Foreign Direct Investment (FDI) in Sub-Saharan Africa:

An exploratory study of the origins, patterns, impact and challenges of FDI in Zambia.

A Research Report

Presented to

The Graduate School of Business

University of Cape Town

In partial fulfilment of the requirements for the

Masters of Business Administration Degree

Andrew Slot

MBA FT 2012

Supervisor: Professor Mills Soko
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Abstract

This qualitative research paper examines the challenges and impact of foreign direct investment on Zambia. Through a process of semi-structured and open-ended interviews with key stakeholders, the origins, patterns and challenges of FDI on Zambia were uncovered. The primary objective was to assess the challenges that Zambia faced in attracting appropriate FDI, as part of the country’s economic diversification strategy. Part of this assessment was to understand the difficulties faced by Government agencies in attracting FDI into priority sectors, including manufacturing, agriculture and tourism. The second objective was to understand the positive and negative impact that FDI has on a country like Zambia. More specifically, this paper examines the effect of FDI on job creation, skills development, technology diffusion and knowledge transfer.

The primary findings indicate that Zambia’s relatively macro-economic and political stability is laying the foundations for attracting FDI, as a way to secure financing for its economic diversification strategy. However, the country is still heavily reliant on the copper and mining sector for fiscal revenues and job creation, with high copper prices meaning that most of the investment pledges are still directed at this sector. The major challenge is to continue to attract FDI, while directing a larger portion of the investment into priority sectors. There is some evidence to suggest that proposed investment pledges are directed towards the industrial and manufacturing sectors as beneficiation, and value-addition activities are incentivised by the Government. The use of innovative incentive schemes, such as the Multi-Facility Economic Zones are expected to direct FDI into these activities; this should also create more job opportunities for local workers. Policy reforms and regulations that are misguided, or are not unified into one Government document, lead to confusion. Infrastructure development is an important challenge that the Government must overcome in order to improve the business environment in Zambia. Another challenge that the Zambian Government faces is that of balancing tax incentives to attract FDI with attaining tax revenues due, without this becoming a tax burden on foreign investors.

The secondary findings indicate that FDI has a positive effect on job creation and skills development in the long run. While there is no empirical evidence that FDI has a direct impact on technology diffusion and knowledge transfer, anecdotal evidence suggests that
there is a positive impact in terms of locals being exposed to Multi-National Corporations with advanced technologies and managerial expertise.

The researcher posits that many factors should be taken into consideration when creating policies to attract FDI. These factors may include business linkages between foreign and local companies, threshold level of technology and knowledge imitate ability of local businesses from foreign enterprises, labour- and skills-development agreements, and environmental impact.

Keywords
Zambia, foreign direct investment, greenfield, joint venture, mergers and acquisitions, value addition, economic diversification, sector, technology spill-over, and knowledge transfer.
## CONTENTS

List of Figures ............................................................................................................................ 5  
List of Tables ............................................................................................................................. 5  
List of Acronyms ....................................................................................................................... 6  

Chapter 1: Introduction .............................................................................................................. 9  
1.1 Research Area and Problem ............................................................................................. 9  
1.2 Purpose and Significance of the Study .......................................................................... 10  
1.3 Research Questions and Scope ...................................................................................... 11  
1.4 Research Assumptions ................................................................................................... 12  
1.5 Research Ethics .............................................................................................................. 12  

Chapter 2: Literature Review ................................................................................................... 15  
2.1 Introduction .................................................................................................................... 15  
2.2 The Zambian Economy .................................................................................................. 15  
2.3 The Zambian Investment Climate .................................................................................. 22  
2.4 Foreign Direct Investment ............................................................................................. 24  
2.5 Foreign Direct Investment in Zambia ............................................................................ 27  
2.6 Origins, Patterns and Modes of FDI in Zambia ............................................................. 29  
2.7 Employment Creation .................................................................................................... 32  
2.8 Technology, Knowledge and Skills Transfer ................................................................. 33  
2.9 Possible Barriers to Attracting FDI................................................................................ 34  
2.10 Conclusion of Literature Review ................................................................................. 37  

Chapter 3: Research Methodology ........................................................................................... 38  
3.1 Research Approach and Strategy ................................................................................... 38  
3.2 Research Design, Data Collection Methods and Research Instruments ........................ 38  

Chapter 4: Research Findings and Analysis ............................................................................ 43  
4.1 Primary Research Findings – Barriers to Attracting FDI .............................................. 43  
4.2 Secondary Research Findings – Impact of FDI on Zambia ........................................... 53
4.3 Recommendations Based on Findings ................................................................. 58

Chapter 5: Research Conclusions ............................................................................. 61
Chapter 6: Areas for Future Research ....................................................................... 64
Bibliography .................................................................................................................. 65
Appendices ..................................................................................................................... 69
Appendix A: Literature review ..................................................................................... 69
  General statistics .......................................................................................................... 69
  The Map of Zambia ..................................................................................................... 70
  FDI inflows to Zambia by Source Country in 2009 and 2010 in US$ million ............... 70
Appendix B: Interviews ............................................................................................... 73
  Interview Schedule ...................................................................................................... 73
  Interview guide Example ........................................................................................... 75
Appendix C: Data Analysis Process ............................................................................ 77

LIST OF FIGURES

Figure 1: Zambia GDP per capita growth ................................................................. 16
Figure 2: Foreign Direct investment in Zambia ......................................................... 28
Figure 3: FDI flow by source country ........................................................................ 29
Figure 4: Investments in Zambia by sector ............................................................... 31
Figure 5: Pledged Employment from Investment Licenses ....................................... 32
Figure 6: Pledged Investments from Investment Licenses ......................................... 33

LIST OF TABLES

Table 1: Priority economic sectors ............................................................................ 17
Table 2: Registered Multi-Facility Economic Zones .................................................. 24
Table 3: Tax rates applicable in Zambia ..................................................................... 46
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BoZ</td>
<td>Bank of Zambia</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern &amp; Southern Africa</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GRZ</td>
<td>Government of the Republic of Zambia</td>
</tr>
<tr>
<td>IPP</td>
<td>Independent Power Producers</td>
</tr>
<tr>
<td>MFEZ</td>
<td>Multi-Facility Economic Zone</td>
</tr>
<tr>
<td>MMD</td>
<td>Movement for Multi-party Democracy</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multi-National Corporations</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NERP</td>
<td>New Economic Reform Programme</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NTEs</td>
<td>Non-Traditional Exports</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation of Economic Cooperation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>PSDRP</td>
<td>Private Sector Development Reform Programme</td>
</tr>
<tr>
<td>RIDMP</td>
<td>Regional Infrastructure Development Master Plan</td>
</tr>
<tr>
<td>SADC</td>
<td>South African Development Community</td>
</tr>
<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<tr>
<td>UCT</td>
<td>University of Cape Town</td>
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<td>Acronym</td>
<td>Full Name</td>
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</tr>
<tr>
<td>ZAMTEL</td>
<td>Zambia Telecommunications Company</td>
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<tr>
<td>ZCCM</td>
<td>Zambia Consolidated Copper Mines</td>
</tr>
<tr>
<td>ZDA</td>
<td>Zambia Development Agency</td>
</tr>
<tr>
<td>ZESCO</td>
<td>Zambia Electricity Supply Corporation</td>
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Firstly a special thank you to my supervisor, Dr Mills Soko for agreeing to supervise me even though he had a full constituent of students to supervise. He must be thanked for guiding and directing me to streamline my ideas and eventually come up with a really interesting and relevant topic for research. His contacts and connections to Zambia made this report very easy to compile. Without him my research trip to Zambia would not have been possible.

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Thirdly to the GSB admin and other lecturers that was available for assistance and guidance.

And finally to the Zambia Development Agency (ZDA) and the Government of the Republic of Zambia (GRZ) and other Government agencies who always made themselves readily available to help out with information and statistics used throughout this report.
CHAPTER 1: INTRODUCTION

1.1 RESEARCH AREA AND PROBLEM

It is apparent that countries in Sub-Saharan Africa (SSA) have proactively engaged in improving their investment policy frameworks in order to solicit foreign direct investment (FDI) (NEPAD, 2011).

Even though there has been significant progress in attracting FDI into SSA, some studies point out that the comparative share of FDI in SSA is in a state of relative decline when compared to that of other developing countries. FDI in SSA increased dramatically in the 1990s. For instance, it grew by 218 percent between 1990 and 1999. However, this growth rate is meagre compared to the 760 percent increase in FDI received in other developing countries during the same period (Asiedu, 2004).

Some research points to the fact that FDI inflows are attributed to the underlying determinants of FDI. Naudé & Krugell (2007) identified a number of strong determinants of FDI in SSA, including Government consumption, inflation rate, investment policies, political stability, accountability, regulatory burden, rule of law and initial literacy. Policy and institutional factors are also determinants of FDI flows to SSA (Suliman & Mollick, 2009). Policy-makers are still grappling with how to attract even more FDI. The problem is that national Governments need to measure the effect of current FDI on their economies, before attracting more FDI.

Research indicates that the pro-market economic reforms and liberal-investment policies instituted by countries, such as Zambia, have contributed to attracting foreign direct investment. This has contributed to gross fixed-capital formation, employment and economic growth (Bwalya, 2006). This point is further supported by Suliman et al (2009), who suggests that FDI is important to economic development. The origins, patterns, impact and challenges of FDI in Zambia have not been well researched or understood in the past. To help with the understanding of FDI in Zambia, organisations such as the United Nations, the Organisation for Economic Co-operation and Development (OECD), the Bank of Zambia (BoZ) and the Government of the Republic of Zambia (GRZ) have recently documented issues relating to FDI in Zambia. However, more research is still needed in order to understand the impact on
the host country within which FDI is invested, especially in terms of technology diffusion, knowledge transfer and skills development.

1.2 PURPOSE AND SIGNIFICANCE OF THE STUDY

Governments in developing countries are keen to promote their nation for possible foreign direct investment, but do they understand the long-term positive and negative impact that FDI has on the economy? Since 1991, Zambia has undergone fundamental changes to improve the investment climate and the ease of doing business locally. Some of these changes include the liberalisation of its trade regime, the introduction of a progressive privatisation programme and the launch of the Private Sector Development Reform Programme (PSDRP). However, what effect has this had on its domestic economy and business environment? The Zambian government has made economic diversification a top priority and they believe FDI is critical to the success of such a strategy (OECD, 2012).

The purpose of this research report is to explore the origins, patterns, impact and challenges of FDI on the Zambian economy. This exploratory study will endeavour to determine whether or not FDI in Zambia is resulting in an improvement of the local economy within which it operates. While this may be the broad aim of this research, two more specific objectives will be focused on in order to elicit a further understanding of the situation. The first objective is to understand the challenges faced by the investor, host country and key stakeholders to establish a mutually beneficial investment. The second objective is to develop a report that can highlight changes that could be made to the Zambian investment-policy framework, while still attracting appropriate FDI. These changes would have a greater impact on the Zambian economy, in terms of technology and knowledge transfer, as well as skills development.

This study is significant as it seeks to contribute to the knowledge of key decision-makers involved in the development of an investment-policy framework.
1.3 RESEARCH QUESTIONS AND SCOPE

1.3.1 Primary Research Question/s

1) What are the determinants/factors of Foreign Direct Investment (FDI) in Zambia?
2) What are the origins of FDI coming into Zambia?
3) What is the nature and type of FDI?
4) What are the patterns of FDI?
5) What impact does FDI have on the Zambian economy?
6) What policy-related or operational challenges do the key stakeholders face in the future in terms of attracting appropriate FDI in to Zambia?

1.3.2 Secondary Research Question/s

1) What policy changes need to be made to the current investment framework to promote FDI across priority sectors in support of the economic diversification strategy?
2) What are the spill-over effects from FDI on technology, training and skills development within Zambia?

1.3.3 Scope

The first part of this research report focuses primarily on the investment landscape within Zambia. The second part of the report analyses the sector/s with the greatest inflows of FDI. The researcher intends to ascertain the determinants and types of FDI by industry and sector. More specifically looking at “FDI by partner country and industry sector: A breakdown which is of utmost interest, particularly for structural analysis, is the cross-classification of the FDI data by partner country and industry” (OECD, 2008, p. 8). The report will also detail the challenges faced within each sector in terms of technology transfer and skills development. The sectors that will be analysed include mining, agriculture, tourism, manufacturing and infrastructure.

Zambia was chosen as the focus of this research as it is one of the fastest growing countries in Sub-Saharan Africa and is receiving a large amount of FDI. The Zambia Development Agency (ZDA) monitors the amount of investment pledges from pledged investments. It is not a measure of actual employment created but it gives a good indication of the amount of jobs that potentially could be created through FDI. The ZDA (2012) have stated that Zambia has recorded a 37 percent increase in investment pledges with an expected 18,778 job opportunities for locals during the first half of 2012. The inflow of FDI and resultant job opportunities is a good base on which to build this report.
1.4 RESEARCH ASSUMPTIONS

- The stakeholders interviewed will have enough knowledge on the field of study and be able to articulate their answers to the researcher’s questions. The use of purposive sampling did negate this issue and all the stakeholder’s interviewed had intimate knowledge of the research problem.

