lowering of statutory reserve requirements

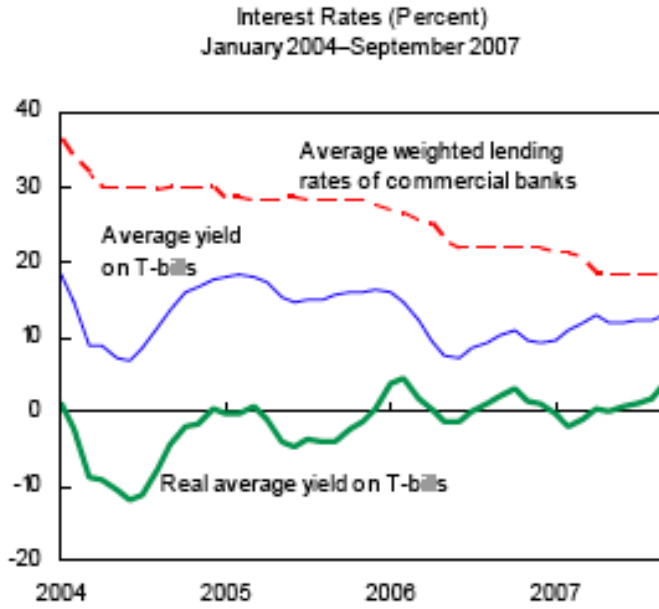
Table 6. Zambia: Financial Soundness Indicators, 2002-07  
(In percent, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007 Jun
<b>Capital adequacy</b>						
Regulatory capital to risk-weighted assets	28.0	23.0	22.2	28.4	20.4	18.9
Tier 1 regulatory capital to risk-weighted assets	24.8	21.0	19.6	26.2	18	16.5
Capital to total assets	12.3	11.0	9.7	11.6	9.1	9.9
<b>Asset quality</b>						
Past due advances (NPL) to total advances	11.4	5.3	7.6	8.9	11.3	8.5
Loan loss provisions to nonperforming loans	73.9	89.3	102.8	90.7	83.3	104.9
Bad debt provisions to advances	8.4	4.7	7.8	5.4	6.8	7.2
<b>Loan concentration <sup>1</sup></b>						
Households	12.3	17.5	13.1	19.5	16.1	16.8
Government and parastatals	6.4	4.3	5.5	5.5	6.2	5.6
Agriculture	22.2	24.7	30.3	27.0	23.9	23.0
Mining	3.6	4.9	4.5	4.0	4.4	5.0
Manufacturing	14.0	12.7	13.0	12.0	14	11.0
Construction	1.6	2.2	2.0	2.0	2.4	3.0
Services	8.5	7.3	8.1	7.0	9.8	9.0
Others	49.9	45.1	42.0	48.0	45.5	49.0
<b>Earnings and profitability</b>						
Return on average assets	6.5	5.4	3.1	6.5	5.1	4.7
Return on equity	52.8	48.5	29.8	46.4	30.6	30.9
Gross interest income to total gross income	65.8	66.1	78.2	60.9	60.2	58.6
Gross noninterest income to total gross income	34.2	33.9	46.3	39.1	39.8	41.1
Net interest margin	15.3	13.2	11.8	11.8	12.8	10.9
<b>Liquidity <sup>2</sup></b>						
Liquid assets to total assets	78.6	74.7	66.6	41.0	41.3	36.5
Liquid assets to total deposits	69.7	73.5	73.7	51.0	49.6	44.7
Advances to deposits ratio	29.9	33.3	37.3	44.5	49	56.6
<b>Exposure to foreign currency</b>						
Foreign currency loans to total gross loans	42.8	46.8	41.2	36.2	34.0	30.3
Foreign currency liabilities to total liabilities	62.2	58.4	58.4	31.0	61.2	...
Net open position in foreign exchange to capital	15.7	10.0	10.0	2.1	9.4	6.6
<b>Exposure to household debt</b>						
Household debt to GDP	0.0	0.0	0.0	1.5	1.5	...

