ZAMBIA

One of Africa's fastest growing economies

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There's no doubt that Zambia has had a very good year – its twelfth consecutive year of positive economic growth

Zambia is on a high. The economy has been boosted by increased copper production, a bumper maize harvest, recovery in the tourism, transport and service sectors, and a boom in construction. Inflation is down and international reserves have strengthened.

The IMF expects Zambia to record strong economic growth in 2011 and over the medium term. Business Monitor International forecasts that Zambia will outperform many African countries with a rise in economic growth to seven per cent this year.

So where did it all go right? The IMF has commended the government of President Rupiah Banda for its handling of the economy and the Bank of Zambia for its monetary policy. And it has been a year in which good fortune has played a part as well as good management.

Copper production rose by more than 16 per cent in the first nine months of 2010, while exports of the metal increased by 20 per cent thanks to strong demand from emerging markets, such as China and Brazil. As the average price of copper on the international market reached a record high of £4,564 per metric tonne between January and September, investment has been pouring back into Zambia's mining sector. And with the overall recovery in international trade, there has also been an encouraging increase in non-mineral exports, such as cane sugar, cotton, electric cables, flowers, and fruits and vegetables.

Meanwhile, unusually favourable weather conditions have enabled farmers to bring in the largest maize harvest in Zambia's history – approximately 2.7 million tonnes, compared with the 1.8 million tonnes in the previous season.

The tourism sector, one of the hardest hit last year, is enjoying a significant rebound as a result of the revival in global economic activity and the spin-off from the 2010 FIFA World Cup in South Africa. The sector is expected to grow by 25 per cent this year.

International reserves have strengthened to £1.3 billion, taking the country closer to its target of six months of export cover. The exchange rate is stable, and inflation – which stood at 30 per cent in 2000 – is today below eight per cent, assisted by a decade of fiscal and monetary discipline. Foreign debts and the government's domestic debt are also significantly reduced.

President Banda, who stands for re-election next year, is maintaining his focus on the long-term development of infrastructure required to make Zambia's dream of becoming a middle-income country by 2030 come true. Major projects are under way in the energy and transport sectors, with the private sector encouraged to participate through public-private partnerships. Priority is also being given to investment in agriculture, education and health.

> **'This government's vision is to complete development projects and to ensure that the Zambian people become self-reliant'**
>
> PRESIDENT OF THE REPUBLIC OF ZAMBIA
> **Rupiah Bwezani Banda**

"This government's vision is to complete development projects and to ensure that the Zambian people become self-reliant," says Mr Banda.

Copper, one of the world's most sought-after metals, remains the mainstay of the economy, accounting for more than 80 per cent of export earnings; Zambia is the seventh-largest producer in the world, and also the world's second-largest producer of cobalt.

The plunge in the price of copper during the global economic crisis hit revenues and jobs, but Zambia has weathered the storm. The government is more committed than ever to reducing the country's vulnerability to the vagaries of the international copper market, and diversification is a key part of its economic policy.

Zambia possesses a wealth of natural resources that offers plenty of scope for a variety of economic activities.

It is blessed with a wide variety of minerals apart from copper, including metals, gemstones, industrial minerals and potential energy resources, including coal, hydrocarbons and uranium.

It has the potential to become a major exporter of food to other countries in southern Africa. More than half of Zambia's 7.5 million hectares of land could be put to agricultural use, with 12 per cent suitable for crop cultivation. Abundant water resources in the Congo/Zaire and Zambezi river basins are available for irrigation and also for the development of hydropower – for export, as well as to drive Zambia's own economy.

Tourism also has huge potential, with the Victoria Falls, the world's largest waterfall, and Lake Tanganyika, the world's second largest freshwater lake, among the many natural wonders attracting thousands of visitors from all over the world.

Natural resources, long-term political stability, continuing growth in a liberalised economy and a government doing its best to create a welcoming business climate make Zambia generally one of the best prospects for investment in the southern African region. ■

PHOTO: INZY ZAMBIA

When Dr Livingstone came upon Victoria Falls in 1855, he proclaimed it a scene 'gazed upon by angels in their flight'

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A message from the Zambian High Commissioner to the UK: Zambia, a 'Gem of the World'

By 2030, Zambia aspires to be a strong and dynamic middle-income industrial nation providing opportunities for the wellbeing of all and based on the values of socioeconomic justice. Of course, that development has to be sustainable, hence the need to diversify from copper towards tourism, agriculture and manufacturing.

We will benefit more through value addition, rather than just selling raw materials. We also want to focus on agriculture and invest more in agro-processing. For example, we need to develop the canning and fruit industries so that we can process the various fruits we produce and reduce waste by producing by-products. Adding value creates industries and jobs, and improves incomes.

PROFESSOR ROYSON MUKWENA
High Commissioner of Zambia to the UK

We are investing in irrigation – Zambia has 42 per cent of the fresh water resources of the southern African region. We aim to reach a situation where we feed not only ourselves, but also the rest of Africa and beyond. Zambia is a huge country of 752,000 square kilometres, and 56 per cent is arable land, which means it has the potential to produce food to feed neighbouring countries.

There is also an enormous potential for tourism – we are one of the gems of the world! Zambia has over 40 waterfalls and we have some of the largest national parks in the world, so we have to invest in infrastructure in order to develop our tourism sector.

Zambia has been stable for 46 years and is a beacon of peace in the region. We have duty-free access to African and US markets under the SADC and COMESA free trade areas, and AGOA (African Growth and Opportunity Act). Banking, financial, legal and insurance services are of international standard, and we have a quickly developing stock exchange.