- The research assumes that the interviewees will be open to discuss the topic. Due to the heavy reliance on human participation, subjectivity and bias may affect the findings. Care was taken to remain objective during the entire process and any anecdotal evidence will be backed by secondary research.

- The researcher had access to all the necessary stakeholders including Government agencies, companies etc. The researcher followed all the correct channels and possible contacts in order to interview the key stakeholders. Fortunately, the Government agencies were very helpful and willing participants. However, some of the corporate contacts were difficult to set up interviews with. To negate this issue, some of the interviews with corporate interviewees were conducted telephonically or via email.

- The researcher will have the means to travel to Zambia in order to complete the qualitative research. The researcher found a sponsor for the travel expenses to Zambia.

- The researcher will not experience any language barriers and if so will be able to find a translator in Zambia. Although there doesn’t seem to be any issues with language as English is Zambia’s first language, the researcher will consider using a translator if necessary.

1.5 RESEARCH ETHICS

The core principles to which the researcher is obligated to follow as stated by the Social Research Association (2003) include:

1. Obligations to Society

In order to remain beneficial to society the researcher must conduct their work in a responsible manner in accordance with the moral and legal order of the society within which the research is conducted. High standards in the methods used in the collection and analysis
of data and the impartial and diffusion of research findings. (Social Research Association, 2003)

The researcher must remain partial, and avoided any temptation to bias or manipulate findings, especially those retrieved in the Zambian communities. Also, every effort was made to ensure all possible reasons for a particular phenomenon is researched, to ensure the research is both balanced and fair.

2. Obligations to the University

Researchers’ commitments to the University should be clear and balanced. “These should not compromise a commitment to morality and to the law and to the maintenance of standards commensurate with professional integrity” (Social Research Association, 2003).

The Ethical Clearance form was completed and submitted to the University of Cape Town (UCT) Ethics in Research Committee.

3. Obligations to Colleagues

Research required the maintenance of standards shared amongst the professional research community. Care was taken to show appropriate professional behaviour to the researcher’s supervisor.

4. Obligations to Subjects

Social researchers must strive to protect subjects from undue harm arising as a consequence of their participation in research (Social Research Association, 2003). This requires that subjects’ participation should be voluntary and as fully informed as possible and no group should be disadvantaged by routinely being excluded from consideration (Social Research Association, 2003).

Written consent was requested from all participants except local Zambians who were asked for oral consent. If interviewees did not want to be identified, the researcher ensured that their request was respected.

The following ethical principles will be checked as part the researcher’s obligation to their participants;

• Whether there is harm to participants
• Whether there is a lack of informed consent
• Whether there is an invasion of privacy
• Whether deception is involved
CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The literature review starts by putting into context the scope of this study, with a brief general understanding of the economic environment of Zambia. Sector profiles have been discussed to give an understanding to the current investment climate within each sector. Opportunities and challenges faced in each of these major sectors were also examined. This helped to appreciate the need for an economic diversification strategy in Zambia. The investment climate in Zambia was reviewed, as a preparatory point to identifying what opportunities and challenges face foreign investors in Zambia. Further to that, the literature review was completed in such a way as to gain a brief understanding of the nature of FDI and what the different available modes of FDI are. More importantly, it looks at the current patterns of mode of entry into emerging markets. Finally, a review of how FDI has impacted Zambia with specific regard to technology, knowledge and skills transfer will conclude this initial review, along with the possible challenges the Zambian Government will face in the future.

2.2 THE ZAMBIAN ECONOMY

In October 1964, Zambia achieved independence and adopted a socialist economic model in which the state led the nationalisation of most strategic industries, introduced price controls, agricultural subsidies, and free access to education. In the 1970s, a one-party state was declared and the Zambian economy was characterised by a highly controlled market due to the implementation of an import-substitution industrialisation strategy. A number of factors served to negatively affect the private sector and FDI, including a rigid price-control regime, a punitive structure for income taxation, and an overvalued Zambian Kwacha with stringent foreign-exchange controls (OECD, 2012).

Since its move from a one-party socialist Government in 1991, political transfer of power has been conducted through multi-party elections. When the Movement for Multi-party Democracy (MMD) was democratically elected in 1991, they immediately introduced a structural-adjustment programme. This programme involved the introduction of fiscal policy and market reforms in order to achieve macro-economic stability. The privatisation of State Owned Enterprises (SOEs) was an important reform introduced by the MMD Government. Zambia’s economic environment has since exhibited an unprecedented growth, with positive
Gross Domestic Product (GDP) growth rates and stability in almost all other macroeconomic indicators (ZDA, 2012).

Economic growth slowed down in 2011 to 6.6 percent from 7.6 percent in 2010, mainly due to the contracting mining sector (AfDB, 2012). See figure 1 below. However, there was some expansion in the agricultural, construction, manufacturing, communication and transport sectors. Inflation is currently in single figures, highlighting the progressive monetary policies of the Central Bank of Zambia. There has also been a focus on creating a competitive environment for foreign investors, with the exchange-rate policy employed. The aim of the monetary policy stipulated by the central bank is to keep the inflation rate in single figures, and the GDP rate above six percent for the foreseeable future (Bank of Zambia, 2012).

Figure 1: Zambia GDP per capita growth

![Zambia GDP per capita growth (annual %)](image)


Zambia’s economic development is best illustrated with its consistent improvement in GDP per capita, peaking at a 5.92 percent increase in 2010, together with a real GDP growth rate of 5.4 percent from 2000 to 2010 (World Bank, 2012).

The Zambian Government is looking into promoting economic development and attracting FDI into priority sectors as part of its economic-diversification strategy. The priority sectors highlighted by the ZDA can be found in the table below:
<table>
<thead>
<tr>
<th>Sector</th>
<th>Sub-sectors</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Floriculture, Horticulture</td>
<td>Fresh and dried flowers, Fresh and dried vegetables</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>Processed foods</td>
<td>Wheat flour and other processed foods, Tea and tea products, Coffee and coffee products, Cotton, Fabrics, Garments, Cattle hides, Crust Leather, Leather products</td>
</tr>
<tr>
<td></td>
<td>Textiles</td>
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<td></td>
<td>Leather</td>
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<tr>
<td>Manufacturing</td>
<td>Engineering products</td>
<td>Copper products, Iron Ore and Steel, Cobalt, Other engineering products, Fertiliser, Cement</td>
</tr>
<tr>
<td></td>
<td>Beneficiation of phosphates</td>
<td></td>
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<tr>
<td></td>
<td>Beneficiation of rock materials</td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>Timber products</td>
<td>Processing of raw timber into wood products</td>
</tr>
<tr>
<td>Energy</td>
<td>Electricity</td>
<td>Building of mini-hydro power stations</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>Education and skills training</td>
</tr>
</tbody>
</table>

Source: OECD, 2012
2.2.1 Sector profiles

The following section looks into the challenges and opportunities within the major sector profiles in Zambia.

Mining:

Zambia is the largest producer of copper in Africa and copper production has been central to its socio-economic development. Zambia is the fourth-largest producer of copper and cobalt in the world, which accounts for over 70 percent of Zambia’s export earnings. It also accounts for over 90 percent of the total mining contribution to the Zambian economy (ZDA, 2011).

Multi-National Corporations (MNCs) the world over, including the likes of First Quantum, Anglo and Metorex, have already invested in the mining sector. Zambia’s mineral wealth also includes metals, gemstones and other energy minerals. The privatisation of Zambia Consolidated Copper Mines (ZCCM) from 1996 paved the way for improved foreign investment pledges and increased production (ZDA, 2011). This rise in production can also be attributed to an investment in infrastructure and technological innovations. Other areas of investment include agro-minerals e.g. rock phosphate, igneous phosphate, nickel and uranium. Many of these can be converted into processed goods, such as fertilizer, peat, limestone etc.

Agriculture:

Even though the agricultural sector employs over half of the country’s labour force, 85 percent of the country’s arable land remains uncultivated. Zambia’s land-resource base stands at about 60-million hectares, of which only 1.5-million hectares is cultivated each year. It has 40 percent of its fresh water resources in Sub-Saharan Africa. The fishing industry is yet to be fully exploited and has already been identified as a priority (Bank of Zambia, 2011). To help attract FDI, the Zambian Government has initiated a land-development programme and opened up some ready-to-access, surveyed farm blocks (ZDA, 2011). Each farm block will consist of one core farm of about 10 000ha, surrounded by other smaller farms, preferably using an out-grower arrangement. Farm blocks afford the opportunity for investors to have access to already-surveyed land. This also helps to create linkages between local businesses and foreign investors (OECD, 2012).
Manufacturing:

Food and beverages and textiles are currently the main manufacturing activities in Zambia. Secondary processing of metals, especially copper, is another central activity. The introduction of Multi-Facility Economic Zones (MFEZ) and industrial parks has created huge potential for growth within this sector, thereby allowing Zambia to avoid being over-reliant on the mining sector. This sector has attracted about US$ 1,200-million in FDI stocks, as of 2009 (ZDA, 2012).

Tourism:

Tourism is a growing sector in Zambia, with the number of arrivals of tourists increasing eightfold between 1995 and 2007. In 2010, the number of arrivals reached 815 000, suggesting that there is opportunity for investment in the development of tourist hotels, resorts and private estates. With 19 national parks and 65 000km² set aside for wildlife conservation, the tourism sector has great potential to focus on tourism draw cards other than the historical town of Livingstone and the natural beauty of the Victoria Falls (ZDA, 2012). Specific areas of investment in this area include ranging, game ranching, transport services, adventure-holiday packages and organised eco-tours (Bank of Zambia, 2011).

Infrastructure:

Transport Infrastructure:

Road and rail remains the major means used to transport goods throughout Zambia and to its neighbouring countries. Foreign investment into infrastructure is improving the rail and road systems. For example, a joint venture between Tanzania and Zambia helped to build a rail system which facilitates intra-regional trade. Unfortunately, the poor state of some of Zambia’s main roads has increased the cost of doing business in Zambia. However, the Government is actively trying to improve infrastructure through Public-Private Partnership initiatives (PPPs). According to the OECD (2012), “the main objectives of introducing PPPs include:

- Forging strategic partnerships with the private sector for improved service delivery and infrastructure development;
- Enhancing transparency, accountability, equity, fairness and “value for money” in public infrastructure development and service delivery;
- Supplementing fiscal revenues and expenditure through appropriate risk transfer to the private sector who can infuse competitiveness and innovation; and
- Improving the overall maintenance and management of public assets by infusing private-sector efficiency and effectiveness” (p. 138).

Government’s commitment to improving the road infrastructure is critical to enabling access to key road networks and feeder roads. This in turn supports other sector improvement projects, such as promoted tourism destinations and farm-block projects.

There are over 130 airfields in Zambia, with the main airports being located in Lusaka and Livingstone. However, the aviation market remains one of the smallest networks in SSA. Air travel is important for Non-Traditional Exports (NTEs) such as horticulture, floriculture and tourism (ZDA, 2011).

**Energy:**

Zambia’s energy sources include electricity, biomass, coal and renewable energy (ZDA, 2011). Petroleum is wholly imported into the country. The growing economy and demand from other sectors for electricity has driven the need to source more energy production. Zambia has vast water sources for further hydro-electric power. Current hydro-electricity is supplied by the state-owned Zambia Electricity Supply Corporation (ZESCO). ZESCO is currently investing in Independent Power Producers (IPPs). An IPP, according to ZESCO, is an entity which is not a public electric utility, but which owns and/or operates facilities to generate electric power for sale back to the government buyer and other end users. IPPs may also be privately-held facilities, such as rural-solar or wind-energy producers, and non-energy industrial concerns generating electric power for on-site use and who may also be capable of feeding excess energy into the distribution or transmission grid system.

The country also has coal reserves exceeding 30-million tonnes. However, Zambia has become a net importer of electricity, as available capacity is less than the demand for power (ZDA, 2011). ZESCO is also looking into investing directly into coal mines.

Zambia’s electricity tariffs are amongst the lowest in SSA and are a barrier to the necessary funds available for maintenance and the upgrades of facilities. The Government had plans to
have electricity tariffs at cost-reflective levels by 2011, which was seen as crucial in attracting investment into the sector. The World Bank estimates that the new generation and rehabilitation projects require about US$ 4-billion (United Nations, 2011). The government is also encouraging investment in this sector through the previously mentioned PPPs. For example, the Kafue Gorge Hydro Project is attracting a lot of international attention. These are financed under Build, Own, Operate and Transfer (BOOT) arrangements (ZDA, 2011).

Zambia is in a great position to enter downstream value-addition activities in order to diversify product and export offering. Some value-addition activities, such as the smelting of copper, are very energy intensive. With the current rate of growth, increasing population and more FDI, the need for more energy is paramount. Currently, power generation is not meeting these impressive growth rates. The vast water availability and coal reserves are an attractive resource for investment in hydro-electric power generation. Zambia’s strategic geographic location allows it to enter into unique energy pools with neighbouring countries for sustained power share.