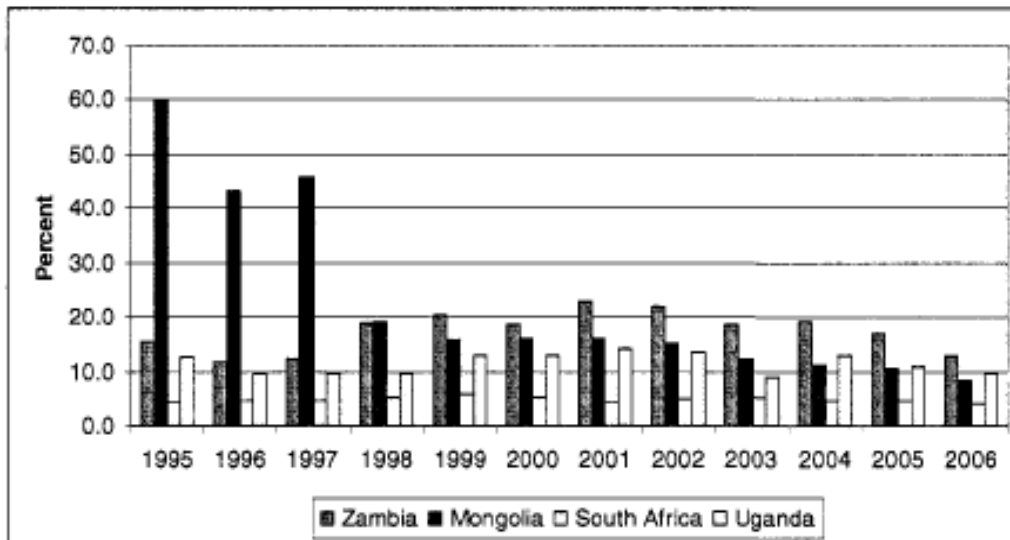
Source: Bank of Zambia

<sup>1</sup>Components do not add up to 100 because loans to households, government, and parastatals are included in loans classified by economic sectors.

<sup>2</sup>Liquid assets were redefined to exclude one-year Treasury bills beginning in 2005.



**Figure 23: Interest rate spreads (lending minus deposit rate)**



Source: Authors' own calculations using World Bank data.

Private Sector Credit, 2001-07  
(Annual average)

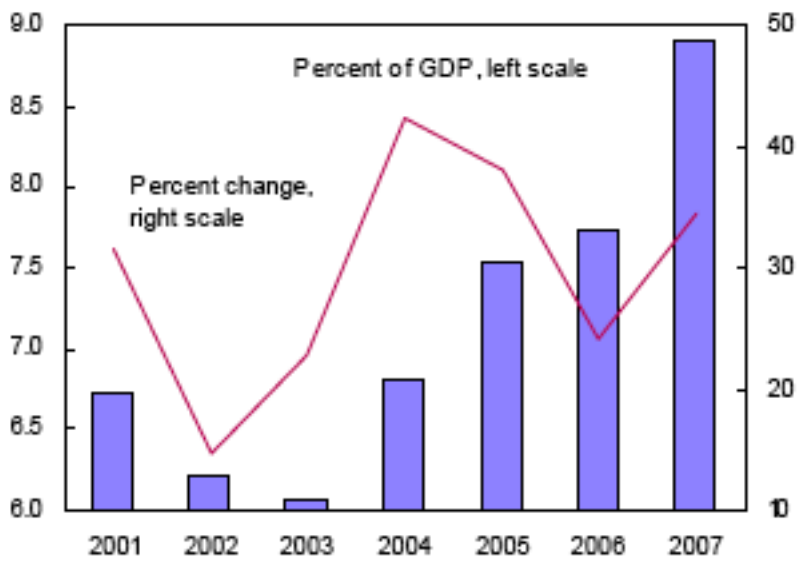
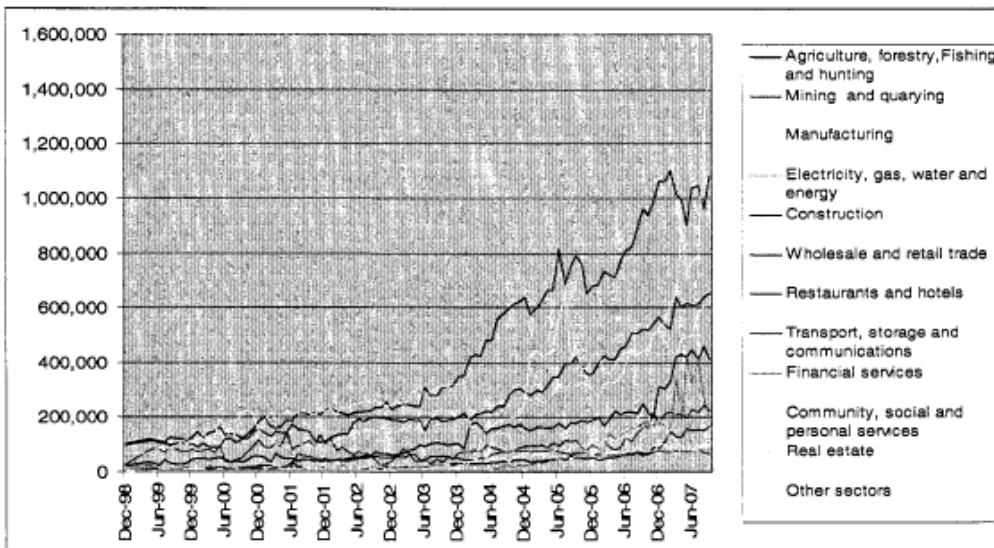