We are focusing on how Zambia is going to benefit in economic terms from its relations with the UK and many other countries. Our aim is to attract more trade, investment and tourists.

Investment

Facilitating business development

Zambia is on the way to achieving the second highest level of foreign direct investment in the Southern African Development Community (SADC) region this year, and is leveraging its free trade access to a multi-million person market

Foreign direct investment pledges in the first 11 months of 2010 have increased to £2.7 billion from £908 million for the whole of 2009, Glyne Michelo, director of the Zambia Development Agency recently told Reuters. This easily surpasses the government's target for the year, which was £1.9 billion.

Manufacturing and mining are proving the most attractive sectors, but investment has also been pouring into other areas of the economy, such as agriculture, construction, energy, ICT, manufacturing, tourism and transport, creating many thousands of jobs. The top sources of investment are Britain, Belgium, South Africa, China and India.

Transforming industry and sustaining its competitiveness is priority for the government, whose commercial, trade and industrial policy for 2010 to 2014 is focused on developing a competitive, export-led manufacturing sector that will contribute 20 per cent of gross domestic product by 2015.

Felix Mutati, Minister of Commerce, Trade & Industry, says Zambia's incentive package is among the best in the region, if not the whole of Africa. He promises further "vigorous business and licensing reforms" to reduce the cost of doing business.

Recent investor-friendly changes include eliminating the minimum capital requirement, computerised customs declarations and the introduction of an electronic case-management system in the courts.

The World Bank and the International Finance Corporation recently ranked Zambia among the top ten countries worldwide that have improved the ease of doing business for local firms in the past year. Zambia rose eight places up the global rankings in the annual Doing Business report.

Zambia also increased its score on the 2010 Heritage Foundation/Wall Street Journal Index of Economic Freedom, reflecting improvements in four of the ten economic freedoms, including a notable improvement in trade freedom.

Addressing Brazilian investors recently, President Rupiah Banda stressed that Zambia is a safe investment destination with a stable business foundation. He highlighted the political stability of the country since its independence in 1964, and said it had undergone an economic transformation in recent years.

Landlocked Zambia is surrounded by ready markets, particularly for its food and power exports; its central location offers trading opportunities with all eight neighbouring countries. In addition to its relatively large domestic market, it has free trade access to much larger regional markets through its membership of COMESA (Common Market for Eastern and Southern Africa) and SADC.

COMESA, SADC and the East African Community (EAC), to which Zambia also belongs, are moving towards establishing a single free trade area in January 2012. This will cover 26 of the 54 countries that make up Africa, with a combined market estimated at more than 525 million people. Two of the five major destinations for Zambia's goods are in the southern African region: South Africa and Democratic Republic of Congo.

Zambia also has market access to the US through the African Growth and Opportunity Act (AGOA), designed to expand trade and investment with the sub-Saharan Africa.

The recent commissioning of the Chipata Mchinji railway line will boost trade between Zambia and Malawi and Mozambique. Currently, Zambia's only gateway to the sea is Dar Es Salaam port in Tanzania or the Cape in South Africa. The railway line will provide a short trade route to the coast at Mozambique's Nacala port, making transport of goods for export overseas easier and cheaper. ■

Mining

Operations in 2010 pave way for greater growth


PHOTO: INZY ZAMBIA

Dump trucks forming part of the Hitachi EH-4500 fleet at Equinox's Lumwana mine

Vast unexplored terrain, fiscal incentives and oil prospects make Zambia a preferred mining investment destination in Africa

With the outlook for international copper prices expected to remain bright for the foreseeable future, production of the metal in Zambia is heading for 740,000 tonnes this year – its highest level since the industry's glory days in the 1970s.

The increase, from 696,900 tonnes last year, confirms that Zambia is well on the way towards hitting its medium term target of one million tonnes by 2014. Copper export earnings are forecast to total £2.92 million this year compared with £1.97 million last year.

Independent analysts take a positive view of the prospects for Zambia's mining sector over the next few years. Business Monitor International (BMI) estimates an average yearly growth rate of 6.4 per cent from 2010 to 2014, with copper and cobalt the key production sectors.

The industry was hit hard by the fallout from the global financial crisis, when the copper price plunged, mines closed and thousands lost their jobs.

However, with international demand for the metal rising again, operations have resumed at Luanshya Copper Mines, following its takeover by China Nonferrous Metal Mining Corporation (CNMC), and production is increasing at the other mines in the Copperbelt and the North-Western provinces.

The government's scrapping last year of the controversial windfall tax imposed on foreign mining companies sent a clear signal that it is determined to keep huge amounts of investment pouring into the sector. Officials put the total at around £3.2 billion over the past eight years.


MAXWELL MWALE
Minister of Mines and Minerals Development

Maxwell Mwale, Minister of Mines and Minerals Development, says: "To attract foreign investors, we have put systems in place that are in line with the best practices in the world."

He expects to see a broadening of the industry with the opening of new mines for uranium, manganese, nickel, coal and gold. Exploration licences are also being issued for oil and gas.

"We have employed German technology in the sedimentary basins of this country, and the results have indicated very positive possibilities of discovering oil or gas," says the minister. "We are looking forward to the possibility that this sector could be developed."

Major foreign investors in the mining sector include Canada's First Quantum Minerals, UK-based Vedanta Resources, Canadian-Australian Equinox Minerals and Metorex of South Africa.