**Telecommunications:**

The Zambia Telecommunications Company (ZAMTEL), the Zambia Electricity Supply Corporation (ZESCO) and the Copperbelt Energy Corporation (CEC) are all licensed to operate optic-fibre networks in Zambia. There are also mobile networks such as Airtel Zambia and MTN operating in the country. Existing information, communication and technology (ICT) infrastructure covers only 72 percent of the population. Tele-density is low in Zambia, with a ratio of 0.77 per 100 inhabitants for fixed line, 0.36 for mobile and 0.14 for internet users. ZAMTEL provides approximately 90 000 fixed lines to a country of around 12-million people (United Nations, 2011). In 2009, an ICT policy was enacted to help spur the growth of mobile telephony and internet services. All ICT services are now under one regulatory framework, and this is administered by the Zambia Information and Communication Technology Authority (ZICTA) in an attempt to improve existing ICT services and infrastructure (OECD, 2012). Another key issue for the government is to improve investor confidence, which was partially tarnished after the government reversed the privatisation of Zambia’s telecom company, ZAMTEL (AfDB, 2012).
2.3 THE ZAMBIAN INVESTMENT CLIMATE

In recent years, Zambia has expanded its privatisation programme by initially targeting small-scale businesses and then developed the Private Sector Development Reform Programme (PSDRP) in 2004, which aims to boost the private sector’s contribution to economic growth. The PSDRP was initiated to provide an integrated framework to address any challenges facing the investment climate, the cost of doing business in Zambia, and private-sector led economic growth. This policy established the Zambian Development Agency (ZDA) in 2007, which promotes and facilitates direct investment and trade (NEPAD, 2011). The ZDA has a division dedicated to investment promotion and privatisation. They also supply a match-making service for investors looking to invest in Zambia, which includes top-class market information and monitors the investment and employment pledges made by investment licences (OECD, 2012).

As privatisation gained momentum, so did interest from foreign investors. GDP started to rise and reached 6.3 percent in 2009. In the first quarter of 2010, Zambia received US$ 1.3-billion in FDI commitments, which highlights an upward trend. There has also been an upward shift in per capita income since the introduction of the PSDRP in 2005. In 2006, per capita income increased from US$ 680 to US$ 980 in 2009. While these levels are still quite low, the literature does seem to indicate that as FDI increases so do the general income levels within the host country.

The ZDA was instrumental in developing PSDRP II and has made strides in improving the overall business environment in Zambia. The priority areas for the PSDRP II are business licensing and regulatory frameworks; MSME development; labour reform, PPPs development and Trade expansion. Zambia’s rank within the 183 countries evaluated by the World Bank has moved from 90 in 2009 to 76 in 2011, in terms of ease of doing business (World Bank, 2012). Zambia has also been re-classified as a “Lower Middle-Income Country” and assigned a sovereign credit rating of B+ by Fitch Ratings in March 2011 due to these reforms (OECD, 2012).

Doing business in Zambia is easier for MNCs due to the abolition of price controls, exchange-rate control liberalisation, no restriction on investment in virtually all sectors and the privatisation of state-owned enterprises. (NEPAD, 2011)
Zambia’s Doing Business achievements

- 6th worldwide and 1st in COMESA in accessing credit;
- 4th best reformer worldwide for starting a business;
- 3rd in COMESA in overall ease of doing business
- 2nd in SADC in starting a business and accessing credit;
- 4th in SADC in paying taxes;
- 5th in SADC in overall ease of doing business


Zambia is one of the most open countries to foreign equity ownership, as measured by the Investing across Sectors indicators. All of the 33 sectors covered by the indicators are completely open to foreign equity ownership (World Bank Group, 2010). A privatisation programme employed by the government and the development of the Zambia Privatisation Agency (ZPA) has led to the speedy privatisation of previously State-Owned Enterprises (SOEs). Economic activities previously run by the State were around 80 percent and since inception of the ZPA has been reduced to between 10 percent and 15 percent. This privatisation programme has attracted significant investment from abroad from the likes of China, South Africa, UK, India, Germany and United States of America (United Nations, 2011).

Furthermore, the development of Multi-Facility Economic Zones (MFEZ) provides investors with more secure and a well-equipped environment to operate. The Chambeshi multi-facility economic zone located in the copperbelt was first zone established by the China Nonferrous Metal Company. When fully developed, this zone could potentially generate investments of US$ 900 million over a five-year period (NEPAD, 2011).
**TABLE 2: REGISTERED MULTI-FACILITY ECONOMIC ZONES**

<table>
<thead>
<tr>
<th>MFEZ</th>
<th>Location</th>
<th>Developer</th>
<th>Description of core activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chambeshi</td>
<td>Copperbelt</td>
<td>Zambia-China Co-operation Zone (ZCCZ) Limited</td>
<td>This MFEZ has a total of 4 100 hectares of land. Already several enterprises mainly Chinese businesses have established in this area, including a copper smelter</td>
</tr>
<tr>
<td>Lusaka East</td>
<td>Lusaka</td>
<td>ZCCZ Ltd</td>
<td>Located on about 130 hectares of land situated in the southern part of Lusaka International Airport.</td>
</tr>
<tr>
<td>Lusaka South</td>
<td>Lusaka</td>
<td>GRZ, Japanese International Co-operation Agency (JICA) and the Malaysian Kulim Hi-Tech Park (KTPC)</td>
<td>Planned on a 2 100 hectares piece of land about 15km from Lusaka CBD. The GRZ has finalized a development master plan for the launching of Lusaka South.</td>
</tr>
<tr>
<td>Luwmana</td>
<td>North-Western</td>
<td>Lumwana Mine</td>
<td>Anchored on 35 000 Ha of land in Solwezi District. This zone should facilitate investments of US$ 1.2 billion by over 90 enterprises in various sectors, employing over 13 000 people by 2020,</td>
</tr>
</tbody>
</table>

Source: OECD, 2012

Zambia is centrally located and shares borders with eight neighbours in Sub-Saharan Africa. It is a member of the Southern African Development Community Free Trade Area (SADC-FTA) extending its market reach to 170 million people. It is also a member of the Common Market for Eastern and Southern Africa (COMESA); which means investors have readily available access to the largest regional economic grouping in Africa with 19 members comprising over 400 million people. This is supported by intra-regional cooperation projects like the North-South Corridor project, which links the port in Tanzania through the copperbelt to the southern ports of South Africa thereby making Zambia a strategically land-linked country (United Nations, 2011).

2.4 FOREIGN DIRECT INVESTMENT
“Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor” (OECD, 2008, p. 11).

FDI is a key part of globalisation and facilitates international economic integration. FDI is the link between developed and developing economies to create sustainable and long lasting, impactful relationships.

Given the right investment policy framework, FDI can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient and the investing economy. In particular, FDI encourages the transfer of R&D and technology between economies. Foreign companies have also stimulated knowledge transfers by training local workers, developing their skills, and introducing new management practices and better organizational arrangements. Foreign investment has also helped break up local oligopolies and cartels in other emerging markets (World Bank Group, 2010).

It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies and contributed to the fiscal standing of many economies (World Bank Group, 2010). Capital spill-overs from FDI encourage new production technologies in many economies.

The significant growth in the level of FDI in Africa in recent decades, and its international pervasiveness, reflect both an increase in the size and number of individual FDI transactions, as well as the growing diversification of enterprises across economies and industrial sectors. Large MNCs are traditionally the dominant players in such cross-border FDI transactions (OECD, 2008).

Those opposed to FDI argue that its impact is often limited and even detrimental to the host country. MNCs have been criticised for the crowding out of local competition. This contradicts the positive impact indicated previously as local jobs are lost when local firms are driven out by foreign competition. Critics also cite cases of severe pollution and environmental destruction (World Bank Group, 2010).

2.4.1 Types of Foreign Direct Investment
There is increasing interest in identifying FDI by type, as different types of FDI – Mergers and Acquisitions (M&A), Joint Ventures (JV), Greenfield investments or extension of capital – are likely to impact to a varying extent, in particular, on the host economy (OECD, 2008). “M&A transactions imply the purchase or sale of existing equity, Greenfield investments refer to altogether new investments (ex nihilo investments). Extension of capital relates to additional new investments as an expansion of an established business; conceptually and in terms of economic impact, it is similar to Greenfield investments” (OECD, 2008, p. 87).

There are 3 components of FDI flows which include reinvested earnings, intra-company loans and equity investment (Bank of Zambia, 2011).

### 2.4.2 Patterns of Global FDI in emerging markets

Regular analysis of direct investment trends and developments is an integral part of most macro-economic and cross-border analysis. It is important to policy makers and analysts to identify the origins and patterns of these investments. In other words, identifying partner countries and industries for inward and outward investments is central to this research. In 2010, global FDI inflows increased by 5 percent to US$ 1.24 trillion. The major part of foreign direct investment flow across borders in developed countries is in the form of mergers and acquisitions from other developed nations. However, recently large acquisitions have been undertaken from emerging countries (Klimek, 2011).

The 2010 Global FDI flows was characterised by uneven patterns of mode of entry and components with the gradual rebounding of cross-border M & As. Green-field projects declined in number and value. Increased profits of foreign affiliates boosted reinvested earnings. Intra-company loans and equity investments in developing countries were negative and lower following uncertainty on global markets (Bank of Zambia, 2011).

Host countries generally prefer Greenfield investments, which account for the majority of FDI globally, due to the nature of the investment. In order to set up a Greenfield project, a vast amount of knowledge and assets need to be transferred to the host country. Emerging countries are gaining from FDI inflows not only in acquiring investment countries tangible resources but from foreign organizational and technological skills (Klimek, 2011).

Entering a new country in partnership with a local company alleviates the problem of not understanding the business environment in which they are about to invest. Entry into a foreign country by means of an M&A or JV reduces the MNC’s transaction costs of doing
business. Hence the reason most MNCs enter into a JV or acquisition is to acquire local knowledge and resources. Greenfield entry would be more likely if the MNC has prior operating experience in the host country and if the “cultural” difference is inconsequential. MNCs are also more likely to enter into a JV or acquisition if the host country has significantly liberalised rules and policies governing FDI. The rate of growth and size of the local market is also an important factor (Bhaumik & Gelb, 2005).

2.5 FOREIGN DIRECT INVESTMENT IN ZAMBIA

Post-independence, FDI in Zambia remained low in the early stages, even during the copper boom in the 1970s. In the 1980s the Zambian government believed that foreign sources of capital would help develop the Zambian economy. Therefore, Zambia introduced pro-market reforms and policies to attract FDI and reinvigorate the copper industry. Due to the initial campaign, FDI inflows increased from US$ 61.57 million in 1980 to US$ 202.78 million in 1990. During the same period the manufacturing sector recorded the most FDI pledged (30 percent), followed by the agricultural sector (20 percent) and then tourism (18 percent) (Bwalya, 2006).

Net FDI rose dramatically in 2007 to US$ 1.3 billion followed by a dip in 2008 mainly due to the financial crisis. FDI inflows declined in 2009 to US$ 694.8 million from US$ 938 million in 2008 and US$ 1,323.9 million in 2007. The basic reasons for this backward trend in FDI inflows can be attributed to the financial crisis and the notable reduction in reinvested earnings. FDI by source country saw India emerge in 2009 as the major investor followed by Canada and Ireland. The mining sector saw the largest foreign investment however some improvements were seen in the manufacturing, wholesale, and retail and tourism sectors. Some of the major pull factors during this period were the general state of economic and political stability. Openness of sectors to foreign ownership and tax incentives were also key determinants in 2009. Financial system stability targeting by the central bank was also critical in attracting FDI (Bank of Zambia, 2011).

Since then, FDI inflows have been on the rise primarily aimed at the mining sector and this has helped revitalise the copper industry. FDI inflows in 2010 were recorded at US$1,729.3-million. The second largest recipient of FDI in 2011 was the services sector, more specifically banking as a result of the entrants of large international banks, communications
and tourism. Agriculture has seen some improvements in FDI support especially in the production of tobacco, sugar, cotton, maize and sugar (United Nations, 2011).

**FIGURE 2: FOREIGN DIRECT INVESTMENT IN ZAMBIA**

![FDI trends in Zambia (US$ 'million)](image)

*Source: Bank of Zambia, 2011*

Prospects of FDI in Zambia seem to indicate that there will be a large increase in FDI aimed at the manufacturing sector. This is mainly due to the government drives to attract and facilitate investment in the production of value added products from raw materials. These prospects are based on the investment pledges made by the investment community. The investment pledges in 2010 were estimated at US$ 4,800 million of which 40 percent was for the manufacturing sector followed by the mining sector with around 20 percent. Notable investments in the manufacturing sector were due to the establishment of agro-processing and mineral-processing plants. Greenfield copper mining projects dominated the share of pledges directed at the mining sector as foreign multinationals try to exploit the current copper prices. The energy sector will also see a rise in FDI due to the potential of hydro-power generation, hydrocarbons and biofuels (Bank of Zambia, 2011).
2.6 ORIGINS, PATTERNS AND MODES OF FDI IN ZAMBIA

Origins of FDI

The government has recently looked beyond its usual investments partners like Australia, United Kingdom, Canada, etc. and have pursued investment from new trading partners like China, Russia and India (United Nations, 2011). FDI Inflows to Zambia in 2009 indicated that India dominated at US$ 296.2 million (accounting for 42.6 percent of FDI Inflows). This was followed by Canada at US$ 203 million (29.2 percent), Ireland at US$ 180 million (25.9 percent), Netherlands at US$ 77.8 million (11.1 percent), China at US$ 75.8 million (10.9 percent) and South Africa at US$ 73.4 million (10.6 percent). Australia and United Kingdom had notable net outflows as seen in figure 3 below amounting to US$ 115.6 million and US$ 98.3 million, respectively.