Figure 10: Loans and advances to the private sector



Source: Bank of Zambia.

## **Insurance Companies and Other Financial Institutions:**

### *Zambia State Insurance Corporate (from 2004 Privatization Memorandum) The Corporation*

ZSIC has the broadest distribution network among all other insurance companies in Zambia. Besides maintaining a health business relationship with insurance broking firms, the Corporation procures business through independent contractors (agents) and branches. Currently, there are 17 branches, district and franchise offices covering all the nine provincial centers in Zambia and some critical districts. The Corporation was established with the view of providing low cost insurance to indigenous Zambians. It is wholly owned by the Government of the Republic of Zambia. The Corporation is partner to some of the world's most reputable and strongest re-insurance companies. It is also affiliated to several international insurance organizations. Much of the insurance business operates through treaties. Facultative arrangements apply in certain exceptional cases.

*Product and services structure* There are two main trading cores that contribute to ZSIC's turnover; the Non Life Division and the Life Division. The divisions consist of the following services:

**Non Life Division** This division operates with five departments each providing a distinct insurance service. They are Fire Department - offering a range of covers for fire, householder, acts of nature and related disasters for both private and commercial customers. Accident Department - which can be categorized as to providing cover for property, burglary, "all risks", public liability, plate glass and employers liability. Motor Department - providing K1 billion in premiums providing, Road Traffic Act Insurance, Full Third Party, Full Third Party Fire and Theft and Comprehensive. Engineering Department - providing the insurance needs of the construction industry, operators and owners of large plant. Marine and Aviation Department - which caters for the transportation of people, and shipping and freight of goods that could be damaged lost or stolen in transit.

**Life Division.** ZSIC is the leading provider in Zambia of Life assurance and Pension plans. The schemes offered include endowment insurance, anticipated endowment, whole life assurance, mortgage protection, child endowment, group life and other policies. ZSIC has also established an Investment and Technical Services division to effectively manage the investment portfolio of the Corporation. The division serves the dual purposes of maximizing the return of Assets whilst maintaining adequate liquidity; and allowing management in operating divisions to concentrate on the core business of insurance. ZSIC has international connections and a host of supporting departments which makes it one of Zambia's most efficient and successful premier corporations.

**Management and work force** The Corporation has a staff compliment of 372 employees and management undergoing rigorous training programs which has seen ZSIC become a leader in Zambian business circles. Management has continued to invest prudently in line with international corporation standards, and the management organization is well structured and efficient.

### Financial Highlights

Three year financial review - General Insurance Division

All Figures are stated in K'million. Year ended 31<sup>st</sup> December

	2003	2002	2001
Gross Premium	50,413	45,898	33,866
Profit / (Loss) Before Tax	8,606	6,980	4,772
Insurance Funds	20,360	18,283	13,594
Net Current Assets & Liabilities	26,538	7,013	1,363

Three year financial review - Life Division

	2003	2002	2001
Gross Premium	17,351	12,684	35,646
Net Claims	7,863	7,469	13,466
Insurance Funds	67,915	19,926	101,248
Net Current Assets	10,574	504	26,231

The Corporation has embarked on the process of restructuring the Life Division which incorporates product, staff and Balance Sheet restructuring. The process may take three to four years.

