

Bwalya K E Ng'andu: Improving the investment climate in Zambia

Opening remarks by Dr Bwalya K E Ng'andu, Deputy Governor (Operations) of the Bank of Zambia, at the Foreign Private Investment & Investor Perception Survey 2011 Dissemination Workshop, Lusaka, 22 December 2011.

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***Permanent Secretaries;
Chief Executive Officers;
Distinguished Participants;
Ladies and Gentlemen.***

I would like to welcome you all, on behalf of the Bank of Zambia, the Zambia Development Agency and the Central Statistical Office, to this Foreign Private Investment and Investor Perceptions 2011 Survey Dissemination Workshop.

I want also to take this opportunity to thank the companies that participated in the Survey which was conducted by the three institutions in the third quarter of 2011. The insights and the various valuable revelations on the investment climate in Zambia contained in the survey report were only made possible by their co-operation and support to the process. We want to thank them most sincerely.

This dissemination workshop is built around two objectives. The first one is to give representatives of respondent companies the chance to comment on the contents of the report. In this sense, this can be considered as a validation workshop from which inputs into the final version of the report will be received. The second objective is to give the three institutions that commissioned the survey the opportunity to receive feedback on what the community of investors considers to be the main issues in investment. Specifically, it should help the Government through Zambia Development Agency to understand the concerns of investors and formulate, if possible, better strategies for improving the investment climate.

As we discuss this report, it is important that we put into perspective some of the reasons why it was decided that a survey of investor perceptions should be carried out. The first reason has been to do with the fact that the perceptions of investors are a good proxy for measuring the investment climate. This arises from them being actively involved in implementation and are, if you like, at the receiving end of existing investment policy. More importantly, existing investors are a country's most important promoters of investment. Their views on the investment climate are more likely to be trusted by prospective investors than even those of the official investment promotion agencies such as Zambia Development Agency. Some prospective investors may take the view that official investment promotion agencies paint a rosy picture of the investment climate. Existing investors, on the contrary, are presumed to present factual position based on their own experience. Investor perceptions, therefore, are important because where the perceptions are positive, it can reasonably be assumed that those investors will continue to do business in future or probably even expand. Secondly, their positive perceptions can serve as a source of encouragement or comfort to potential investors who might be contemplating investing in Zambia. On the contrary, negative perceptions have the opposite effect. They may dispose existing investors to disinvest. That action alone may serve as the most eloquent statement that all is not well with the investment climate in the country thus risking existing investment and keeping at bay prospective investment.

The general findings of the report fortunately are positive. Political stability and governance, economic and regulatory reforms some of which have led to improvements in the business environment, macroeconomic gains reflected in robust GDP growth, low inflation, reduction in budget deficits and relatively stable exchange rate are some of the elements making up the improved investment climate. In contrast to past perceptions which focused on the

volatility of the investment climate, high levels of poverty, absence of institutional governance coupled with corruption, the report paints a changed picture. Investors are seeing Zambia as offering a stable and predictable environment with an elected government and functional democracy.

It is this positive environment which is seen as explaining why Zambia remained resilient through the financial crisis of 2009 and enabled the country to rebound strongly in 2010. It is noted in the report that foreign private capital inflows into Zambia posted a strong recovery to over US \$3.3 billion from a slump of below US \$1 billion recorded in 2009. But as we review this report, it is important not to gloss over some of the challenges that must be addressed in order to consolidate this positive environment. These challenges include infrastructural deficiencies in transport, telecommunications and energy, the small market that Zambia presents, constraints to doing business, enduring perceptions of corruption, inadequate skills and talent management.

Although the country has seen increase in investment in many sectors such as construction, agriculture and the financial sector, copper remains the major focus of foreign investment. But over-dependence on natural resource wealth and the related commodity prices is not a very sustainable route to growth. This consideration brings into focus one aspect that this workshop should address, that is the need to encourage private investment across many sectors. The country must diversify in such a way that it reduces its present dependence on copper and draws strength from other sectors. We all know the effects of over-reliance on the copper exports on our economy. It remains a source of vulnerability due to price fluctuations in the international market, making the country's incomes highly volatile.

Apart from private investment being a stimulus for job creation, development of local suppliers, skills transfer; it can be a critical source of long-term capital for driving economic diversification. I urge you to reflect on all these issues so that the final document that is produced from this effort will be comprehensive and point to viable strategies that will promote economic diversification through directed private investment.

The end result of this workshop will be posted on the website of the Bank of Zambia and Zambia Development Agency. The Zambia Development Agency will incorporate the recommendations submitted from this exercise into its policy recommendations on how to improve the investment climate in the country. With these few remarks, I wish you good deliberations.

I thank you...