FIGURE 3: FDI FLOW BY SOURCE COUNTRY

In 2010 however, Canada, Australia, the United Kingdom and the British Virgin Islands dominated as major source countries of Zambia’s FDI inflows, collectively accounting for 78.4 percent of inflows. These were followed by Libya, Netherlands, Bermuda, China, France and the United Arab Emirates, which collectively accounted for 27.4 percent of Zambia’s FDI inflows. Other countries such as South Africa and Switzerland recorded net out flows
(The Balance of Payments Statistical Committee of the Government of the Republic of Zambia, 2010). The reason for these outflows was not stipulated. There has been insignificant investment recorded from other Sub-Saharan countries like Zimbabwe, Mozambique, Angola. This suggests that more needs to be done in order to obtain investment from within COMESA and SADC countries. The rest of the FDI flow by source country for all other countries can be viewed in Appendix A.

**Mode of entry and investment by sector**

Up until 2006, FDI has been in the form of acquisitions of existing assets of previously SOEs under the government’s privatisation programme. FDI, in value terms, dominated the privatisation programme, mainly through joint ventures. Foreign investors were mainly interested in acquiring a number of larger mining, energy, manufacturing and agro-business companies.

Actualized FDI inflows to Zambia have progressively been increasing over the recent years. The majority of these investments have been in the mining sector. However FDI inflows in other sectors such as manufacturing, construction, tourism and financial institutions have also been on the increase. In 2010, the mining sector accounted for over 60 percent of the FDI at US$ 1,141.3 million followed by manufacturing with US$ 373.9 million. Figure 3 below shows the FDI inflows to Zambia by sector for the period 2007 to 2010 (ZDA, 2012).
FIGURE 4: INVESTMENTS IN ZAMBIA BY SECTOR

Investments in Zambia by Sector (US$ 'million)

Source: ZDA, 2012
Recently, a survey commissioned by the Government of the Republic of Zambia (GRZ) established the level of employment created by 118 MNCs. The level of employment for these 118 enterprises stood at 56,700 in 2010. 97 percent of the total employed by these enterprises was Zambians of which 11 percent of them were in managerial positions, 42 percent were technicians and 47 percent were unskilled. A sector analysis of these surveyed enterprises revealed that about 24,934 employees were from the mining sector. The financial sector had the second highest portion with about 15 percent and the manufacturing sector was third with about 7,367 employees. The National Budget for 2013 whose theme is; "Delivering Inclusive Development and Social Justice" has for the first time put job creation at the centre of its development agenda by unequivocally targeting the creation of 200,000 jobs in 2013. Sectors targeted for these jobs include agriculture, tourism, manufacturing and construction (including infrastructure). (Bank of Zambia, 2011).

The pledged employment from investment licences as shown in figure 4 indicates that most of the employment will be generated in the Mining, Manufacturing and Agricultural sectors.

According to the ZDA records, a total of US$ 3,807,240,894 of investments have been pledged to Zambia for 2012 of which 63 percent of those pledges are directed at the mining sector as seen in figure 5 below.
What is interesting to note however is that for every job pledged in 2012 in the mining sector around US$ 650,000 of investments must be pledged. In the manufacturing sector, for every job created only US$ 167,000 has been pledged which means that almost 4 times the amount is needed to be invested in the mining sector in order to create the same amount of jobs in the manufacturing sector. This highlights how capital intensive the mining sector is but also shows that if a bigger portion of the investment pledges are directed at agriculture or manufacturing then more jobs can be created.

FIGURE 6: PLEDGED INVESTMENTS FROM INVESTMENT LICENSES

![Pledged Investments 2012 (US$)](chart)

Source: ZDA, 2012

2.8 TECHNOLOGY, KNOWLEDGE AND SKILLS TRANSFER

FDI inflow in the last decade has had technological and managerial know-how implications on host countries. It has also contributed to diversifying exports and modernising services (United Nations, 2006). Openness to FDI from more developed nations that actively create technologies is beneficial to the host country (Krammer, 2010). The article by Sawada (2010) aligned with what Krammar (2010) was suggesting about how FDI into developing countries not only brings in financial benefits for capital formation, but also provides direct technology transfer from the parent firms to the host firm in the less developed country.

Investment policies that consider improving this technology transfer need to also consider the technology gap between the investing firm and host firm (Jordan, 2011). The greater the
technology gap, the greater the potential technology spill-over into the host firm and country. However, the rate of absorptive capability and the level of imitability of the host firm will strongly affect the amount of technology transfer. Policymakers must consider the optimal threshold level of technology transfer that a country’s domestic industry or sector can imitate, before attracting FDI with liberal incentive and tax schemes. The threshold level of the technology gap can be influenced by local competition, market rivalry and the level of skilled labour (Sawada, 2010).

The extent of technology transfer depends on the extent of control of the parent MNC on the affiliate. According to Bhaumik and Gelb (2005), joint ventures (JVs) do not encourage technology transfer from MNCs to their developing host country. Technology transfer is highest with Greenfield investments, as the MNC has complete control over its affiliate’s operations. The rate of technology transfer in a merger and acquisition depends on the MNC’s control over management and on the expected rate of technology diffusion (Bhaumik & Gelb, 2005).

### 2.9 POSSIBLE BARRIERS TO ATTRACTING FDI

**Investment Diversification:**

In Zambia, there has been an over-reliance on the copper industry and mining sector as a whole (Lungu, 2008). Economic diversification is one of the government’s main goals, and it remains a challenge to attract FDI into others sectors including agriculture, tourism and manufacturing (NEPAD, 2011). The challenge is to attract appropriate FDI into the priority sectors, without curbing FDI from the mining sector. Zambia needs to create crucial resource-sector linkages through up-, down-, and side-stream industrial linkages. These linkages will help diversify human-resource development, technology and skills formation through the lateral migration from resource-dependent industries to resource-independent activities in line with the government’s economic diversification strategy.

With abundant natural resource endowment, Zambia is in a great position to enter downstream value-addition activities. Some downstream activities, including beneficiation, are highly energy intensive but with Zambia’s hydro-electric potential, the country could sustain such energy requirements for the beneficiation and processing of raw products into semi-processed or finished products. Zambia’s geographic location also allows it the option to enter into energy-pool agreements with neighbouring countries for a sustained power
share. However, there is still the challenge of converting this potential energy into actual power.

**Ease and cost of doing business in Zambia:**

There are still some outstanding business concerns with cumbersome licensing procedures, inadequate infrastructure, unskilled and unproductive human resources, and restrictive labour laws (United Nations, 2011). Zambia has been battling to improve the perception of corruption and level of bureaucracy in the country. It currently ranks 91 out of 183 in terms of how the public sector perceives its level of corruption. It also received a score of only 3.2 out of 10 on the corruption perception index, which indicates that Zambia is still very corrupt (Transparency International, 2012).

Since the introduction of the new Patriotic Front (PF), some incidents of reverse privatisation of previously SOEs has been reported. Reverse privatisation is considered to be in complete contradiction of the privatisation strategy used to help attract FDI in the first place. Some experts say that the renationalisation of ZAMTEL and the end of the concessions with the ZRA (Zambia Railway Association) is taking Zambia backwards in terms of economic development. Others argue that it was President Sata’s way of showing resilience over corruption. The Zambian government sold 75 percent of ZAMTEL, the state-owned telecommunications company, to a Libyan company called Lap Green Networks. In November 2011, the deal was supposedly found to be corrupt so the newly elected government decided to repossess and reverse the US$ 257 million deal (Banda, 2012).

The difficulty in obtaining credit and its high cost have been highlighted as key challenges. While the banking sector has seen the entry of international banks, and the expansion of existing banks and lending facilities, access to local finance has been identified as one of the major factors for not expanding or setting up new business ventures in Zambia (United Nations, 2011).

**Infrastructure development:**

While there has been some improvement in infrastructure development, there are still key rail and road networks and feeder roads in a state of disrepair. Public-Private Partnerships have been initiated to help improve infrastructure, but it seems as though the rate of growth in Zambia is exceeding the rate of improvement necessary to infrastructure. This aspect has also been highlighted as imposing high costs for doing business in Zambia by foreign investors.
(The Balance of Payments Statistical Committee of the Government of the Republic of Zambia, 2010). Monopolistic market structures within the electricity transmission and distribution sectors also represent a potential obstacle to foreign investors (World Bank Group, 2010).
The aim of the literature review was to assess the academic literature that looks at the origins, patterns and challenges of FDI.

The literature review started with a brief look at Zambia, as well as the characteristics of the various sector profiles that constitute the focus of the proposed research. The discussion then moved on to look more specifically at the nature of the investment climate in Zambia. It is apparent that the government has liberalised its investment policy in order to attract FDI into the country. It has created a very attractive investment environment that is showing growth across most of its sectors. In doing so, research has shown that there has been a shift in the origin of FDI from developed country partners to FDI inflows from emerging markets.

The literature focusing on the patterns of FDI in emerging markets showed that it is important to research the modes of FDI in Zambia. It also showed there has not been a lot of research undertaken on the determinants of Greenfields investment, M&A or JV strategies for entering the Zambian market. More research needs to be done on how the Zambian government can attract the right type of FDI into each priority sector. In other words, which of these types of investment strategies would have a better effect on the economy? Specifically, which type of FDI approach has a more positive, long-term impact on technology, knowledge transfer and skills development in the Zambian economy?

Some challenges have been highlighted in this literature review. For example, the Zambian economy is heavily reliant on copper, and the mining industry as a whole. In addition, the business environment has been systematically improved upon but there are still some outstanding business concerns. Corruption, for example, is still rife in the Zambian investment and business environment.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 RESEARCH APPROACH AND STRATEGY

An extensive review of all published theses, government publications and any other relevant publications was researched to analyse the current and future trends of FDI in Zambia.

Bryman and Bell (2011: 40) describe research design as the “framework used in the collection and analysis of data”. A qualitative, inductive study was used to conduct the research for this paper.

This is an exploratory paper and in-depth analysis with the goal to develop pertinent hypotheses and propositions for further research. (Yin, 1994)

3.2 RESEARCH DESIGN, DATA COLLECTION METHODS AND RESEARCH INSTRUMENTS

3.2.1 Research Design

The research design is exploratory in nature and is based on the grounded theory. (Emerald Group, no date).

"Grounded theory is a general methodology for developing theory that is grounded in data systematically gathered and analyzed. Theory evolves during actual research, and it does this through continuous interplay between analysis and data collection.” (Strauss and Corbin 1994, p. 273).

Triangulation was used to enhance the reliability by supporting or disproving respondent’s responses with secondary data (Bryman & Bell, 2007).

3.2.2 Data Collection Methods

Primary Data Collection: Grounded theory involves an iterative data collection method. Primary data will be gathered through 20 qualitative semi-structured interviews with key stakeholders using both closed and open-ended questions. Key stakeholders include government officials, academics, investment agency employees, office bearers and all possible organisations or institutions with vested interest in the research. Semi-structured interviews were chosen due the flexible nature of this interview process. It allows the interviewee to frame his/her understanding of an event or impact (Bryman A., 2008). Data
collected by interviewing the major stakeholders of FDI in Zambia was backed up with secondary research done with further literature review. Primary data was also collected using an archival analysis of government information and publications.

An introductory letter was sent, when possible, to the potential interviewee to outline the purpose of the research and to obtain authorisation to conduct the interview.

**Secondary data collection:** An in-depth literature review on secondary sources including journal articles and books has been conducted prior to any primary data collection.

### 3.2.3 Research Instruments

Semi-structured interviews: The researcher had a list of questions in terms of an interview guide, covering themes of the topic. The interview guide was adapted to accommodate the interviewee’s background and expertise. The goal is to remain flexible based on the interviewee’s responses in order to obtain rich, detailed answers (Bryman & Bell, 2007). All interviews have been electronically recorded and transcribed by the researcher. This helped the researcher engage more with the data collected and helped identify themes from the transcribed information. If any time constraints became an issue then the interviews were sent to a qualified transcription expert.

### 3.2.4 Sampling

Non-probability sampling methods were used in this qualitative research in the form of purposive and convenience sampling. Purposive sampling was used because participants chosen are strategic to the research questions being posed. In purposive sampling for example, questions posed about the government’s participation in investment policies was directed at government officials. Convenience sampling was used as a manner of collecting data available by chance when in Zambia (Bryman & Bell, 2007). Most interviewee’s where asked for a referral at the end of each interview. This was a useful sampling method as the interviewee had a better understanding of the research report agenda and could direct the researcher to a potential interviewee that would strongly benefit the report. Snowball sampling was used as the researcher made initial contact with a small group of people who are relevant to the research topic and then use these contacts to establish more contacts in the process. With the help of the supervisor, the researcher had a couple of key contacts that helped to set up interviews while in Zambia.
The population identified at the start of the research process included various individuals and organisations directly or indirectly involved in the research topic. This includes policymakers, academics, investment agency employees, office bearers and all other institutions with vested interest in the research. A couple of MNCs were approached to add a different perspective to that of government officials.