Source: <http://www.zpa.org.zm/zsic.htm>

Life and property casualty; property rights

The International Property Rights Index gives Zambia a score of 4.1/10, ranking it 88<sup>th</sup> out of 115 countries, just ahead of Russia. Reflecting the ambiguities of Zambian property rights, the country scores significantly better under the World Economic Forum's property rights index, at 4.6/7, ranked 62 out of 128 countries. There is a right to own property, and land may be leased for up to 99 years, although the government has a thus far un-exercised right to seize land if it is deemed underdeveloped. In general, property can be expropriated only by an act of parliament. In such cases, the owner is to be compensated at a fair market value, although the procedure to determine the fair market value of a property is vague.

Enforcement of property rights is difficult and the judiciary tends to lack commercial training. Training the judiciary in commercial litigation is a government priority. Zambia is a signatory of the Paris Convention for the Protection of Industrial Property, the World Intellectual Property Organization, the Paris Union, the Bern Union, the African Regional Industrial Property Organization and the Universal Copyright Convention of the United Nations Educational, Scientific and Cultural Organization. (BMI)

Central Bank and its Role in the Economy

## Functions

The central purpose of the Bank of Zambia (BoZ) is to propose the formulation and implementation of monetary policies to ensure price and financial system stability. The Bank of Zambia licenses regulates and supervises commercial banks, the non-bank financial sector and micro-finance institutions. (Africa Fixed Income Guidebook)

The authorities' main objective in monetary policy is to maintain low inflation levels. In this connection, the BOZ will continue monitoring inflationary pressures and adopt appropriate measures to keep reserve money in line with the targets. The managed floating exchange rate regime has served the economy well, and will continue with BOZ limiting its interventions to correcting transitory overshooting of the exchange rate and meeting its international reserve targets. The authorities are aware of the challenges associated with management of increased foreign currency inflows to monetary policy and competitiveness. Capitalizing on their recent experience and the recommendations of a recent Fund TA, they will use foreign exchange sales to mop up the excess liquidity generated by the increased inflows from the booming mining sector and donor support. To avoid aggravating exchange rate volatility, and raising interest rates, the authorities will carefully plan the time for the sales and continue improving foreign exchange market. (IMF)

While the banking sector appears sound, more needs to be done to strengthen supervision and broaden the availability of financial services. The BoZ is developing a framework for risk-based supervision and implementation of the second phase of the financial sector development plan (FSDP) is going ahead. Over the next year, draft legislation on credit bureau services is expected to be enacted and draft amendments to the Bank of Zambia Act that would make central bank operations more independent, are being prepared. The second FinScope survey on the supply of financial services is being finalized; together with the first survey on demand for financial services, it would provide the basis for policies to expand access to financial services. Regarding the capital market, the authorities will introduce measures to develop an active secondary market in government securities. On the state-owned nonbank financial institutions, the authorities are considering options for making them viable financial intermediaries. Staff emphasized the need for decisive action based on a realistic assessment of their viability. (IMF)

## **Bond Market:**

### Government bonds

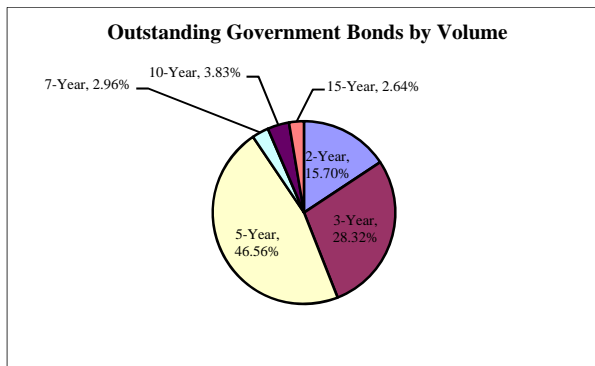
The Bank of Zambia currently offers debt instruments on behalf of the Government of Zambia on a competitive and non-competitive basis. Treasury bills are available weekly to individuals and corporate institutions on an auction basis with maturities of 28, 91, 182, 273, and 364 days. Bids for up to ZMK 30 million must be made in a non-competitive and fixed-price format. The fixed price is calculated as the weighted average price of the successful competitive bids. Government bonds, with maturities of ranging from 2 years to 15 years, are auctioned every 4-6 weeks, depending on the borrowing needs of the government. All primary and secondary trading of government bonds takes place at the LuSE.