Last year, China invested more than £253 million in Zambia's mining industry, and says it will provide £3.2 billion in loans to private Zambian mining companies. CNMC expects its new £190 million Mulyashi open pit mine to be operational by December 2011. Meanwhile, the Brazilian corporation Vale Mining and African Rainbow Minerals of South Africa are spending £241 million on developing the Konkola North copper mine.

Gilbert Temba, President of the Association of Zambian Mineral Exploration Companies, is confident that mines under exploration will also begin to produce. "The main copper activity for the next 20-30 years will be in the west and north-western provinces," he says. "I see one million tonnes next year, two million tonnes five years down the line, and four million tonnes in ten years' time."

One of the largest new copper mines to be developed globally over the last decade is the Lumwana mine, located 220 kilometres west of the Copperbelt. The largest single investment in Zambia's history, the mine has established its owners, Equinox Minerals, as one of the world's top 20 copper producers; the company is dual listed in Canada and Australia.

Equinox acquired the Lumwana project in 1999 and the mine commenced production in late 2008, after almost a decade of feasibility, financing and construction work.

Adam Wright, managing director of Lumwana Mining Company (LMC), says: "We see Zambia as an excellent investment destination. It is a stable country with a multiparty democracy and strong institutions, and there is a good business environment. Zambia is a great country to be in the mining business."

At full capacity, Lumwana is expected to provide around 20 per cent of Zambia's total copper metal output. The lifespan of the mine is put at 37 years, although that does not take into account the extra exploration work the company is undertaking.

Production for the nine months to the end of September was 112,751 tonnes of copper in concentrate, putting the mine on course to meet its target for this year of 140,000 tonnes of copper per annum. The longer term target is 200,000 tonnes of copper per annum.

> 'To attract foreign investors, we have put systems in place that are in line with the best practices in the world'

The mine has continued to increase total material movement, averaging more than ten million tonnes per month, while the plant is operating at design capacity with 4.94 million tonnes of ore treated in the third quarter.

The company is already looking at expanding the current processing rate of 20 million tonnes per annum to a potential 36 million tonnes per annum, possibly in four years.

As a new mine, Lumwana has the advantage of new technology. "The scale of the operation means that we are able to work at a much lower grade than what has been typically mined on the Copperbelt, with underground mines," says Mr Wright. "We are a very low-grade mine, but we are able to profitably mine that material because of the application of new technology. We have large hybrid trucks which run on both diesel and electric power, and our processing equipment is large scale and very cost-efficient."

The opening of the mine has given a huge boost to Zambia's North-Western Province. The huge investment by Equinox extends beyond the mine itself to the creation of a new town, involving construction of homes, roads, supporting infrastructure and utilities. One thousand housing units have already been built and there is room to expand to 5,000 units.

A further 10,000 jobs could be added to the 3,800 already created, as a result of the establishment of the Lumwana Multi-Facility Economic Zone (MFEZ), which is to be operated by the mining company.

Mr Wright says it is important that the town is not wholly reliant on the mine. "We want it to be self-sufficient. Our industry is cyclical and copper prices go up and down, so we want the town to survive on its own."

That means developing non-mine-dependent business, driven by the MFEZ. "The MFEZ brings in additional foreign direct investment and people will set up non-mine dependent industries, mostly agricultural-based, which will then allow the town to grow," he says.

According to Felix Mutati, Minister of Commerce, Trade & Industry, the Japanese company Hitachi is interested in establishing a £6.3 million manufacturing plant. Other industries expected to set up in the zone range from agro processing, petrochemicals and construction, to manufacturing and hospitality. ■

The central bank's Financial Sector Development Plan II

Zambia has begun a new phase of financial sector reform that is intended to strengthen supervision, improve access to credit and reduce the high cost of borrowing

The aim is to create a sound and stable market-based system that provides the resources needed to grow and diversify the economy, and to reduce poverty.

"We are trying to enhance competition and inclusiveness," says Caleb Fundanga, governor of the Bank of Zambia, which will oversee phase II of the Financial Sector Development Plan (FSDP).

Zambian banks were not directly exposed to the toxic assets that threatened the financial institutions of major world economies during the financial crisis. However, the aftershock did impact on the country, and non-performing loans in the banking sector rose from around six per cent in June 2008 to 12.6 per cent at the end of 2009.

Mr Fundanga says the comprehensive reforms undertaken since 2004 in phase I of the FSDP contributed to the banks' resilience during the crisis. The reforms were initiated in the wake of a collapse in the Zambian banking sector in the 1990s.

"Our success can be seen by the absence of bank failures since the 1990s," he says. "Even through the global financial crisis when major banks collapsed in developing countries, we did not have that kind of problem."

A lot of work has already been done to address the weaknesses in the Zambian financial sector, resulting in improved credit, stronger financial supervision and enhanced policies that have helped reinforce the country's industrial and construction boom.

Both onsite and offsite inspections have improved. "We are able to see what is happening in the banks' systems on a continuous basis and if a problem is developing we are able to move in and facilitate where

'Even through the global financial crisis when major banks collapsed in developing countries, we did not have that kind of problem'

CALEB FUNDANGA
Governor of the Bank of Zambia

necessary to avoid the system being at risk," says Mr Fundanga.

Phase II of the FSDP is intended to improve the financial system even further. "We are trying to enhance competition and inclusiveness," he says. A study showed that only a third of the eligible banking population had access to financial services.