3.2.5 Research criteria
Qualitative methods used provided interpretation of meaning, complex phenomena and dynamic processes, and which served exploratory purposes and provided deep knowledge. Guba and Lincoln (1994) propose that it is important to assess the quality of qualitative research that provides a more appropriate alternative to reliability and validity (Guba & Lincoln, 1994). Two primary criteria are trustworthiness and authenticity (Bryman & Bell, 2007).

Trustworthiness is made up of four criteria:

1. Credibility: Involves ensuring that the research is carried out according to good practice and submit those findings to the participants of the research to confirm findings. Respondent validation or triangulation was used to help internally validate the findings.
2. Transferability: Means that the findings must be applicable to another context. It is believed that the findings around the economic policy framework are generally transferable in different context
3. Dependability: Guba and Lincoln suggest that researchers should adopt an auditing approach and all records found and used must be kept in an accessible manner.
4. Conformability: The researcher must not allow personal values or judgment to sway the research methods or findings.

Authenticity is broken up into the following criteria:

1. Fairness: The researcher must show that they have shown fairness on depicting different viewpoints. In respect to economic development it was important to not only get the data from government but also the viewpoints from other key stakeholders and society. This turned out to be a very important step to authenticate this report as many of the government officials were of the same viewpoint on certain issues. Even if they
were not consciously doing it seemed that they were all referencing their answers to the questions posed from government reports.

2. Ontological authenticity: The research can potentially contribute to theory, knowledge and practice in education and training and create a better understanding for Zambia.

3. Educatively authentic: The research endeavours to educate members of society like the government on the perspectives of other key stakeholders and society.

4. Catalytic authenticity: The research could potentially act as a driver of change to help improve the current investment climate in Zambia.

5. Tactical authenticity: The research endeavours to empower key stakeholders to take the necessary steps for possible action.

3.2.6 Data Analysis Methods

Firstly secondary thematic analysis of data was done prior to the primary data collection in search of common themes. This analysis involved official statistics collected by the government and the analysis of data collected by other people or organisations. The researcher used an inductive approach when analysing the data in order to draw generalizable inferences from observations (Bryman & Bell, 2007). Data collected was analysed in the following steps: Firstly the data was gathered and summarised to identify the key points that allowed the researcher to become familiar on the topic. Triangulation with secondary information such as government documents and publications was used to validate these findings.

The primary data analysis is in the form of Grounded Theory. Grounded Theory is defined as “theory that was derived from data, systematically gathered and analysed through the research process. In this method, data collection, analysis, and eventual theory stand in close relationship to one another.” (Corbin & Strauss, 1998, p. 12)

The data has been collected and sorted and the researcher undertook a process of open coding. The data was then sorted noting concept/ themes that have emerged, matching them with the preliminary research and setting them into specific categories. The categories were then subdivided into distinguishing properties. The process of constant comparison was implemented throughout the course of this research. The categories were then compared for any connections or further possible groupings as a process of axial coding (How to... implement grounded theory, n.d.).
This process continued until a point of saturation at which point all categories created by the researcher subsume into the core category. The final theory building was a process of integrating the categories into an overall theory. This process has been illustrated in Appendix C.

3.2.7 Limitations

- The limitations of secondary analysis of data include the lack of familiarity with data not collected primarily by the researcher. There is no control of the data quality and complexity of data. As secondary analysis of data collected by others for their own purposes may mean that a key variable is absent. There are also issues in terms of reliability and validity of secondary statistical data. (Bryman & Bell, 2007)
- Convenience and Snowball sampling used are an unlikely representative of the population (Bryman & Bell, 2007)
- Access to the relevant stakeholders and willingness of the people to give information.
- Language limitations although this does not seem to be an issue in Zambia.
- Researchers time constraints.
- Researcher’s ability to make accurate records of interviews.
- A key limitation in the collection and analysis of data is if the FDI by sector and industry is not recorded by Zambian officials.
- The research did not focus on all the sectors possible. The sectors that have been analysed include only mining, agricultural, tourism, manufacturing, infrastructure, energy, and telecommunications.
- The researcher did not look specifically into the social challenges and impact and focussed more specifically on the economic effects associated with FDI.
CHAPTER 4: RESEARCH FINDINGS AND ANALYSIS

The research findings and analysis is grouped into two sections based on the primary and secondary research objectives. The first section deals with the primary findings surrounding policy-related or operational challenges for Zambia in attracting appropriate FDI. The secondary findings are discussed in the second section in terms of FDI’s impact on Zambia.

4.1 PRIMARY RESEARCH FINDINGS – BARRIERS TO ATTRACTING FDI

4.1.1 Policy reforms and regulations

Investment policy challenges still face the investment community in Zambia, with weaknesses being visible in the regulatory framework. The ZDA incorporated the investment code of 1994 into the ZDA Act 2006, which contributed to simplifying the legislative framework for investment. However, if one considers that the Company Act and the Zambian constitution also contain investment-relevant legislation, there still appears to be confusion as to what is the primary source of investment legislation in Zambia. The Zambia Association of Chambers of Commerce and Industry (ZACCI) identifies that the number of investment policies and ministries confuse investors. Ministries can talk in different directions, which leads to misunderstanding and a general lack of clarity. There is also the problem with policies being amended or changed at any moment, making it difficult for MNCs and investors to keep track of the changes that are relevant to them, or for foreign companies to plan accordingly. The government needs to more consistent and predictable with regards to policy regulation (Tembo P., 2012). Inter-agency co-ordination can also become better organised to stop duplication of work and should be supported by some form of co-ordinating mechanism (OECD, 2012).

More recently, government has put forward a proposal affecting the repatriation of profits (Tembo P., 2012). The proposal asserts that all profits must stay in Zambia for a minimum of one month before they can be repatriated to the MNC’s home country. This will be good for the financial sector, but there has already been an outcry by the investment community. Kamanga (2012) suggests that “FDI is not achieved in the short-term; it has a longer gestation period. New investments go through the usual process of exploration. Foreign investors want some insurance, [to be able to] repatriate their earnings and continue to do...
their business.” Time will only tell with regards to the effect the government’s proposal to withhold repatriated profits will have on FDI.

Another hurdle for investors is the yet-to-be-launched land policy, which affects land ownership. The process of acquisition and registration of land for foreign owners is both cumbersome and expensive. Investors have to negotiate land that is under traditional ownership with tribal leaders. The land to be acquired has not been surveyed and mapped properly. Title-deeds processing has been noted as riddled with poor record keeping and incidences of corruption at the Ministry of Lands (OECD, 2012). Kaunda (2012) mentioned that farm blocks and MFEZ developments are helping to curb some of this issues relating to the granting of titles, infrastructure support, and surveyed and mapped land ready for use by the investor.

Another policy change that has unsettled the investment community and local market, especially in the long term, is the introduction of statutory instrument (SI) 33. Prior to the introduction of SI 33, companies were allowed to quote in foreign currency. Now, everything must be quoted in local currency, thereby increasing the demand for Kwachas (Kamanga, 2012). Kamanga (2012) suggests that this policy reform is generally good but that there should have been some impact assessment, especially in the priority sectors. “Previously in the power sector, for example, you could raise funds using a power-supply agreement, which is not possible to do in the local currency. This is going to have an impact on the lenders. You can’t get access to your typical project finance where you can escrow the receivables. There is currently a lot of debate [surrounding] how this IS 33 will affect the power industry.” (Kamanga, 2012)

4.1.2 Tax and incentive policy for foreign investors

The challenge for the Zambian government is to find the right balance between obtaining tax revenue from investments, and posing a tax burden which causes investors to invest elsewhere. Tax revenue is necessary for public-service expansion, which indirectly attracts foreign investment. Therefore this balancing act is critical.

Company tax is based on sector, and certain tax rebates or “holidays” are given to those investing in priority sectors. There is no discrimination between foreign and local companies with regards to the taxation system.
Tembo (2012) agrees that investors are enticed into priority sectors by fiscal incentives, especially those that concern tax. However, he believes that investors do not solely rely on the availability of tax holidays to invest, but are also looking for predictability and stability in the tax system. Thus focussing on a predictable and fair tax system would be more in keeping with investor interest.

The special incentives and “tax holidays” that sectors such as the mining sector receive means that some companies pay a marginal effective tax of 0 percent. While this may be attractive to foreign companies wanting to invest in the mining sector, it has left some discord amongst the general population. Zambia may not be receiving a fair share of the mining boom, and tax rates in other sectors could be reduced if the mining sector contributed more to tax revenues. This would be more in line with the economic diversification strategy that is striving to attract FDI into other sectors. However, “When the international metal prices of copper rebounded in 2007, the government decided to review the mining-taxation regime and, subsequently, amended the Mining and Minerals Development Act in April 2008. The changes included: a Mineral Royalty Tax of three percent (up from 0.6 percent); the introduction of a Variable Profit Tax at 30 percent; and the Windfall Tax on copper and cobalt” (OECD, 2012, p. 100). The applicable tax rates and incentives in Zambia are found in Table 3 below.
TABLE 3: TAX RATES APPLICABLE IN ZAMBIA

<table>
<thead>
<tr>
<th>Corporate Taxes</th>
<th>General</th>
<th>Mining</th>
<th>Agriculture</th>
<th>ZDA Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>35%</td>
<td>30%</td>
<td>15%</td>
<td>0%-15% for the first 5 years of investment</td>
</tr>
<tr>
<td>Variable Profit Tax</td>
<td></td>
<td>15% on profits exceeding 8% of turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mineral Royalty Tax</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withholding Tax on dividends, royalties and management fees</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from OECD, 2012

4.1.3 Infrastructure Development

“Zambia's infrastructure is a priority for the government and it features prominently in the National Development Plan. The country has [a] relatively good network of primary and secondary roads, although [these are] quite limited in rural areas. Insufficient road infrastructure undercuts the potential of investment in rural areas. The rail infrastructure is not very well developed and this is crucial for mineral exports” (Mulimbika, 2012).

Kamanga (2012) confers that President Banda’s government recently issued a US$ 750 million Eurobond to raise capital for infrastructure development. These innovative finance mechanisms can help the country tap foreign sources of capital to reduce the gap in infrastructure funding (Kamanga, 2012). While financing for infrastructure development has been highlighted as a challenge to FDI, another issue relates to inefficiencies in the public management of infrastructure. The government needs to find a way to improve cost-recovery in the power sector, capital budgeting in the transport sector, and general operational efficiencies in the water sector (OECD, 2012). The Regional Infrastructure Development Master Plan (RIDMP) was signed at an SADC summit in August 2012, and this will guide development in key infrastructure. This key infrastructure includes road and rail networks.
between member countries, such as Zambia. The RIDMP will also act as a framework to promote regional integration and planning between member countries and the private sector (SADC, 2012).

There is also a major challenge for FDI in terms of Zambia being able to meet current energy demand (Tembo M., 2012). “As we speak now, there is a mine coming into operation which will only receive a third of the energy required in order for it to operate at full capacity” (Tembo P., 2012). ZESCO admits that this is a challenge for them, and they are trying to counter this problem by finding new sources of electricity supply. They are also looking into new ways of controlling their coal reserves and power generation. As mentioned in the literature review, ZESCO is currently investing in Independent Power Producers (IPPs) (Tembo M., 2012). Tembo (2012) further suggests that they are managing their coal supply by investing directly into coal mines.

The challenge then is to find ways to meet infrastructure deficiencies while attracting more FDI. And when more FDI starts to come in, the country will need to find new sources of energy through innovative power-generation schemes that meet the growing energy demand.

4.1.3.1 Public Private Partnerships

The Zambian Government has promoted the use of PPPs to address the issue of infrastructure development. In 2008, a PPP policy was launched to provide an institutional and legal framework to help promote private investment from both local and foreign investors. The government has also introduced a PPP unit with the sole mandate of identifying and promoting opportunities for the private sector to engage in the development and delivery of infrastructure and services (OECD, 2012). According to Tembo (2012), the use of PPPs by the Zambian government has helped to improve large-scale infrastructure development, especially in the construction and energy sectors. “The setting up of a PPP legal framework offers an avenue for attracting more private investment” (Mulimbika, 2012). An example of how PPPs have attracted foreign investment was given by Tembo (2012), detailing how Tata India and ZESCO joined forces to invest in much-needed hydro-electric power schemes. However, the challenge remains for the treasury to finance such large projects and commitments.

It is a constant goal of the government to target the private sector in helping to manage and finance such infrastructure-development projects. While this initiative has gotten some wide
recognition and almost all the government officials interviewed praised the PPPs, there are still grey areas in terms of who gets what in such a partnership agreement; this may make PPPs risky for private foreign investors. These PPPs can be enhanced by improving transparency and disclosure of the bidding process (Tembo P., 2012). At present, these processes have been implemented administratively using executive orders rather than public tenders. The government also needs to improve its management capabilities so as to ensure that the national interest is protected and that selected contractors are held accountable should they breach a PPP contract (OECD, 2012).