Current Rates - Treasury Bills		
	<u>Yield</u>	<u>Discount</u>
91-Day	14.43%	13.93%
182- Day	15.77%	14.62%
273-Day	16.98%	15.07%
364-Day	18.47%	15.51%

Current Rates - Government Bonds		
	<u>Yield</u>	<u>Coupon</u>
2-Year	17.32%	9.00%
3-Year	18.43%	10.00%
5-Year	19.50%	12.00%

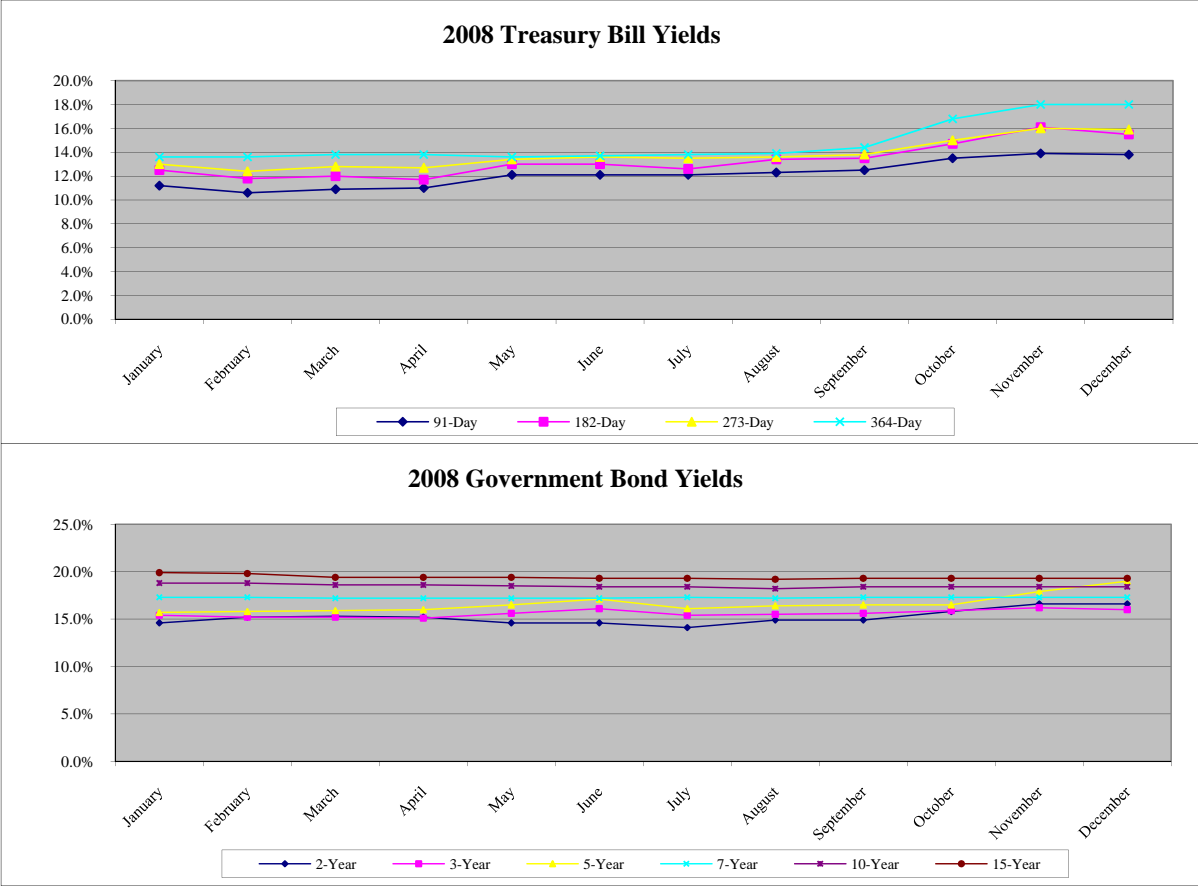
Source: Bank of Zambia

Treasury bill auctions were introduced in 1993. A 1-year bond was introduced in early 1995 and was first listed on the Lusaka Stock Exchange (LuSE) later that same year. This was followed by the launch of an 18-month bond in 1998 and a 24-month bond in 2000. Until recently, the Central Bank had been pursuing a sovereign credit rating; however, these plans have been temporarily suspended due to current global economic conditions.



