The Role of the Financial sector in economic Diversification

25th August 2016
The Sustainability challenge: Scenario planning for Zambia

Economic Growth

High
1. Real GDP Growth: >7%
2. Inflation: <7%
3. Interest Rate (91 D T Bill): <8%
4. Human Dev Index 0.448

Medium
1. Real GDP Growth: <5%
2. Inflation: >10%
3. Interest Rate (91 D T Bill): >8%
4. Human Dev Index 0.448

Low
1. Real GDP Growth: >7%
2. Inflation: <7%
3. Interest Rate (91 D T Bill): <8%
4. Human Dev Index 0.5-0.6

Medium
Human and Social Development

Optimum Economic growth is a direct result of the right Business Climate and Human and Social Development
The challenge with Zambia’s economy

GDP contribution by sector, 2015

Agriculture 8%
Minning and Quarry 11%
Construction 11%
wholesale and Retail 25%
Manufacturing 9%
Education 8%
Other 28%

Forex Earnings Contribution, 2015

Copper 72%
NTE’s 25%
Gold 2%
Cobalt 1%

Zambia has a diverse economy in GDP terms but not in Forex Earnings terms
Impact on the economy of being dependent on copper

Depreciation of Kwacha by 72% between 2014 and 2015 with its lowest point of K14.4/ $ in Nov. 2015

Increase in inflation on the backdrop of reduced forex as a result of the reduced copper exports

Increased country deficit due to contracted foreign earnings

Slowed country economic growth (5% GDP growth in 2014 compared to 3.2% in 2015)

Central Bank Intervention

- Tightening of the monetary policy through the following interventions
  - Increased statutory reserves for Banks from 14% to 18%
  - Increased policy rate from 12.5% to 15.5%
  - Restricted Bank’s access to OLF from daily to once a week
  - Change in balancing of the number one account from weekly to daily
  - Injected $763.5m dollars into the market
The Role of the Financial Sector in Economic Diversification

Generate Exports
- Agriculture, Tourism, Power, and Infrastructure Sector
- Stop Importing basics
- Fiscal Discipline during the boom times in the mining to allow for reinvestment

Reduce Imports
- Grow the manufacturing Industry

Diversify Foreign Earnings Capacity

The primary role of the Financial Sector is to act as Financial Intermediaries

1. Facilitate Trade through processing of payments
   K887,544.40M payments processed during 2015 (Increase of 35% from previous year)

2. Facilitate the creation of Wealth through Savings
   Total depositors funds of K46,410.60 M in 2015.

3. Provide Funding through loans and advances
   Total loans of K40,415.80M in 2015 with the largest book being personal loans.

4. Capital Investment intermediaries both local and Foreign through offshore Banking

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Constraints to Development and what the Financial Sector can do

Where we are

- Low quality of human capital
  - limited skills and no secondary or tertiary education.

- Poor infrastructure services
  - Power, transport and access to water.

- Poor Access to International Markets
  - Inability to innovate and compete due to costs associated with finding alternative sources of inputs, marketing and information.

- Coordination Failure
  - Resulting in low productivity, High Input Costs. Poor Governance, Regulatory uncertainty and other Administrative procedures.

Where we want to be

- Sponsorships of best performing students through tertiary education with bias towards courses that support the diversification agenda.

- Continued investment in infrastructure through partnership with the Government and other private entities.

- Provision of Advisory services to client base. Those that are a part of a group can leverage on the international counterparts.

- Greater participation by the Financial sector to influence regulation change and formation.

Source: The Millennium Challenge Account 2011
Agriculture

- 17% (K7000M) of the total Loans of K40,415.80M granted by the Industry in 2016 were towards the Agriculture Sector.
- Financing is towards the actual crop or Livestock and equipment.
- To grow the sector, a deliberate strategy needs to be put in place on which crops to finance with bias towards the high forex earning crops.
- Potential to grow exports exists in four crops in this area according to the Zambia Development Agency mainly Cotton, Floriculture, Tobacco and coffee.

- **Funding challenge**
  - Small scale farmer concentration in certain sectors (lack business knowledge)
  - Limited income base that could be grown through exports

Tourism

- The tourism sector has been identified as a priority growth area by the government of Zambia due to its forex earning capability.
- The financial sector supports this sector through:
  - Provision of payment solutions
  - Sponsorships of Traditional Ceremonies
  - Financing of infrastructure and other supporting industries to the sector

- **Funding challenge**
  - Tourist volumes are very seasonal, due to focus on the Victoria falls
  - Service not yet at international standards especially in remote areas
  - Low Domestic tourism base due to marketing bias towards international tourist
  - Availability of tourism training
Power

- 1.5% of the total loans granted by the finance sector in 2015 went to the power sector.

- Potential areas to be explored include
  - Alternative hydro station on the other water sources on the country
  - Alternative power sources including wind, solar and Geo thermal power

- The Financial sector opportunities include
  - Project finance for the construction of the power plants
  - Payments platforms for any IDO funded projects
  - Other services and products to the connected suppliers and staff to the main contractors

- Funding challenge
  - Tariffs that are not reflective of the cost of production

Infrastructure

- 3.4% of the total loans from the sector in 2015 went towards infrastructure

- Potential financing opportunities exist in the following sectors
  - Information and communication technology
  - Transport sector
  - Airports
  - Real Estate

- Funding challenge
  - Malls are largely occupied by foreign retail chains
  - Road/Airports are not bringing in the expected revenue streams due to low exports and under exploited tourism sectors
Reduce Imports - Manufacturing

- Total imports in 2015 were $8284.27m against forex earnings of $7305.70m in the same year demonstrating that the country is import dependent;

- Main contributors to this are Refined petroleum, copper ore, foodstuffs, fertilizers and chemicals;

- 14% of the total loans granted in 2015 were towards the manufacturing sector (K5658.2m)

- There is an opportunity for the financial sector to provide financing to grow this industry.

- ZDA has identified four main sectors with this potential mainly Food processing; chemical products (especially fertilizers and other Agriculture products), textiles and leather products

**Financing Challenge**

- Limited revenue stream that would be grown through exports
- Basic products still being imported
- High cost of production
- Production of quality goods that can compete in the international market
- Innovation
The role of the Financial Sector – Other sources of Financing

Limited sources of long term funding and when available can be expensive

Venture Capital

- Provision of advisory services on investment to customers that have interest
- Provision of a platform for those that need funding and the venture investors
- Partnering with existing venture capital providers for identification of potential clients

Poor Savings Culture (Gross savings ratio of 31.5%)

- Provide information on saving, the importance and the type of savings
- Provide the right services that meet the different needs
- Provision of a stable Financial system to enable mobilisation of finances
- Improve Financial Inclusion
Dubai: a success Story

Keys Learnings

• Quickly identified the need to diversify their economy

• Identified their key competences and leveraged on them (E.g. developed its ports, roads and other infrastructure to become more accessible)

• Reinvestment of finances generated from the then booming oil sector

• Clear Diversification plan including sectors to achieve diversification (Objective was to grow exports and manufacturing)

• Business atmosphere; stable economic environment, free economic system, minimum regulation and government intervention

• Diversified global partners that mitigate the country specific risk

• Diversified Human Capital

Real GDP growth rate
By sector

Source: UAE National Bureau of Statistics
The Next Steps for Zambia

1. Commitment towards economic diversification

2. A clear diversification plan and strategy to cover priority sectors, timing and steps required for attainment

3. Fiscal discipline to reinvest funds generated from copper during boom times

4. Alignment of all the other supporting functions in achieving this
   - Education curriculum
   - Private sector
QUESTIONS