

Zambia decision

The aim of this exercise is to highlight some of the infrastructure issues facing businesses in parts of sub-Saharan Africa. The idea is to break students into groups and give them the three exercises one after another. The first one is to make clear some of the geographical and other challenges facing this type of business – students will generally come up with landlocked, conflict, disease etc.

The second one is to make it clear that the financial infrastructure can be weak (can link to Harrod-Domar). This can be linked to the Zambian banking game (separate resource) to make it clear that the global financial marketplace is a competitive one and that investors often prefer to avoid excessive risk. The article on Jay Okocha's misfortunes in 2004 can also be used to make the point. This Gallup survey can also be used to reinforce some of the points here:

<http://www.gallup.com/poll/127901/few-sub-saharan-africa-money-bank.aspx>

Although there are some changes on the horizon thanks to the rise of mobile banking:

<http://www.ibtimes.com/mobile-banking-market-sub-saharan-africa-could-be-worth-13b-four-years-1788648>

The third part is to make the link to other obstacles affecting capital accumulation such as debt, poor governance and so on.

Zambia Investment Decision

You're a foreign businessman who is thinking of setting up a manufacturing business in Zambia with a view to then selling your product abroad.

1. Just by looking at this map what can you already begin to tell me about some of the problems that you may face in setting up your business?



Image: <https://mapswire.com/africa/political-maps/>

2. Now imagine that you're a domestic businessman with the same ambition to set up a manufacturing business. One of your priorities will be to get a loan from the bank. Look at the following facts about Zambia's economy and the Zambian Banking System in general and list the ways in which this will affect you (the business owner), your customers and your workers.

- Just 9% of Zambia's adult population had a bank account in 2010 (up from 8% in 2005).
- The number of rural branches of banks is just 65.
- The average annual interest rate on loans was 27% in January 2016.
- Most loans have a short-term maturity (1-3 months); there are only few loans with a maturity of 1 year or more.
- Savings accounts pay 0% to 6%.
- Given the current level of inflation (19%), a 320,000 Kwacha deposit (equivalent to US\$100) today would lose two thirds of its real value after 6 years.
- The government's large fiscal/budget deficit (of 8% of GDP) has been financed by borrowing from banks, which has limited the funds available to finance the private sector.

Zambia Inflation Rate

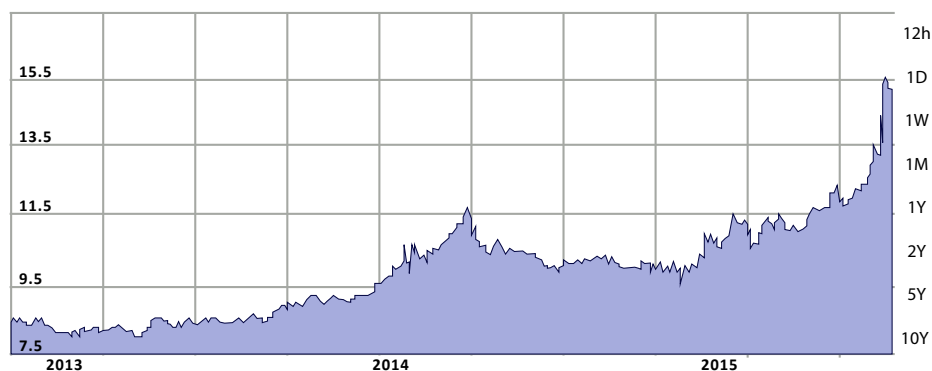


ZMW per 1GBP

2 Jan 2013 00:00 UTC - 13 Sep 2015 13:19 UTC

GBP/ZMW close **15.03889** low: **7.90368** high: **15.53800**

Pounds to Kwacha (1 pound will buy you this many Kwacha) after devaluation in 2013.



How does this affect private businessmen?

3. So why doesn't the Government invest more and run these businesses itself?

Think about:

- Debt
- Size of Tax base
- Corruption
- Existing burdens on Government finances.