Source: Bloomberg Data

There has been a recent trend toward larger volumes on the supply side to enable the government to raise sufficient funds to refinance maturing bonds. However, despite the government's eagerness to issue more treasury bonds, it has only been able to raise part of the amount it planned to raise from bond and bill auctions. If this trend continues, it is likely to lead to an increasing yield environment.



Source: Lusaka Stock Exchange

Secondary Market Trading Activity in GRZ Bonds			
	<u>Number of Trades</u>	<u>Face Value (K Million)</u>	<u>Market Value (K Million)</u>
1998	17	4,272.20	4,141.60
1999	66	10,045.40	10,096.30
2000	198	15,616.30	16,468.20
2001	369	29,843.43	29,033.75
2002	365	68,632.93	64,391.45
2003	434	117,670.00	105,453.90
2004	103	61,338.33	63,115.90
2005	30	20,025.91	19,062.65
2006	54	131,174.12	138,905.88
2007	25	76,173.11	73,496.51
2008	6	3,055.66	5,647.96

Source: Lusaka Stock Exchange

Corporate bonds

Supported by the yield curve established by the government, several corporations from various sectors successfully accessed the capital markets. In October 2000, Farmers House, Plc launched the first floatation and listing of corporate bonds on the LuSE for US\$1 million was raised. It is important to note that local institutional involvement played a very important role in the success of the issue by taking up over 85% of the value of the offer.

Listed Corporate Bonds/Debentures	
<u>Company</u>	<u>Ticker</u>
Barclays Bank Plc	BBZNOTES
LaFarge Cement Plc	CCP1/07
Development Bank of Zambia Plc	DBZ01/2007
Investrust Plc	INV1A07
Investrust Plc	INV1B07
Investrust Plc	INV1C07

Quoted Corporate Bonds/Debentures	
<u>Company</u>	<u>Ticker</u>
Arcades Plc	ARCADESDEB
Copperbelt Forestry Plc	CBFORESTRY
Lunsemfwa Hydro Power Company Plc	LHPC1/2003

*Data sources:*

<http://www.boz.zm/>

<http://www.luse.co.zm/>

### **Stock Market:**

The Lusaka Stock Exchange was established in 1993, with technical assistance support from the World Bank and the International Finance Corporation, and was officially opened on February 21, 1994. For the first two years of operation, both the LuSE and the Securities and Exchange Commission were funded by the United National Development Programme (UNDP) and the Government of Zambia as one component of a more comprehensive private sector development program.

In addition to supporting financial and capital market development, the LuSE was created to attract foreign portfolio investment and facilitate the divestiture of state ownership in parastatals. However, the privatization process in Zambia has not been without its challenges, and there has been significant speculation regarding the financial viability of some of these companies. This has contributed greatly to the liquidity issues and shallow market depth of the LuSE. In addition, it is important to note that the majority of trading activity on

the LuSE has been associated with changes in ownership and mandatory offerings due to corporate restructurings.

<b>Market Capitalization of the Lusaka Stock Exchange</b>			
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
In K Million	20,468,283	18,872,945	13,072,466
In US\$ Million	4,106	4,827	3,188
Market Cap./GDP Ratio	45.00%	54.64%	40.04%
Turnover/GDP Ratio	1.35%	0.85%	0.27%
Turnover/Market Cap. Ratio	3.00%	1.55%	0.66%
LuSE Depository Cap (K million)	5,050,074	5,877,796	2,798,173

<b>Trading Volumes and Activity</b>			
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Volume	1,585,765,172	2,800,267,195	858,661,187
Turnover (K)	614,523,515,621	293,063,604,540	86,554,727,259
No. of Trades	8,384	6,199	3,662
Trading Days	252	250	250
Daily Average Volume	6,292,719	80,007,634	3,434,645
Daily Average Turnover (K)	2,438,585,379	8,373,245,844	346,218,909
Daily Average No. of Trades	33	25	15

*Source: LuSE 2008 Annual Report*

As of November 2008, the LuSE migrated over to an automated trading system from a manual system in which orders were matched as they were faxed or delivered to the exchange by brokers. The exchange now operates an electronic clearing and settlement process, with trade-for-trade netting and settlement three days after the trade (T+3). In addition, there is an electronic depository facility operated by LuSE Central Share Depository. All investors intending to trade in a listed security are required to do so via the LuSE.

The Zambian securities market is a “unified market” in which securities of public companies that are not listed are also quoted and traded on a second-tier market within the LuSE.