4.1.3.2 Transport infrastructure

“The increase in FDI is impacting [on] the need for transport, roads and storage facilities. The rail sector is not working; [and] we have four international airports but aviation fuel is very expensive. Railways are there but carriages are not sufficient.” (Chikwashi, 2012)

Further to the above, Chikwashi is concerned that there is a lot of pressure on the current road systems, mainly due to the non-existent railway services. There are many trucks on the roads because the railways are not working; a lot of money is being spent on the maintaining of these road surfaces (Chikwashi, 2012). Zambia’s railway-transport systems are both inadequate and unreliable, which means companies have to resort to using road or air which makes their business transport costs extremely high. This also contributes to the congestion experienced by MNCs at borders (OECD, 2012). The problem also involves discriminatory tariff-setting policies which Chikwashi believes is hurting the export market.

In 1995, the Zambian government divested from the national carrier, Zambia Airways. Since then many private operators have tried to run their own private airlines, but many have failed due to the high costs associated with aviation. Fuel was highlighted as the main driver of costs, which are highest in the sub-Saharan region (OECD, 2012).

In general, transport infrastructure is not growing or improving at the same rate as economic growth, which confirms the findings of the literature review. As more FDI comes into Zambia, it further exacerbates the deficit of available transport options and the cost of doing business in the country.

4.1.3.3 Telecommunications
The literature review revealed some challenges within the telecommunications sector. While telecommunications was not raised often in the interviews conducted, it is still a sector to note as posing a challenge for foreign investors. The charges associated with the mobile-telephony network remain high. For example, the cost of making an international call using a mobile device ranges between US$ 36 and US$ 132 per minute. The monthly subscription for a wireless account (256 kbps up/256kbps down) is around US$ 2,096 (ZDA, 2012). This is relatively high compared to the South African telecommunication industry averages, and it increases the cost for foreign companies of doing business in Zambia. There are still some network issues that need to be addressed as network coverage is unfortunately weak, especially in rural areas. This makes it a challenge for MNCs to expand into the outskirts of Zambia.

4.1.4 Economic-diversification strategy

It is evident that value addition in the form of processing raw materials into value-added products will be an important step in further strengthening the Zambian economy. It also forms a major part of the current government’s economic-diversification strategy, whereby the economy will be able to become less reliant on the mining and quarrying sector for growth as highlighted by the sector priority table, table 1, in the literature review. However with the current copper prices and demand for copper, it is becoming a challenge for the Zambian government to direct investment into other priority sectors. The GRZ has put in place many incentives and mechanisms including tax incentives, MFEZs, industrial parks and farm blocks to direct FDI into the agricultural, manufacturing and industrial sectors. The reason for this is so that Zambia doesn’t stagnate as an exporter of raw materials. The aim is to diversify their export products to include processed and finished goods. Value addition has been highlighted as a top priority by government agencies. They see the value in focussing their attention on developing a sound beneficiation strategy. However, beneficiation is very capital intensive and they need the help from investors and the private sector to implement these strategies. In recent years, the Zambian government has been attempting to revive the manufacturing industry and attract investment through the ZDA Act, which provides incentives to investors investing no less than US$ 500,000 with a five- to 10-year tax exception depending on the particular sector. The reverse side of that incentive coin is that foreign firms are not able to extract investment incentives if their investment is less than US$ 500,000. “This has led to a spill-over effect, which is part of the multiplier effect for local beneficiation and has a positive effect on the local economic growth” (Chanda, 2012).
Another mechanism to overcome the challenge of attracting FDI into priority sectors is with the use of Multi-Facility Economic Zones and industrial parks. “The MFEZ[s] are attracting FDI. But the thing is we need to see more local business coming out of these MFEZ initiatives, as they are generally anchored by foreign companies” (Kamanga, 2012).

In the agricultural sector, the use of farm blocks was highlighted as a great way to jump-start agro-processing activities. Local businesses are showing that it is possible to diversify their product/export offering by entering into agro-processing operations. Zambeef, a market leader for beef and other agricultural products, for example, has now become the market leader with its leather subsidiary, Zamleather. They have diversified from just selling meat products to add value at each point of the value chain. Their strategy of controlling each stage has led them into agro-processing. An argument could be made that they learnt about the retail business from their strategic partnership with the Shoprite group (Kranz, 2012).

Even though value addition has been identified as an important tool for economic diversification, the Zambian Government is still finding it challenging to attract more FDI into these activities. There is also the issue of the implementation of the economic diversification strategy in general. While this strategy is a hot topic in the minds of the Zambian business community, some issues have been identified in terms of follow-through and implementation of these strategies by the government.

4.1.5 Financial-sector development

An effective financial system makes it easier for enterprises and entrepreneurs to invest into a country. A solid financial sector can create the possibility of local financing for foreign investors. It is important for governments to understand the key role that financial institutions play in the development of an economy. Especially in terms of the MSMEs that could contribute to a large portion of future GDP growth. Policies should help facilitate the growth of such enterprises and attract FDI. They need to ensure financial stability, price stability and transparency, while broadening the financial products and services on offer.

Prior to the liberalisation of the Zambian economy, there were a lot of monopolistic tendencies in the banking sector. Prior to 1991, commercial banks were 100 percent government controlled. After 1991, conditions were relaxed with incentives for foreign investors, which meant MNCs came into Zambia. In fact, this happened to such an extent that a total of 18 different commercial banks sprung up in a short period of time (Zulu, 2012).
Many of the international banks entered the market through the acquisition of existing banks. South African owned Standard Bank, for instance, originally entered the Zambian market by acquiring the Grindlays Banks and focussing just on corporate clients. As the economy grew, however, Standard Bank started trading as a stand-alone commercial bank known as Stanbic. They moved from just focussing on smaller corporate clients to entering the retail market, with the introduction of more retail outlets and ATM banks. They now offer a wide variety of specialised services and are in Zambia to stay. The recent building of their head office in Lusaka has shown this intent, and showcases the intent of many other commercial banks in Zambia (Kalifungwa, 2012). FNB tried to expand into the Zambian market by buying the Finance Bank of Zambia Limited (FBZ), which is owned by the Government and managed by the Bank of Zambia. The transaction was however reversed by the newly elected President Sata and the FBZ is still currently controlled by the State (Zulu, 2012). While the circumstances behind the reverse privatisation of this bank are unknown, there remains the challenge of overcoming its negative effect on investor confidence within that sector. Some local officials showed support of President Sata’s decision as it meant that 1,000 local jobs would be saved, however an argument could be made that FNB would have created even more jobs when it used the purchase of FBZ to expand its operations even further into the Zambian banking network.

The cost of financing has been under the spotlight recently. The Bank of Zambia constantly monitors the movement of lending rates in the private sector. In the past, lending rates were well above inflation at around 20 percent and this made it difficult and expensive for people to access credit. There were also several policies in place that regulated banks in terms of their long-term finance offering. This has stifled the growth of the private sector and has made it difficult for financial institutions to offer long-term loans to the private sector. The government then set up a monetary policy committee to help regulate and lower these interest rates. Loans since April 2012 have been based on a new bank rate of nine percent. Banks have been forced to drop to this rate, which should make accessing credit for the private sector a lot more feasible. However, clients budgeted on the previous rate, which makes this sudden rate change a shock to the financial system. As interest rates come down, inflationary challenges could cause the interest rates to start rising again which will affect the macro-economic stability that is an important determinant for FDI. There is also the risk of government not meeting their year-end targets (Zulu, 2012).

### 4.1.6 Corruption
African countries are synonymous with corruption, and it is really difficult for non-corrupt institutions and organisations to wash away that stigma. The reverse-privatisation of previously state-owned enterprises such as ZAMTEL, discussed in the literature review, and the renationalisation of The Finance Bank of Zambia Limited (FBZL) leaves a bad taste in the mouths of other potential foreign investors and reduces investor confidence. In September 2011, First National Bank (FNB) had concluded the deal to acquire FBZL for US$ 5.5 million. However, when the new Sata government came into power four weeks later, they reversed the deal stating that there were no sale documents proving the sale was legal. This left the investment community wary of investing in any SOEs in which the government could influence the sale in such a controversial manner (Zulu, 2012).

“Government must continue to send the right signals that they are investor friendly” (Kamanga, 2012).
4.2 SECONDARY RESEARCH FINDINGS – IMPACT OF FDI ON ZAMBIA

4.2.1 Impact on the local business environment

Initially the researcher posited that the increase of FDI into a country would have a “crowding out” affect due to the surge of MNCs entering a country, as mentioned in the literature review. However, this seems to be a short-term problem. In the beginning, smaller local inefficient businesses seem to be pushed out when bigger operators enter their segment with more advanced technologies or expertise. Some MNCs crowd out local businesses with cheaper products. “Historically FDI has a local economic effect in the sense that most MNC’s will import cheap-quality products from Asia, which will compete with [the] local products. This is also clearly visible through [globalisation] and the liberalisation of the Zambian economy, which saw the total collapse of the Zambian manufacturing industry as well as the closure of MNCs that had plants in Zambia, ... due to higher production costs and political interference” (Chanda, 2012). However, in the long-term, local businesses learn to adapt to the new business environment and find innovative ways to carry out their operations. Some businesses learn how to become more efficient and improve productivity to match their foreign counterparts. MNCs have come to realise the importance of improving the social-economies of Zambia through skills development and technological economies. This development is visible in ICT through the regulator ZICTA, in agriculture and agro-processing, as well as in construction and infrastructure development.

Through constitutional intervention by Government agencies, MNCs have had to comply with the transferral of technology and skills, wealth and prosperity to Zambian citizens in an initiative called citizen economic empowerment. Through such initiatives, local businesses have benefited in the value-chain process. Human capital is, after all, not just interpersonal property but also organisational. Foreign companies have demonstrated the capacity to create jobs and start new businesses, by transferring technology, skills and social capital to local Zambians.

However, these MNCs have been criticised for not complying with their corporate social responsibilities and much controversy and social concern has been raised. The practices of unfair competition and taking advantage of low wages have caused the PF Administration to introduce the minimum wage act. Labour standards are still a major concern, which in extreme cases can violate the basic human and labour safety rights.
4.2.2 Technology Diffusion and Knowledge Transfer

Generally Zambians are educated people with an adult literacy rate in English of nearly 80 percent. This literacy standard makes it easy for Zambians to adopt new technology, skills and knowledge. Local businesses are observant by nature and have been taking in new technology via observation. Foreign firms are required to demonstrate new technology by providing technological assistance to their business agents, local suppliers and customers, as well as training workers and end-users (Chanda, 2012).

Local Zambian business communities and entrepreneurs have tapped into the human capital that comes with MNCs. This is done through knowledge and technology transfer. The productivity theory states that FDI can positively influence the growth rate in a country, in so far as it generates increasing returns in production via externalities and production spill-overs. The South African Zambia Chamber of Commerce (SAZACC) states that “the spill-over effects from South Africa[n] investments on technology training and skills development in Zambia [are] clearly visible. Zambia as an emerging economy needs professional and experienced expertise with exceptional skills to impact and transfer such knowledge economies to Zambians” (Chanda, 2012).

MNCs interviewed in this report such as Shoprite, Stanbic and Airtel all tend to agree that their presence in Zambia has helped to bring in new technology, increased productivity and abundant opportunities. However, there are still not enough businesses linkages in place between foreign investors and local businesses. This weakens the possible avenue for technology diffusion and knowledge transfer (OECD, 2012). One of the Zambia Association of Chambers of Commerce and Industry’s (ZACCI) main goals is to promote linkages between foreign companies and local businesses. The development of clusters surrounding MFEZs will help to promote and facilitate these linkages between foreign companies and local suppliers. Kamanga (2012) agrees that the MFEZs are attracting FDI and facilitating the transfer of technology and knowledge, however “we need to see more local business coming out of these MFEZ operations, as they are generally anchored by foreign companies” (OECD, 2012). Lubemba (2012) adds that some policy-related programme should be put in place to get MNCs to use local businesses.
4.2.3 Labour and Skills Development

The skill gap in Zambia is similar to that in many other third-world countries, hence the reason it has become imperative that the country’s government not only consider job creation but also skills-development programmes. Local businessmen and entrepreneurs are mostly subcontracted or contracted employees of MNCs. These MNCs help in the transfer of skills to local workers which they have never previously been exposed to, thereby empowering the local businesses.

Chikwashi (2012) believes that the process of skills development needs to start before workers are sent out into the workplace. She asserts that the tertiary education system in Zambia does not impart the technical skills that are required. With the increase in the demand for skilled labour from MNCs investing in Zambia, comes the need for more skilled-labour availability. In the past, over 70 percent of the unskilled workforce was employed by the agricultural sector. The mining industry is very capital intensive and doesn’t require as much labour. As economic diversification starts to gain momentum, so too does the need to improve the education system. Chikwashi (2012) says that Zambia is addressing this issue by introducing a new curriculum that focuses on technical subjects such as maths and science.

Zambia has taken some big strides to meet these FDI demands, but is still struggling to meet the needs of the manufacturing and industrial sector. Technical skills are hard to come by for MNCs, which leaves them no choice but to train in-house or worse import skilled labour from their home countries. Lubemba (2012) agrees that companies are trying to close this skill gap by sending managers on company training courses. They are trained within the group by sending managers to training facilities in other countries (Lubemba, 2012).