Phase II of the reforms takes place over three years. Banks are being encouraged to go especially into the rural areas, and at the same time to use new technology like mobile phones and innovative ideas, such as providing financial services in supermarkets, at petrol stations or through utility companies.

Minister of Finance Situmbeko Musokotwane says innovations like these will revolutionise the provision of financial services nationwide.

In his recent budget speech, Mr Musokotwane reported that the condition and the financial performance of the banking sector in H1 2010 were satisfactory. Earnings and profitability improved, compared to the same period in 2009. He said the level of non-performing loans had stabilised following the global crisis and did not represent a major systemic threat, as the majority of the banks were generally well capitalised and profitable.

Today, Zambia's banking sector is dominated by foreign banks, including Standard Chartered, Barclays, Citibank, Stanbic Bank, Bank of China, and Access Bank of Nigeria. The largest commercial bank in the country, Zanaco, formally fully state-owned, was 49 per cent privatised in 2007. The government's share has since been reduced to 25 per cent and the bank is now run by Rabobank of the Netherlands. ■

Spreading the tools of wealth

Banks are used by only about a third of Zambia's population. This is due partly to widespread poverty, but also because in many areas there simply are no banks.

Lacking in basic infrastructure, such as reliable electricity supplies or telecommunications, rural areas especially lack the banking facilities they need to develop economically. It has been estimated that nearly half of Zambia's 72 districts have no access to financial institutions; bank branches and financial institutions tend to be concentrated mostly in and around urban areas and along the railway lines.

The state-owned National Savings & Credit Bank (Natsave) is charged with doing something about the situation. Established in 1972, the bank was created with a social mandate to deliver affordable banking services not just to urban areas, but also to all parts of the country and especially rural areas.

Currently Natsave serves around 130,000 customers through 27 branches, 15 of which are located in rural areas. Looked at solely in terms of account numbers and transactions – it also does the payroll for the second largest number of civil servants in the country – it is among the top five banks in the country.

Natsave is the only savings bank catering to medium and low income groups. "We are a community-based outreach bank and try to go as close as possible to the communities in which we operate," says Leonard Mwanza, the bank's managing director.

In urban areas that means providing facilities in residential areas as well as the centres. In rural areas, it means venturing into what in banking terms is uncharted territory.

"Our role is basically to expand into those areas and supplement the outreach which is missing," says Mr Mwanza.

The bank has a strategic plan to establish 20 branches over the next three years. The scheme is jointly funded under an agreement made by the Ministry of Finance, who are Natsave's principal shareholders, with the International Fund for Agriculture Development (IFAD) and the Rural Finance Programme.

Taking banking to rural areas poses a variety of challenges, both logistical and financial, and the level of business achieved may be low. Nevertheless, Natsave is now making profits.

LEONARD MWANZA
Managing Director of National Savings and Credit Bank

"In the last three years we have changed our profile," says Mr Mwanza. "We are on sound footing and the bank is sustainable. There is a subsidy coming from the urban branches to the rural branches because there is more business in urban centres than rural areas. The branches, in terms of costs, are making profits."

The bank's newest branch was opened in 2008. "We forecast it to break even by next year."

Rural branches and low income loans bring banking services to people who have up to now been excluded.

"We reach out to those people and give them an education in banking and give them a platform where they are brought into the financial world," says Mr Mwanza. "We are taking the lead in this area."

And it produces results. "Quite a number of people have reported back to us that they have increased their crop yield and their level of business activity," he says.

African leasing expertise consolidating diversification

As the foundations of many first world economies began crumbling under the weight of toxic assets and unsustainable sovereign debt, many relatively smaller, developing nations continued to move forward. Despite suffering from a dip in FDI and a decline, albeit relatively short-lived, in demand for their commodities, they otherwise continued showing positive growth. Their construction industries have remained solid – often to fill the 'real', rather than speculative need for housing – and economic development programmes have called for investment in sectors, such as energy, agriculture, infrastructure and mining.

Zambia is one such country. With anticipated GDP growth of close to seven per cent for 2010, Zambia is enjoying a dynamism not seen in many first world countries since 2007.

This growth is, however, relative. At first glance it may appear impressive, but seen through the eyes of the average Zambian, it could appear as a taunt. Despite the continued emergence of a middle class, few Zambians have access to meaningful financial tools that could help them grow their businesses and ultimately improve the quality of their lives. This is where companies like Industrial Credit Company Limited (ICC) step in.

ICC is the largest independent leasing company in Zambia, enjoying a 30 per cent share of the local leasing market. With a 45-year history, ICC offers fast, quality service and market-specific products to its clients.

"Only 37 per cent of Zambians have access to formal or informal financial services and products; a most unhealthy reality and one which urgently needs to be addressed," says Paul Richards, CEO. "There are tens of thousands of entrepreneurs who are very capable, and experienced. They're successful, but at the moment they have only limited access to the capital necessary to expand their businesses and contribute more meaningfully to the growth of the economy."

ICC, like most other indigenous financial institutions in Zambia, has over the last three years garnered the respect of the international players in the market, as the latter have seen liquidity squeezes become a reality whilst the former attract more capital and liquidity themselves. At date ICC is in the final stages of a strategic tie-up with a regional partner with the financial muscle and pedigree to beef up its capital base, and on the back of that, access more liquidity for further market penetration. Full details of the transaction shall only be made public during December 2010, after the deal has received the blessing of Zambia's Central Bank.

What differentiates ICC from its competitors, one may ask. "ICC is owned and run by Africans. We look at things from a wholly African perspective, and there is a significant difference in doing business in the emerging markets as opposed to the first world. The local ethos, pathos and expertise have always been here, but we have not had the financial muscle to take on the international players. That is changing now; and fast," explains Mr Richards.