Companies must meet the following criteria for a full listing:

Issuer must be incorporated in Zambia as a public company

Securities must be registered under Part V of the Securities Act 1993

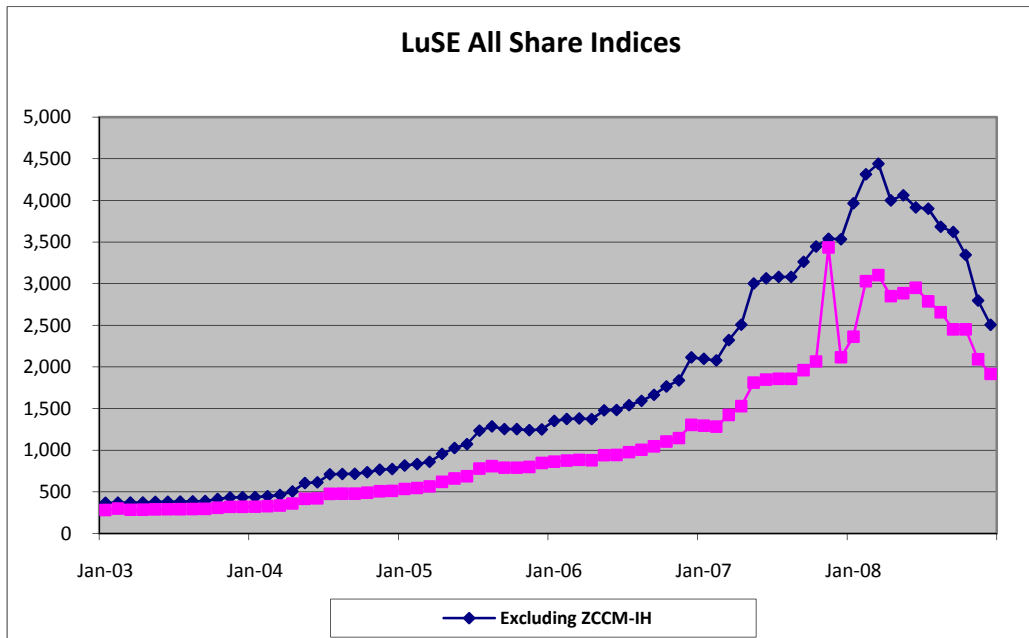
Company must have a trading record of at least three years under one management

An adequate market in the securities and sufficient public interest in the business of the issuer must exist

An open market in the securities must exist

After 1998, there was an increase in the number of quoted, but not listed, companies, which signaled that few firms in the Zambian economy were able to meet the legal and accountancy requirements for a listed position. Most listed companies are former state enterprises that have undergone privatization. However, recent listings by companies such as the Zambia National Commercial Bank, Celtel, and the Copperbelt Energy Company have marked a significant increase in trading volume over levels prior to 2005.

Currently, there are 20 companies traded on the LuSE, with the top five companies representing over 77% of the total market capitalization.



Listed Companies on the LuSE			
Company	Market Cap. (K million)	Market Cap. (US\$ million)	% of Total Capitalization
Shoprite	8,695,684.45	1,744.37	42.48%
ZCCM-IH	2,500,276.60	501.56	12.21%
Celtel (Zain)	1,560,005.90	312.94	7.62%
Standard Chartered Bank	1,552,029.90	311.34	7.58%
Zambia Sugar	1,455,620.00	292.00	7.11%
Lafarge Cement	1,220,228.30	244.78	5.96%
Zambian Breweries	622,427.10	124.86	3.04%
Zambeef	555,478.55	111.43	2.71%
Copperbelt Energy Corp.	449,995.95	90.27	2.20%
ZANACO	444,662.00	89.20	2.17%
National Breweries	433,445.75	86.95	2.12%
British American Tobacco	314,453.80	63.08	1.54%

BP Zambia	287,484.95	57.67	1.40%
Metal Fabricators of Zambia	81,006.25	16.25	0.40%
Investrust Bank	74,077.10	14.86	0.36%
Cavmont Capital Holdings	57,477.05	11.53	0.28%
Pamodzi	49,999.55	10.03	0.24%
Farmers House	42,721.45	8.57	0.21%
Bata Shoe	38,035.55	7.63	0.19%
African Explosives	34,296.80	6.88	0.17%

*Source: LuSE 2008 Annual Report*

#### Foreign activity and regional integration

Foreign investors do not trade as frequently as domestic investors do, but the size of their average trades is significantly larger. In 2008, foreign activity in the secondary market represented 12% of the number of total trades completed, but 55.1% of the volume traded.