The removal of most trade barriers and restrictions within the SADC and COMESA region and the implementation of the common custom union have also had an impact on local competition. According to the South African Zambia Chamber of Commerce (SAZACC), South Africa has greatly contributed to Zambia’s increase in FDI thereby stimulating Zambia’s economic growth. The theory that FDI enables host countries to achieve investment that exceeds their own domestic savings and enhances capital formation has proved relevant to Zambia’s economy through South African economic integration. This has helped improve domestic (Zambian) business sectors through technology, training and skills transfer.
The tourism sector, for example, has already seen a spill-over effect from MNCs such as the entry of the South African hotel group, Protea Hotels. The Protea Hotel group brought in new hospitality technology, new skill services and upped the quality in hotel management. Employees have been retrained to meet and perform at international standards. They also benefit from ongoing staff-training programmes and the use of modern reservations systems and marketing techniques (Chanda, 2012).

The other challenge for MNCs is the poaching of these newly trained employees by other companies, which is a huge cost to them and makes the training of unskilled labour a futile strategy. “In addition to FDI having direct effects on workers employed by MNCs, FDI may also have indirect effects on workers’ employment conditions within [a] domestic business. When knowledge and skills are transferred to local employee[s] or subcontractors, their worth increases. They become more attractive to other MNCs, whenever there is knowledge spill-over associated with FDI” (Chanda, 2012).

FDI is bringing competition to the local business environment which is improving the competitiveness and productivity levels of Zambia. More products are being made available to locals and the export market. Increased competition means that the prices of produce have to be kept in check. The quality of goods produced has also improved (Lubemba, 2012).

In the literature review, it was evident that FDI had a direct impact on job creation. An analysis of the employment pledges versus the actualised employment and investment pledge figures highlights a challenge in monitoring and converting these pledges into realised jobs. This analysis also assisted the researcher in understanding the importance of directing investment into more labour-intensive operations, as these would both create employment and alleviate poverty.

“It is true that FDI typically has a strong effect on average wages [at] local firms, but this largely reflects the competition [between] foreign and domestic business for local workers. In principle, FDI could also affect wages [at] local firms through its impact on the productivity of local business[es]. Positive productivity can also encourage wage spill-overs, which are probably more important when there is a strong relationship between local firms and MNCs. [This is because], local firms can [then] directly participate in the supply chain” (Chanda, 2012)
The government has also introduced a new minimum wage which Kamanga and Chanda (2012) infer will cause an issue for foreign investors. In time, this issue will settle down, however they feel the new wage has compromised the jobs the government is trying to create in the first place. MNCs are going to have to reduce their labour force in order to uphold the minimum wage requirement, while still remaining competitive.

In concluding this theme, it is evident that FDI has a direct and indirect impact on labour and skills development.

**4.2.4 Entrepreneurial Mindset and the Rise of MSMEs**

FDI has had a palpable impact on the rise of Micro Small and Medium Enterprises (MSMEs) in Zambia. Chikwasi and Kaunda (2012) believe this has to do with the fact that many jobs were lost during the privatisation process and the locals had to supplement their lost income by starting their own small businesses. In response to the rise in MSMEs, the government made it the ZDA’s mandate to dedicate a directorate to Micro Small and Medium Enterprises and developed the MSME policy. This policy was designed in the hope of developing innovative thinking, technological capability and entrepreneurship. “So with the coming of huge investments, we are seeing the emergence of entrepreneurs and MSMEs who[which] are supplying various goods and services to [the] larger MNCs. With that linkage [comes] the issue of technology and innovation transfer. That innovation, technology transfer and emergence is all contributing to the innovative mind, [technological skill development] and entrepreneurship ” (Tembo P. , 2012).

The privatisation process seemed to destroy local jobs in the formative years but as new MNCs entered the Zambian market, new opportunities were created which meant that many MSMEs emerged due to the country’s new-found entrepreneurial spirit.

**4.2.5 Environmental Impact**

Lastly, there are also some environmental issues related to FDI that need to be further researched in Zambia (Bank of Zambia, 2011). The Zambian Environmental Management Agency (ZEMA) reported that the impact of large-scale mining operations and other heavy-duty manufacturing operations are taking a heavy toll on the local environment. According to Tembo (2012), Kabwe, one of the mining towns in Zambia, is one of the most polluted in the world. Due to former zinc and lead mines, an issue has emerged in that lead has seeped into the ground water and infected the local population. There has been no improvement for
decades and high levels of lead poisoning have been reported in children growing up in this area (Tembo P., 2012).

“ZEMA is working hard to make sure there is compliance. Politics [is] also involved when there are big investments. We are looking into cleaner production to secure the future of [our] coming generations” (Tembo P., 2012).

4.3 RECOMMENDATIONS BASED ON FINDINGS

This section makes the following recommendations to overcome the barriers and challenges in attracting appropriate FDI and have a more positive impact on the Zambian economy.

**Develop a coherent investment policy document, from which all investment decisions are made**

In order for policy reforms to consider all impacted parties and to avoid confusion amongst the ministries and agencies, there should be one unified investment document from which all investment decisions can be made. While reforms are necessary, investigation into the long-term effects of such policy reforms must be properly conducted before implementation. Essentially, the policy changes that need to be made must be implemented correctly so as not to adversely affect FDI. Ministries and government agencies must speak the same language as to not confuse investors. The GRZ must also facilitate better intra-agency co-ordination.

**Incorporate a fair and predictable tax system**

It is imperative that the Zambian government finds the right balance in obtaining tax revenues to improve its fiscal situation without being a tax burden, while at the same time attracting FDI with appropriate fiscal incentives. However, they need to do so in a fair way so as not to deter future potential investors. Changes in the tax system must also be instituted in such a way that they are predictable, allowing MNCs to budget and plan accordingly.

**Promote business linkages**

Government needs to regulate the linkages between local and foreign businesses to achieve greater technology and knowledge transfer. Policies that are working to improve technology transfer need to consider the technology gap between the investing firm and the host firm. Development agreements must be built into investment contracts in order to regulate the use of local suppliers and businesses by MNCs. Improved linkages will increase the possibility of
technology and knowledge transfer and skills development in Zambia. This will then lead to an improved business environment in the long run, in terms of the up-skilling of the local labour force. More FDI will also be attracted indirectly, in the future. As more skilled labour is developed organically, there will be less need for MNCs to train workers in-house or even bring their own workers from abroad. This will reduce the cost of doing business in Zambia and makes it a more attractive destination for foreign investors.

**Address the infrastructure development gap**

The government of Zambia has made infrastructure development a top priority, and they must continue to strive to fill the gap between increased investment and their relatively poor infrastructure. The government has addressed the inadequate infrastructure with PPPs and other public works initiatives. The use of innovative financial mechanisms, such as the issuing of the Eurobond, can help to facilitate such infrastructure-development programmes. Special focus must be paid to transport and energy infrastructure, which have been identified as two major obstacles to doing business in Zambia.

Infrastructure development must also be extended to the rural areas, in order to open these areas up to more FDI in the future.

**Maintain financial stability**

The challenge for government is to create financial stability, while making it easier for foreign investors to access credit in Zambia. Previously, high interest rates were identified as the reason for the high cost of doing business in the country, and now that lending rates have been reduced, the government must ensure that interest rates remain stable and do not adversely affect inflation. If these not kept in check they will affect macro-economic stability, which is an important determinant for FDI in Zambia.

The withholding of repatriated profits may deter some investors, and advocates for the proposal must weigh up the benefits of increased liquidity in the banking sector versus curbing FDI.

**Improve transparency**

Issues of corrupt ministries, fraudulent tender and bidding processes and reverse privatisation have been identified. The Zambian Government must increase the fight against corruption and make transparency a top priority in order to improve investor confidence.
Continue implementing the economic diversification strategy

There is a strong push to direct activities into priority sectors, other than the mining sector, in Zambia. This is a great initiative that all resource-rich African countries should incorporate into their investment-policy frameworks. Directing private-sector development into other sectors means there is less reliance on the mining sector, which constitutes a major portion of GDP growth in Zambia. Value-addition activities, including beneficiation and agro-processing, are imperative in broadening the export product offering for Zambia. These activities will help to create more employment and business opportunities.

Currently, there are too many priority sectors. To help with the implementation of the economic-diversification strategy, it is recommended that priority sectors are reduced down to just a couple in order to focus the activities of government. By identifying fewer key sectors, the government will be able to direct its efforts and financial assistance more effectively.
CHAPTER 5: RESEARCH CONCLUSIONS

The purpose of this research report was to explore the origins, patterns, impact and challenges of FDI on the Zambian economy. The main determinants of FDI in Zambia were cited as macro-economic, political and financial stability. Openness of priority sectors to foreign ownership and tax incentives was also highlighted as a key factor for attracting foreign investors into Zambia. Over the past few years since the financial crisis abated and with the sound investment climate in the country, it has seen a progressive increase in FDI inflows. FDI inflows in 2010 were recorded at US$ 1,729.3 million, up from the 2009 levels of US$ 694.8 million. The majority of these investments have been directed at the mining sector, which accounted for over 60 percent of the total FDI inflows in 2010. However, FDI inflows in other sectors such as manufacturing, construction, tourism and financial institutions have also been on the rise.

There has been a shift in the origin of FDI from Western countries to the East in terms of the sources of FDI. We have seen the likes of India become the biggest investor in Zambia in 2009. The Zambian Government can be applauded for conducting investment drives to attract a wider range of source countries. This has resulted in the Zambian economy being even more resilient to the recent global financial crisis and other economic shocks. In 2010, Zambia saw the more traditional investment countries top the list of source countries for FDI. These included Canada, Australia and the United Kingdom. There was a notable net outflow of FDI from South Africa and a lack of FDI from neighbouring countries during 2010. This suggests that more needs to be done in order to obtain investment from within COMESA and SADC countries and to promote regional integration. The introduction of organisations such as the South African Zambia Chamber of Commerce will help to facilitate such cross-border investments into the SADC region. It will also lead to more regional integration and collaboration between Governments.

This paper endeavoured to find what mode of FDI was used to invest into Zambia. However, there was no conclusive evidence of whether Greenfields, M&A’s or JVs were the preferred mode of entry. Up until 2006, FDI took the form of acquisitions of existing assets of previous SOEs, under the Government’s privatisation programme. FDI, in value terms, dominated the privatisation programme, and this was mainly through joint ventures. Foreign investors were mainly interested in acquiring a number of larger mining, energy, manufacturing and agro-business companies.
In terms of the future policy-related barriers to FDI, research found that Zambia needs to develop a coherent national investment policy. Ministries and Government agencies need a central-investment document from which to make future policy changes or decisions. Intra-agency co-ordination is required to avoid duplication of work and to reduce bureaucracy. Policy changes need to be fair and predictable, especially in terms of the tax system.

Operational challenges that key stakeholders face in the future in terms of attracting appropriate FDI into Zambia include infrastructure development gaps, financial sector instability, lack of skilled labour, challenge of investment diversification and corruption.

Infrastructure development is critical to the success of the economic diversification strategy and in helping to attract foreign direct investment. Improvements in infrastructure will help to reduce the cost of doing business as MNCs can rely less on air and road for the transportation of goods. The railway network was identified as a key area for development. Energy supply also needs to be addressed to meet the current and future demands associated with increased FDI.

Skills development education and training need to have a clear mechanism to distinguish between them. Human resources strategies need to be properly aligned to meet the growing demand for skilled labour in Zambia. Education is important in the long-run to help alleviate the development gap and lay the foundation for future skilled workers. The Government also needs to promote business linkages between foreign and local investors. This will lay the groundwork for the facilitation of knowledge and technology transfer. It will lead to the up-skilling of the local labour force, and will minimise the skills gap that is a barrier to future FDI.

The Government has placed impetus on value addition in order to achieve true economic diversification. However, it would seem that the drive to create investment diversification is not yet working. Not as many foreign MNCs are investing in value-addition activities as the Government would like. These activities include beneficiation and agro-processing.

FDI has impacted the Zambian economy in both a negative and positive way. It has changed the way business is conducted in Zambia. It has provided new opportunities for local businesses to supply goods and services to foreign MNCs. However, it has been shown that more linkages can be created between foreign and local businesses. In the beginning, the entrance of MNCs meant that some local jobs were lost. This led to the rise of MSMEs and
the ever-present entrepreneurial spirit in Zambia. In the longer term, since 1991, it has created more jobs but mainly in the mining sector. FDI has alleviated some of the poverty and resulted in a growing middle class.

There is evidence of a spill-over effect from MNCs into local businesses if there are linkages between the two types of firms. Anecdotal evidence suggests that basic technology diffusion and knowledge transfer has occurred between foreign MNCs and local businesses. For example, Zambeef learnt the retail trade from the entrance of, and a strategic partnership with Shoprite. Stanbic bank acquired Grindlays in Zambia, bringing with it new technologies and innovative banking products. The entrance of MTN and Airtel into the telecommunications sector has meant that new technologies were on offer to Zambia to improve the country’s networks and infrastructure. These service offerings lowered the cost of communications and made it easier to do business in Zambia.