PAUL RICHARDS
CEO of Industrial Credit Company Ltd

Although ICC's client base is widely varied, Mr Richards regards agriculture as the most in need of tailored financial products.

"I think that starting at the small scale agricultural level is important because initiatives in this area will reach more Zambians than any other," he asserts. "Not only will jobs be created, but vertical integration will become the next obvious step. Far too often Zambia exports her raw materials and then imports finished goods. This means we're missing out on attractive profit margins and significant job opportunities."

Mr Richards travelled to Sweden last summer to discuss his ideas with various Development Finance Institutions (DFIs). "In addition to funding lines which have been the traditional conduit for DFI support to emerging markets, there is a need for risk sharing arrangements to be put in place so that the ICCs of this world are encouraged to take more risk and fulfil the role of lenders in any economy; introduce the fuel into the engine of economic growth.

Stagnating economies and poor returns in the developed world, coupled with increased confidence in Africa, is translating into more DFIs agreeing to consider more protracted funding lines into countries like Zambia.

As for small-scale farmers, Mr Richards believes that whilst they are in the main, capable and honest, their limited access to finance means that they are unable to become as good as they can. Yields are limited by their reliance on rainfall and their inability to purchase fertilizers and modern equipment. The absence of suitable storage facilities also means that it is a buyer's market. Whilst they may possess the acumen to be successful farmers, the vast majority lack the financial skills required to put together a viable business proposition for consideration by a bank.

"I think it's best to formulate a type of 'hub-and-spoke' approach under a co-operative structure thus ensuring the achievement of critical mass and buying power. My belief is that if you get all the various stakeholders in the value chain together under one multilateral structure, you have a much better chance of succeeding than if you just put a banker and peasant farmer together."

ICC

Construction

A hot sector fuelled by demand

Owing to the expansion in mining and an acute lack of housing, construction is one of Zambia's busiest sectors, providing plenty of investment opportunities and creating hundreds of new jobs

If activity in the construction industry can be taken as a sign of a healthy economy then Zambia is flourishing, with new projects under way all over the country.

Construction is one of the largest contributors to Zambia's economic expansion. Growth in the sector, which reached 9.5 per cent last year, is expected to top out at ten per cent this year, driven by strong demand for residential and commercial developments, and by public infrastructure schemes in the energy, mining and transport sectors.

President Rupiah Banda says: "Zambia is currently undergoing the biggest surge in development and construction that we have seen in our recent history."

The number of construction companies has multiplied, creating much needed new jobs for both skilled and unskilled Zambians. Also benefiting are other sectors of the economy supporting the construction industry, such as cement, timber and steel producers.

The coming on stream of Zambezi Portland Cement's new cement manufacturing facility has contributed to increased supply of cement on the market, and will support growth in the sector.

Activity is not just confined to the capital, Lusaka, and the Copperbelt, but also extends to rural areas. Indeed, construction is so widespread that a new weekly newspaper has been launched to cover it.

The government has embarked on projects of all sizes, ranging from cultural centres, hospitals, clinics, schools and housing to economic zones, bridges, roads and rail links. New power stations are being built to meet the demand for electricity, including the Kafue Gorge Lower hydroelectric project, which the private sector will help to build.

Construction is also being spurred on by expansion in the mining sector, with huge projects such as the Konkola North copper mine and the Mulyashi open pit mine.

Zambia has a serious housing shortage and needs to build a minimum of around 150,000 housing units a year to meet the needs of a growing population. The government is committed to providing affordable housing and is introducing measures to facilitate construction through local authorities, the National Housing Authority and the private sector.

There is also growing demand for high quality housing from Zambia's growing middle class, and shopping centres are being built to provide for their consumer needs.

The government has welcomed a move by a local construction company to bring in foreign technology that will cut construction costs.

Flame Zambia has been active in the construction sector for four years, engaging in both residential and commercial projects. In June, the company announced a partnership with Flame Arab Contractors to establish a £6.3 million quarry cement batching plant and other supporting services for Zambia's construction sector.

The government hopes the partnership will introduce technology that will bring construction costs down to the kind of levels seen in Egypt, where the cost of laying a kilometre of road is about £95,000 compared to an average of £634,000 per kilometre in Zambia.

Mohamed Salama, Flame Zambia's chairman and CEO, says the technical and financial support that the company expects to receive from Flame Arab Contractors should make this possible.

"Through Flame Arab Contractors, we will be bringing down costs, thus creating more employment and more projects. We will achieve this by having our own quarry cement plant."

He says the company wants to take on more construction projects in the country.

Important projects already undertaken by Flame Zambia include the Finsbury building at the Kabwe roundabout and a Radisson Hotel. More recently, the firm has been chosen by the Ministry of Education to build a £15.2 million teacher training college in Chinsali.

In addition to having the necessary technical arsenal, Flame Zambia boasts a team of active and highly qualified employees. Over the past four years, the firm has trained 400 Zambians in a variety of construction skills. Mr Salama says the company has introduced new standards of quality and design.

"Construction is about reputation," he says. "We have become a brand in Zambia. If you work with us, your quality is guaranteed. We have very high quality control standards." ■

Zambezi Portland Cement is providing critical cement supply for Chinese contractor AFECC's construction of the Ndola Football Stadium

Timely and quality operations helping to build Zambia

Hand-in-hand with a boom in the construction industry goes rising demand for primary materials. This is good news for Lions Group Quarries, a major supplier to the industry, which has plans to raise its production substantially in the coming months.

