

Caleb M Fundanga: Growing investor confidence in Zambia's economy

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the Afreximbank/PTA Bank Financing Agreements Signing Ceremony, Lusaka, 10 June 2008.

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- The President of AFREXIM Bank
- The President of PTA Bank
- Chief Executives and representatives of Financial Institutions Present
- Distinguished ladies and gentlemen

I am greatly honoured to be given an opportunity to make these brief remarks at this signing ceremony of two important financing agreements. I wish to extend a warm welcome to all of you gathered here today, particularly those who have travelled from outside the country. I hope that you will not only have a pleasant ceremony today but also have fruitful deliberations at the Euromoney Conferences starting tomorrow at this same venue. I also hope you will find time to explore the beautiful scenery and experience the warm hospitality that Zambia has to offer.

Mr President, Ladies and Gentlemen, over the recent past, the Zambian economy has performed relatively well. This is reflected in the overall macroeconomic stability which has been underpinned by positive growth rates in real Gross Domestic Product, low inflation, relative stability in the exchange rate of the Kwacha against major currencies, stable financial sector and improved banking services. However, although incomes have generally increased, the challenge that still remains is that of meeting the basic needs of the majority of Zambians in order to uplift their living standards. This ceremony is therefore more than timely as the Government is working tirelessly towards empowering its citizens economically and at the same time increasingly diversifying the economy and promoting export led growth. It is for this reason, Mr President that the Government established the Citizen's Economic Empowerment Fund under the Citizens Economic Empowerment Act of 2006 in order to promote empowerment of citizens in various economic activities.

This signing ceremony is yet another indication of the growing investor confidence in Zambia's economy. You will be glad to note that the country's total investment pledges rose more than ten times over to US \$1.9 billion in 2007 from US \$115.6 million recorded in the year 2001. This is an indication of the vast investment potential and improving investor confidence due to the macroeconomic stability particularly lower inflation and the sound fiscal policies that the Government has put in place. Institutional capacity has also been enhanced with effective supervision of the financial system to promote efficient operations of the banking sector.

Mr President, the mining sector continues to be the major economic activity in the country. Following the liberalisation of the sector and subsequent privatisation of the mines, Government has continued to facilitate mineral exploration by the private sector and created an attractive investment environment through the maintenance of macroeconomic stability. This has sustained renewed interest in mining, reflected in a complete rebound in the mining sector on the Copperbelt and North Western province start up of new mines. New projects such as the Konkola Deep Mine, Lumwana Mine and Nickel Mining in the Southern Province have come on board in addition to other mining initiatives going on in most provinces of the country. Another key development in the sector has been the revival of zinc production, once, one of Zambia's metal exports in the 1970s. Sable Zinc of Kabwe (owned by Metorex) has commenced processing the mining dumps in Kabwe.

Ladies and Gentlemen, although investment in the mining sector requires massive capital by large conglomerates, the majority of our citizens are increasingly involved in the sector

through the supply of goods and services to support the mines. However, the main challenge to the growth of this sector has been the availability of finance. Most companies struggle to find finances to meet their contract obligations. The need for financing is immense especially as the mining sector is growing year on year and will need to acquire new equipment and spare parts as the mining companies invest heavily in the development of new mines.

It is gratifying to know that the USD 50 million facility in favour of the Zambia Mining Services Companies being signed today, is expected to assist major players in the supplies and services sub-sector of the mining industry to execute contracts with mining companies. I am also reliably informed that the facility will allow eligible companies access financing by assigning receivables for execution of contracts such as extraction and transportation of waste materials, transportation of copper ore from the pits to the smelting plants and contract mining. I have no doubt that the facility will go a long way in supporting Zambia companies grow and actively participate in the economic development of the country. The Fund will not only augment the supply of goods and services to the mining sector but also introduce important institutions that are critically needed to ensure that the supply system in the sector is efficient and sustainable in the long run.

The USD 80 million in favour of the Export Fund of Zambia has come at a time when the Government is increasingly promoting the diversification of the economy through export led growth. Strengthening of the external sector performance has continued as evidenced by an improved balance of payments position. This has been on account of higher foreign exchange inflows emanating from increased metal and non-traditional exports earnings coupled with investor confidence in the Zambia economy. The nontraditional exports have continued to record unprecedented growth over the past couple of years. For instance, NTEs rose by 63.4% to US \$924.4 million in 2007 from US \$564.7 million in 2005 with commodities, such as, sugar, copper wire and tobacco, coupled with receipts from tourism making notable contributions.

The growth of this sector is expected to be further bolstered by the establishment of the Multi-Facility Economic Zones in Lusaka and Chambishi to further diversify the economy and promote trade, stimulate export activities, technology, skills transfer and job creation. In pursuing an export-led growth strategy, the economic zones would actively promote value addition in identified specific products, such as, copper, vegetables, tobacco, gemstones, cotton yarn, leather products, sugar and oil cakes, of which the country has a competitive advantage. For instance, there has been a large increase in tobacco production, which has led to increased export earnings. Unfortunately, much of the tobacco is exported in a raw form with very little treatment or processing in the country. Significant investments in plant and machinery for value-addition will therefore be needed to offset this scenario. Thus, with expected large investments in Economic Zones and Export Fund facilities like the one we are witnessing today, Zambia's competitiveness through value addition is expected to improve.

Mr President let me also commend all the institutions involved in the two syndicated loans. It is gratifying to note that these facilities have been made possible due to the partnerships between the local financial institutions and international ones. I commend such partnerships and challenge other local institutions to enter into similar arrangements to reduce the cost of borrowing and promote growth in Zambia. Congratulations should be extended to the Zambia National Commercial Bank, ALS Capital and Calag Capital, AFREXIM, PTA Bank and Loita Capital to name but a few for the initiative.

The Bank of Zambia has continued to encourage local banks and other financial institutions to partner with international financial institutions and other banks in Africa, Europe and Asia. In this regard, in December 2007, the Bank organised a forum to exchange information on sources of finance in Lusaka. The forum was well attended and the international institutions showcased their products to their local counterparts. I am happy to note that institutions present here today such as Zambia National Commercial Bank, AFREXIM Bank, PTA Bank, ALS Capital and Loita Capital were all represented at the forum. I imagine that such fora are

instrumental in structuring tangible financing agreements like the ones we are witnessing today.

Finally, I would like to request all parties involved in the management of these facilities to ensure that the funds reach the intended beneficiaries and that controls are put in place to avoid abuse. The beneficiaries should also ensure that their projects are implemented effectively and expeditiously without any delay. In this regard, may I request the Zambian Mining Services Companies and the Export Fund of Zambia to take necessary measures in a timely manner to fulfill the requirements for declaring these loans effective and for starting implementation.

I would like to wish all those involved success in their management of the funds and implementation of the projects so that we can ensure that the development impacts expected from these important initiatives become a reality for the intended beneficiaries and the country at large.

I thank you for your attention.