Zambia is an active member of the Committee of SADC Stock Exchanges (CoSSE), along with South Africa, Namibia, Botswana, Mauritius, Mozambique, Swaziland, Tanzania, Malawi, and Zimbabwe. The primary objective of the CoSSE is to increase cooperation in operations, communications, regulations, and technical skills development among all of the member stock exchanges.

#### Privatizations

Under the structural adjustment programs of the 1980's and 1990's, the Zambian government was under significant pressure to privatize many of its parastatals. Between 1992 and 2000, 113 of the 144 state-owned enterprises underwent a privatization process. Despite initial plans to release a majority of shares directly to the public via the LuSE for at least ten of these firms, a special purpose vehicle called the Zambia Privatization Trust Fund (ZPTF) was instead created to hold shares of privatized companies in trust for Zambians for eventual release to them via public floatation or other suitable means.

#### Sources:

LuSE 2008 Annual Report

[http://www.luse.co.zm/index.php?option=com\\_docman&task=cat\\_view&gid=50&Itemid=51](http://www.luse.co.zm/index.php?option=com_docman&task=cat_view&gid=50&Itemid=51)

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## Other Types of Finance

### Informal finance

The informal financial sector in Zambia is more popular than the formal sector for several reasons, including: geographic proximity, low transaction costs, and flexibility and speed with which services are provided. There are a variety of arrangements, rooted in the social fabric of the society, through which Zambians gain access to capital.

Forms of Financial Arrangements	
Reciprocal Lending	Usually confined to groups of friends and relatives, small future savings are converted into a more useful lump sum in the present. The loans are typically interest free, however, on occasion, a relatively low rate of interest is charged.
Moneylending	Moneylenders offer short-term unsecured loans at high interest rates (~ 100% per month). Repayment is expected in a single installment. Services are confined to local markets due to the reliance on intimate knowledge of the customers.
Rotating Savings and Credit Associations (ROSCAs)	Members take a periodic collection that is pooled and given to one member in rotation until everyone has got a chance to get the lump sum distribution.
Supplier Credit	Traders supply goods on credit to well-known customers. They charge interest by increasing the prices of goods given on credit (~ 10-70%). Repayment period can range from 1 day to 1 month.
Funeral Funds	Members of funeral associations agree to subscribe a specified amount periodically to a fund. When death occurs among the member families, an agreed amount is paid out from the fund.
Church Savings and Loan Funds	Many churches have established savings and credit associations. Members are encouraged to save whenever possible, and in turn, they gain access to a variety of microloans.

### Microfinance

MFIs in Zambia are very small by African standards. As of 2006, according to data from the Association of Micro-finance Institutions of Zambia, MFIs were only serving 50,000 customers, representing 0.005% of Zambia's population at the time. Total assets under management do not represent more than 2% of those of banking institutions. Due to their low volume of operations and high operating costs, MFIs grant loans at higher interest rates than those offered by commercial banks. Most borrowers only take out short-term loans (one month) from MFI's to meet family needs, or in the case of small businesses, short-term liquidity needs.

According to the new Banking and Financial Services Regulations of 2006, the minimum capital requirement for deposit-taking and non deposit-taking microfinance institutions is Kw250 million and Kw25 million, respectively. The scope of permissible activities for MFIs varies for each institutional category. Larger and better-capitalized institutions are allowed to accept deposits from the public and engage in lending, whereas smaller institutions are only to lend.

#### Private Equity

There is limited private equity and venture capital in Zambia. Zambia Venture Capital Fund (ZVCF) was the first venture fund to be established in the country in 1996, with a fund size of US\$7.5 million, which increased to US\$12.5 million in 1997. The second fund was established as a joint venture between the Cavmont Group and FMO (the Netherlands Development Finance Company), with a fund base of US\$2.0 million.

Currently, international firms such as Actis and Aureos Capital (d/b/a Zambia Capital Partners Ltd.) maintain coverage over the country. In 2006, Aureos completed a US\$4.35 million investment in Golden Lay Farms, the largest table egg producer in Zambia's Copperbelt region. The investment was structured as a Management Buy-In, as the existing owner was seeking a complete exit from the company due to retirement.

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