The group produces quarry dust for blocks and concrete and crushed stone for concrete slabs and use in road construction. It also has a state-of-the-art concrete mixing plant, commissioned last year, at its site on the outskirts of Lusaka.

Davies Nyirongo, the accounts and administration officer, says: "In terms of production capacity, we are producing 1,500 metric tonnes per day but we are making an effort to improve production. Within two to four months we will be producing 3,000 tonnes."

Lions Group Quarries was registered in Zambia in 2007, and production started the following year. The predicted life span of the quarry is 15-20 years. Sited on a trunk road leading into Lusaka, the firm's location allows for access to all areas of the country.

Mr Nyirongo says: "Our main market is domestic consumption, but we also deal with the international companies that have bigger projects in Zambia like BL International, which is building the new American embassy, and China Jiangsu, which is building the new Lusaka General Hospital. We also have Group Five, a South African company, which is building the biggest shopping complex in Zambia, and Brunelli Construction."

Crushed stone or angular rock is a form of construction aggregate, produced by breaking the mined rock down to the desired size using crushers. It is distinct from gravel, which is produced by natural processes of weathering and erosion, and typically has a more rounded shape. Lions Group Quarries predominantly produces dolomite, which is white stone, but grey stone is also produced.

The company is required to renew its license with the Environmental Council of Zambia annually and to follow the Mining Regulation Act, which lays down safety measures. One advantage the company has is that its crusher has a cleaning process where water is poured in eliminating dust.

The firm is reinvesting a significant amount of its profits, continually upgrading the plant and equipment to provide more services, such as on-site delivery in and around Lusaka. A well maintained delivery fleet ensures that there is no delay experienced by customers due to faulty equipment. Deliveries are made within 72 hours anywhere in the capital.

Plans for a ready-mix cement plant will come to fruition when it is commissioned in the next six months. "The block-making equipment is already here and the crusher is on the ship," says Mr Nyirongo. "We will have a one-stop shop for our customers," he adds.

The group employs a total of about 95 temporary and permanent employees, including some seasonal and casual workers. It has also engaged the skills and services of highly trained experts in their field. German and Swedish engineers installed its concrete mixing plant

Lions Group Quarries Ltd is a Zambian company specialised in quarrying and concrete mixing for the local construction industry

and specialists from AEL Mining Services, a leading supplier of explosives technology, have been employed to supervise blasting in the mine.

Commenting on the big increase in construction activity in Zambia, Mr Nyirongo says: "We need to improve on what we have now. There is no going back and whoever out there wants to go into this business, they are free to do so. The construction industry business is still wide open and you cannot saturate the market."

At present, Lions Group Quarries does business in and around Lusaka, but it is looking further afield for the future and aims to take full advantage of the need to build infrastructure nationwide. "A lot of roads need to be built as well as schools all over Zambia, and you cannot supply all this from Lusaka, so we will need quarry mines in all of those areas," says Mr Nyirongo.

Quality cement operations fortify Zambia's foundations

In order for a country like Zambia to continue along its current path of growth, several key ingredients must be available. Without a doubt, cement is one of the indispensable parts of the mix.

Until 2009, Zambia had just one large cement manufacturer. In late September, Zambezi Portland Cement Limited (ZPCL) launched its production, thereby breaking a long-standing monopoly, and making superior quality cement available at more competitive prices.

ZPCL chose Ndola, Zambia's second largest city, as its centre of operations, where it built a £950,000 cement plant. During the initial months, ZPCL was producing 400 metric tonnes (MT) per day, enough to convince company heads in the mining and construction sectors that it meant business. After China-based Anhui Foreign Economic Construction Corporation inspected the cement and liked what it found, it agreed to buy all the cement required for its flagship project in Zambia: the 41,000-seat Ndola Stadium.


ZPCL is currently producing 1,350 MT daily, with a predicted output capacity of 330,000 MT anually

Today, the ZPCL plant is operating at full capacity, producing 1,350 MT of 42.5N cement per day in conformity with international standards EN-196 and EN-197.

Managing director Antonio Ventriglia, explains that for mining and construction companies in Zambia, his company's cement couldn't have come at a better time. "We're supplying the mines with high-quality cement which is a big thing for them, because if they did not have the product on-site in Ndola, they would have to import it from South Africa, which would be really expensive due to the logistics of such transactions," he says.

This proximity allows ZPCL to handle orders quickly and keep delivery times low. Mr Ventriglia also comments that all the cement ZPCL produces is sold and consequently, they plan to raise production to 1,500 MT per day by June 2011.

Demand comes not only from domestic customers; plenty of the sales are to neighbouring Burundi and the DRC. "The reason we're able to capture this kind of market is and always will be our quality; it is our competitive advantage here," asserts the managing director. Nevertheless, around 40 per cent of the cement ends up in Lusaka, the country's capital and fastest-growing city. Once production has been expanded, he says they will consider exporting further abroad to Angola, for example.

ZPCL brings to Zambia pure Portland cement with no extenders used in its production process and of a type that is ideal for use in all construction projects ranging from dams, bridges and roads to houses, office buildings and concrete pipes. The company has already secured important contracts in several multi-million pound projects.

In the meantime, ZPCL is providing cement for the government's rural development projects. In July 2010, the company contributed 600 50kg bags of its high-quality cement towards the rehabilitation of the Lwitikila Girls School in Mpika.