From the research conducted, it was evident to the researcher that the Zambian Government has done a fair amount since 1991 to make the investment climate inviting for foreign investors. Their drive to facilitate investment diversification in order to sustain future economic growth and to create more jobs is commendable. The challenge is then to put forward all these investment-policy changes in a fair and transparent manner. The government will need to implement the necessary changes and monitor the impact that these changes have, not only on the investment community, but on the Zambian community within which these MNCs operate.
CHAPTER 6: AREAS FOR FUTURE RESEARCH

- Originally the researcher was interested in the impact of China’s investment in Africa. This led the researcher to the area of FDI in Africa. In order to understand the influence of one foreign country on an African country it is important to understand the challenges and impact of FDI in general. Now that this is better understood it would be important to research the impact of a foreign/source country or region on the economic development of an African country. A fair amount of anecdotal evidence was given about the Chinese investments impact on the Zambian economy but a proper qualitative research on this topic would be very relevant.

- While it was interesting to obtain the views of key stakeholders in terms of skills development and knowledge transfer it would be relevant to measure this spill-over effect. A quantitative analysis on the productivity spill-over effect from MNCs to local businesses in Zambia would be more conclusive.

- This paper highlighted the importance of the economic diversification strategy in Zambia. What would be worth researching is whether the economic diversification strategy in Zambia is actually working in real terms? What are the lessons learnt by the Zambian government?

- What are the preferred modes of entry in terms of Foreign Direct Investment in Zambia?

- An impact investment study on Zambia. This study would specifically look and social and environmental impact of investments in Zambia.


Chanda, E. (2012, November 26). Executive Director of SAZACC. (A. Slot, Interviewer)

Chikwashi, P. M. (2012, November 8). Chief Executive Officer. (A. Slot, Interviewer)


Kalifungwa, P. (2012, November 8). Credit Finance Manager. (A. Slot, Interviewer)


Kaunda, M. (2012, October 10). Research Officer. (A. Slot, Interviewer)


ZDA. (2012). *Tourism sector profile*. Lusaka: ZDA.

## General Statistics

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<th></th>
<th>2002</th>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>Population (millions)</td>
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<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal GDP at market prices (US $ m)</td>
<td>3,776</td>
<td>4,318</td>
<td>5,448</td>
<td>7,269</td>
<td>10,705</td>
<td>11,582</td>
<td>14,800</td>
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<td>Real GDP growth rate, %</td>
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<td>5.1</td>
<td>5.4</td>
<td>5.0</td>
<td>6.2</td>
<td>6.2</td>
<td>6.0</td>
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<td>GDP per capita, USD</td>
<td>349.6</td>
<td>389.0</td>
<td>490.8</td>
<td>654.9</td>
<td>907.3</td>
<td>952.4</td>
<td>1,181.5</td>
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<td>Private Consumption as % of GDP</td>
<td>86.8</td>
<td>81.1</td>
<td>63.8</td>
<td>68.7</td>
<td>49.1</td>
<td>56.8</td>
<td>59.3</td>
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<td>Inflation rate, %</td>
<td>26.7</td>
<td>17.2</td>
<td>17.5</td>
<td>15.9</td>
<td>8.2</td>
<td>8.9</td>
<td>16.6</td>
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<tr>
<td>Merchandise exports as % of GDP</td>
<td>24.3</td>
<td>24.6</td>
<td>32.6</td>
<td>29.7</td>
<td>35.6</td>
<td>39.9</td>
<td>32.0</td>
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<td>Merchandise imports as % of GDP</td>
<td>31.9</td>
<td>32.3</td>
<td>31.7</td>
<td>29.7</td>
<td>24.2</td>
<td>31.8</td>
<td>29.9</td>
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<td>Capital account of balance of payments (US $ m)</td>
<td>236</td>
<td>240</td>
<td>239</td>
<td>2080</td>
<td>2,632.8</td>
<td>222.8</td>
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<td>Foreign direct investment as % of GDP</td>
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<td>8.0</td>
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<td>6.6</td>
<td>5.7</td>
<td>11.6</td>
<td>6.2</td>
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<td>Overall balance on balance of payments (US $ m)</td>
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<td>-275</td>
<td>-343</td>
<td>70</td>
<td>264.0</td>
<td>352.3</td>
<td>28.6</td>
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<td>Terms of Trade (percentage change)</td>
<td>-7.3</td>
<td>4.4</td>
<td>21.4</td>
<td>5.5</td>
<td>1.8</td>
<td>0.3</td>
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<td>Average exchange rate: ZMK to USD</td>
<td>4307</td>
<td>4743</td>
<td>4772</td>
<td>4464</td>
<td>3,602.1</td>
<td>4,002.0</td>
<td>3,745.2</td>
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<td>Foreign exchange reserves expressed in terms of months of import cover</td>
<td>2.1</td>
<td>1.3</td>
<td>1.2</td>
<td>1.6</td>
<td>2.2</td>
<td>2.5</td>
<td>2.1</td>
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<td>Total external debt as % of GDP</td>
<td>171.8</td>
<td>151.6</td>
<td>130.0</td>
<td>n.a.</td>
<td>16.7</td>
<td>18.4</td>
<td>14.3</td>
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<td>Total external debt service as % of exports</td>
<td>10.9</td>
<td>14.6</td>
<td>18.3</td>
<td>6.7</td>
<td>1.7</td>
<td>18.7</td>
<td></td>
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<tr>
<td>Central bank discount rate (end of year), %</td>
<td>34.0</td>
<td>20.2</td>
<td>18.3</td>
<td>17.1</td>
<td>10.7</td>
<td>13.5</td>
<td>15.9</td>
</tr>
<tr>
<td>Prime lending rate (average for year), %</td>
<td>45.3</td>
<td>40.5</td>
<td>30.9</td>
<td>28.2</td>
<td>23.2</td>
<td>18.9</td>
<td>19.1</td>
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<tr>
<td>Growth rate of M2 money supply, %</td>
<td>29.3</td>
<td>23.5</td>
<td>25.8</td>
<td>1.2</td>
<td>48.6</td>
<td>23.0</td>
<td>20.9</td>
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<tr>
<td>Domestic credit to government (US $ m)</td>
<td>405.0</td>
<td>24.5</td>
<td>23.3</td>
<td>51.6</td>
<td>561.6</td>
<td>484.2</td>
<td>478.4</td>
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<td>Domestic credit to private sector (US $ m)</td>
<td>218.8</td>
<td>255.9</td>
<td>260.0</td>
<td>472.4</td>
<td>693.2</td>
<td>1,120.8</td>
<td>1,128.9</td>
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</table>

Source: Bank of Zambia (2009)
### FDI INFLOWS TO ZAMBIA BY SOURCE COUNTRY IN 2009 AND 2010 IN USS MILLION

<table>
<thead>
<tr>
<th>Source Country</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-115.6</td>
<td>389.4</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0.6</td>
<td>-22</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Bermuda</td>
<td>-10.6</td>
<td>71.7</td>
</tr>
<tr>
<td>Botswana</td>
<td>-1.7</td>
<td>-20.1</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>2.5</td>
<td>271.8</td>
</tr>
<tr>
<td>Cameroon</td>
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</tr>
<tr>
<td>Canada</td>
<td>203</td>
<td>443.4</td>
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<tr>
<td>Cayman Islands</td>
<td>0</td>
<td>0.6</td>
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<tr>
<td>China</td>
<td>75.8</td>
<td>32.4</td>
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<tr>
<td>Congo DR</td>
<td>0</td>
<td>-23</td>
</tr>
<tr>
<td>Country</td>
<td>Change 1</td>
<td>Change 2</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Cyprus</td>
<td>-2.3</td>
<td>-1.7</td>
</tr>
<tr>
<td>Egypt</td>
<td>5.1</td>
<td>-6.1</td>
</tr>
<tr>
<td>France</td>
<td>27.5</td>
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<td>Hong Kong</td>
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<td>Italy</td>
<td>0</td>
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<tr>
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<td>2.5</td>
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<td>Jersey Channel Islands</td>
<td>0.1</td>
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<td>Kenya</td>
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<tr>
<td>Lebanon</td>
<td>2.5</td>
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<tr>
<td>Lesotho</td>
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<tr>
<td>Libya</td>
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<td>Malawi</td>
<td>-6.1</td>
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<td>Malaysia</td>
<td>4.8</td>
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<td>Mozambique</td>
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<td>-0.3</td>
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<tr>
<td>Panama</td>
<td>17</td>
<td>0.6</td>
</tr>
<tr>
<td>Peru</td>
<td>-2.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>-0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>73.4</td>
<td>-51.3</td>
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<td>Spain</td>
<td>-8.1</td>
<td>0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Swaziland</td>
<td>-0.1</td>
<td>-35.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>-11.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Switzerland</td>
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<td>-15.2</td>
</tr>
<tr>
<td>Tanzania</td>
<td>-9.1</td>
<td>36.2</td>
</tr>
<tr>
<td>Togo</td>
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<td>1.2</td>
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<td>Country</td>
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<td>Score 2</td>
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<tr>
<td>---------------------------------</td>
<td>---------</td>
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</tr>
<tr>
<td>United Arab Emirates</td>
<td>10.9</td>
<td>18</td>
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<td>United Kingdom</td>
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<td>250.5</td>
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<td>United States of America</td>
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<td>Zimbabwe</td>
<td>-16.6</td>
<td>-6.6</td>
</tr>
<tr>
<td>Other</td>
<td>37.2</td>
<td>27.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>694.4</strong></td>
<td><strong>1729.3</strong></td>
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</tbody>
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Adapted from the Foreign Private Investments & Investor Perceptions Survey, 2009 and 2010.
## APPENDIX B: INTERVIEWS

### INTERVIEW SCHEDULE

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<thead>
<tr>
<th>Name</th>
<th>Contact/s</th>
<th>Phone</th>
<th>Email</th>
<th>Date Interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airtel</td>
<td>Cindy Sonuga (PA to MD)</td>
<td>+260977915000</td>
<td><a href="mailto:Cindy.sonuga@zm.airtel.com">Cindy.sonuga@zm.airtel.com</a></td>
<td>07/11/2012</td>
</tr>
<tr>
<td>Bank of Zambia</td>
<td>Mr Wilson Phiri; Mr George</td>
<td>+260 211 228888/228903-20</td>
<td><a href="mailto:pri@boz.zm">pri@boz.zm</a></td>
<td>03/10/2012</td>
</tr>
<tr>
<td>DTI South Africa</td>
<td>Louisa Buthelezi (Deputy President)</td>
<td></td>
<td><a href="mailto:lbuthelezi@thedti.gov.za">lbuthelezi@thedti.gov.za</a></td>
<td>08/10/2012</td>
</tr>
<tr>
<td>Kalahari GeoEnergy Ltd</td>
<td>Dr. Moses Banda</td>
<td>+260977770104</td>
<td><a href="mailto:Mosesbanda@zamtel.zm">Mosesbanda@zamtel.zm</a></td>
<td>06/10/2012</td>
</tr>
<tr>
<td>SA Embassy</td>
<td>Patrick Jacobs</td>
<td>+260965772466</td>
<td></td>
<td>08/10/2012</td>
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<tr>
<td>Ministry of Commerce, Trade and Industry</td>
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INTERVIEW GUIDE EXAMPLE

Interviewee Details:

- Name:
- Company: Zambia Development Agency (ZDA)
- Position:
- Years of service:

Determinants, patterns and challenges of FDI:

1. What is the ZDA’s role in attracting Foreign Direct Investment?
2. In the development of sector strategies by ZDA, is agriculture a priority for development and why?
3. How has the Mfez initiatives employed by ZDA helped to attract FDI?
4. Has the Private Sector Development Reform Programme (PSDRP) which aims to boost the private sector’s contribution to economic growth helped to attract FDI?
5. What is the latest with the development of the PSDRP II?
6. What are the key determinants/ factors of FDI in Zambia?
7. What are the origins of FDI coming into Zambia?
8. What are the strengths of the FDI policy that has created an environment in Zambia that is ripe for foreign investment?
9. What policy-related or operational challenges does the ZDA foresee in the future in terms of attracting more FDI in to Zambia?
10. What policy changes need to be made to the current investment framework to promote FDI across priority sectors?

FDI’s impact on the Zambian economy:

1. What impact has FDI had on the Zambian business environment?
   a. How has foreign investment helped to improve the domestic business sector?
   b. How has FDI weakened or threatened the local business environment?
2. Has FDI, in general, affected local competition?
   a) If so, to what extent?

Technology, training and skills transfer:
1. What are the spill-over effects from FDI on technology, training and skills development within Zambia?

2. Have local businesses been able to transfer the technology or skills learned from the MNCs to improve their own business?
APPENDIX C: DATA ANALYSIS PROCESS

1. Collect Data
   - Conduct up to 20 interviews
   - Read transcripts
   - Group codes

2. Coding
   - Compare emerging concepts with theory
   - Characterise each category/identify attributes
   - Find evidence for categories in literature

3. Concepts
   - Compare relationship between categories

4. Comparison
   - Collect data from theory to prove or disprove findings

5. Categories
   - 1. Collect Data
   - 2. Coding
   - 3. Concepts
   - 4. Comparison
   - 5. Categories
   - 6. Theoretical
   - 7. Findings
   - 8. Analysis
   - 9. Recommendations

CONCLUSION