ZAMBEZI PORTLAND CEMENT

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Enhancing lime production


ABRAHAM WITIKA
Acting General Manager of Ndola Lime Company Ltd

Zambia's sole producer of lime is raising its game to cope with rapidly increasing demand from the mining industry and other sectors of Zambia's growing economy.

Ndola Lime Company is undergoing a £46.9 million recapitalisation programme, installing a new lime hydrated plant, new lime kiln, new crushing plant and blending plants. Environmental concerns have been addressed with a £2.2 million rehabilitation of the dust abatement system.

The improvements are expected to lift output from 131,000 tonnes last year to 230,000 tonnes, rising to 288,000 tonnes by 2013. The new kiln and plant machinery will operate on both coal and heavy fuel oils, saving on costs and boosting profits.

"We have embarked on these projects to ensure that we keep up with the growth of the economy," says Abraham Witika, acting general manager. "We are trying to improve turnover from £19 million per year to £44.3 million per year."

A wholly owned subsidiary of Zambia Consolidated Copper Mines Investment Holding, Ndola Lime supplies the mines, agro-processing companies, the construction sector and local authorities for water treatment. It also exports to neighbouring countries. The government has earmarked the company for part privatisation.

ndola lime company ltd

Expanding Zambia's social pension sector

Providing retirement and other social security benefits to workers in a country like Zambia is a major challenge. Surveys suggest that of a total of approximately four million people employed in the various sectors of the economy, only around 700,000 are paid employees and fewer than 500,000 are active members of the national pension scheme.

"We know that people are still working, particularly in the informal sector, which is not covered by pension funds, and that is a major challenge that we have," says Stanley Phiri, director general of the National Pension Scheme Authority (NAPSA).

The largest pension fund in Zambia, NAPSA is the key institution facilitating social protection in the labour market. The authority marked its tenth anniversary this year, having started operations in 2000 as the successor to the Zambia National Provident Fund, which had been in existence since 1966.

As the main body for providing retirement and other social security benefits to workers, NAPSA collects contribution income, invests it and then distributes benefits when they fall due. It has a large network of ten area offices and 13 district branches, and recently embarked on a programme of decentralisation aimed at equipping its offices to fully process claims – of the 23 stations, 13 are already online.

The number of employers registered with the scheme is 18,000, and the authority has the power to prosecute those who fail to pay contributions to the plan.

NAPSA provides old age, invalidity and survivor benefits in a form of a lifetime monthly index-linked pension, or a lump sum for those who do not meet the minimum requirements for a pension. An important milestone has been the implementation of a minimum pension, and a one-off lump sum funeral grant is paid when a member dies.

"We are paying pensions and meeting the government's objective of providing financial security in retirement," says Mr Phiri.

He says one of the greatest challenges is that the pensions system does not cover a large portion of Zambia's citizens. "I think that we are only on 12 per cent penetration, which is a major challenge for the country. I think that all stakeholders need to put their heads together to see how we can expand coverage. Of course, the government is now working on expanding the social pension sector and I think that they are going to broaden the sector, which is a very welcome move."

As the manager of substantial funds, NAPSA seeks to maximise the value of its members' money and to promote employment in the economy.

"The National Pension Scheme Act allows us to have a separate fund manager, whereby we have set up development funds which are used to develop certain niche areas of the economy," Mr Phiri explains. "Our role is to complement the government in terms of creating national employment because if we do this the contributor basis is going to grow."

Over the last four years NAPSA's investment portfolio has doubled in size to more than K3 trillion (£400 million) due to the increase in its contributor base and to the revaluation of equity on the stock exchange.

NAPSA has mainly invested in securities, equities of Zambian companies and real estate. "We do not want to put all our eggs in one basket," says Mr Phiri. He would like to see a revision of the investment guidelines under which the authority operates to allow it to diversify and develop its portfolio further.

"The only major problem we have had is that the stock exchange in Zambia is quite small at the moment and so our investment guidelines are very restrictive. We are trying to revise these guidelines through our Board of Trustees to ensure that we balance our portfolio."

'I think that we are only on 12 per cent penetration, which is a major challenge for the country'

STANLEY PHIRI
Director General of NAPSA

NAPSA has invested some £60.6 million in property development, including the Levy Business Park, a major commercial and residential development in Lusaka, and a large housing project in Kalulushi. Levy Business Park will include residential housing as well as a shopping mall, office blocks and a hotel. The Kalulushi project, which is expected to create about 500 jobs during construction, will comprise 438 mixed profile housing units.

Another development, the Nyumba Yanga housing project in Lusaka, which is being undertaken by the National Housing Authority (NHA) on NAPSA's behalf, will result in the construction of over 300 housing units.

According to the government, Zambia faces a housing deficit of up to two million units. "We know that the majority of workers will retire without having a home," says Mr Phiri. "People want housing much more than a pension, so that is one of the things we will be looking at with the other stakeholders: to see how the pensions sectors can come up with products that can address the workers' direct housing concerns."

Bridging the nation's insurance gap

DIAMOND GENERAL INSURANCE LIMITED

As Zambia's economy grows, opportunities for services such as insurance will grow with it. One firm hoping to take advantage of the country's rapidly improving economic climate is Diamond General Insurance Ltd, which relaunched with a new name and a new approach last year.

While the insurance sector is starting to make headway in Zambia, it currently enjoys market penetration of no more than four per cent.

The new owners of Diamond General, formerly known as Cavmont Capital Insurance Corporation, have understood that they need to do more than simply rebrand to succeed.

"It is not about only changing our name," says Tobias Milambo, the firm's CEO. "It is also about changing the way we do business. A key element is that we are in this business to pay claims. That is critical and the most important product that our clients buy."

In the past financial year, the company paid out claims totalling around K4 billion (around £535,000).

Backed by an aggressive marketing campaign, the new approach appears to be paying off. Diamond General grew its gross written premium to K20 billion in 2009 from K11 billion in 2008, and hopes to exceed its target of K32 billion by the end of this year.

"People have become more aware of us and begun to check out the brand," says Mr Milambo. "Those who do are receptive to our new way of doing business. It is also a question of educating the Zambian public. What is critical in this market is that there has been an information gap in terms of the importance of insurance. We have tried to give people more information. Clients will only buy our products when they understand them."

The company is also rolling out new products such as an insurance policy in which customers pay premiums in instalments through a loan arrangement offered by a finance corporation. "We realised that it is not easy for clients to pay insurance upfront," says Mr Milambo.

In the longer term, the firm aims to operate not just in the local market but also the international market. "We have seen companies come here all the way from South Africa. We want the service standard that they receive here to be even better than in South Africa."

The company is also looking at becoming a major player in providing insurance to the mining sector, and already has an office in the important mining centre of Kitwe.

'Growth prospects this year look positive and they're underpinned by our aggressive marketing campaigns'

TOBIAS MILAMBO
CEO of Diamond General Insurance Ltd

www.diamond.co.zm

Successful JVs spring ZESCO forward to peak generation

Consistent expansion in Zambia's economy over the past ten years is reflected in a surge in the need for electricity. Demand is growing at a rate of 100 megawatts per year. ZESCO's myriad projects aim to not only satisfy the domestic demand but also to produce enough power for export

With increased activity in mining and in other sectors of the economy, power consumption is predicted to rise to 2,200MW by the end of 2010. Commercial industry is the biggest customer, as most domestic households remain without electricity; only 20 per cent of Zambia's population is plugged in.

"About a decade ago the applications we received for electricity were just under 1,000 per month and we had excess power capacity, but today we are receiving over 3,000 per month without even marketing our services," says Ernest Mupwaya, managing director of ZESCO, the state-owned power company.

ZESCO's seven hydropower stations produce more than 80 per cent of Zambia's electricity, which is supplied nationwide via 10,000 kilometres of power distribution and transmission lines. This puts the company in the front line of the struggle to ensure that Zambia has sufficient energy generating capacity to meet its economic goals.

Building the infrastructure required to meet the country's present and future needs does not come cheap. The estimated cost of projects to improve generation, transmission and distribution is £3.1 billion over the next six years – well beyond the means of ZESCO, even with recently approved price hikes to take its tariffs to more realistic levels; low tariffs were a legacy from before the sector was liberalised in the late 1990s.

"We cannot finance these major projects on our own," says Mr Mupwaya. "We market projects so that potential partners can engage with us and then we can develop a strategic alliance, such as a joint venture."

ERNEST MUPWAYA
Managing Director of ZESCO Ltd

ZESCO has recently obtained loans of £65 million and £47 million from the Development Bank of Southern Africa and the World Bank respectively to fund some of its schemes, but the backing of private investors remains crucial.

Future projects include a new £940 million 700MW power station at Kafue Gorge, a joint venture with the China Africa Development Fund and Sino-Hydro expected to be completed in 2017, which could meet up to a quarter of the country's electricity needs; a 120MW power station at the Itezhi-Tezhi dam, a joint venture between ZESCO and Tata of India, due for completion in 2013; and expansion of the Kariba North Bank Power Station.

Mr Mupwaya says financing for projects already under way is more or less in place. "Several projects are in the implementation stage; some are public-private partnerships, and others are joint ventures. In addition, the need to install lines to evacuate power has created major business opportunities for finance institutions as well as developers."

Zambia's vast potential for hydropower generation is estimated at 6,000MW, theoretically putting it in a position to generate enough electricity both for domestic consumption and for exports in the future. Mr Mupwaya says: "The market extends beyond Zambia because we are linked with other SADC (Southern African Development Community) countries and we have protocols that facilitate trading power. Therefore, the market is much bigger than our local market."

Discussions have been taking place about linking Zambia's power grid with those of neighbouring Tanzania and Kenya to facilitate trade in electricity. There is also interest in linking up with Malawi, which also has a power deficit but lacks hydro resource potential.

"Recently, we have had discussions with the World Bank and other financial institutions and they are very interested in strengthening our connections with our southern neighbours.

"The Southern African Power Pool facilitates trade between SADC countries that are linked. We have a regulatory organism for sub-trade in place and we have a framework for trading. The whole sub-region has power deficits, except for the Democratic Republic of Congo, and because of that there is a huge potential for trade. Zambia has to increase investment in power generation so that we can tap into this market."

Mr Mupwaya believes that in five years time Zambia will be a serious power exporter. "Zambia has huge hydro potential as well as coal and uranium deposits. Private investors are already developing one power station and this will initially generate 350MW, but later on this will increase to 550MW. This plant will come on stream within the next three years because it is faster to build a thermal power station than a hydro power station."

He says there is a lot of scope for participation from other players. "The domestic market is huge because the electrification rate is still low, and participation will be in various forms. Power utilities will invest in generation or distribution, and the market allows for this. We also see opportunities for contractors to participate in development, either in terms of electrification programmes and developing lines or building power stations." ■