



Protocol on Finance and Investment Baseline Study: Zambia Country Report

August 2011



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A report reflecting the state of progress of implementation of the Protocol on Finance and Investment in SADC

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LIST OF ABBREVIATIONS

BoZ	Bank of Zambia
CCBG	Committee of Central Bank Governors
CISNA	Committee on Insurance, Securities and Non-Bank
COMESA	Common Market for Eastern and Southern African Market
DBSA	Development Bank of Southern Africa
DBZ	Development Bank of Zambia
ESAAMLG	Eastern and Southern African Anti-Money Laundering Group
FATF	Financial Action Task Force
FIP	Finance and Investment Protocol
FSB	Financial Services Board (SA)
FSDP	Financial Sector Development Plan
IAIS	International Association of Insurance Supervisors
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commission
IPA	Investment Promotion Agency
JSE	Johannesburg Stock Exchange
LuSE	Lusaka Stock Exchange
MoFNP	Ministry of Finance and National Planning
NBFI	Non-Bank Financial Institutions
PIA	Pensions and Insurance Authority
PPP	Public Private Partnership
SADC	Southern African Development Community
SEC	Securities and Exchange Commission
ZDA	Zambia Development Agency
ZRA	Zambia Revenue Authority

1. CONTEXT

Zambia is centrally placed in Southern Africa and borders Angola, Botswana, the Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania and Zimbabwe. Its population is estimated at 13 million and the urbanisation rate is high, at about 35%¹. In the UN classification Zambia belongs to the category of Least Developed Countries², and as such enjoys certain specific assistance.

According to the World Bank classification, the country is currently ranked as a low-income country, but due to a strong growth rate of 6-7% the past few years, there has been a remarkable increase in GNI per capita from USD600 in 2006, to USD960 in 2009³. In terms of the World Bank classification, Zambia is hence nearing the lower-middle income category, which has a GNI per capita ratio span of USD996 to USD3,945.

Despite the high growth rate, Zambia faces serious challenges in terms of poverty and lack of development. This is evident through its ranking as number 150 out of 169 countries in the 2010 Human Development Index⁴, with average life expectancy at 47.3 years and mean years of schooling 6.5 years.

In terms of regional integration Zambia is a central player. SADC was formed in Lusaka on 1 April, 1980⁵, and Zambia has always been an active member of the organisation. The country is also a member of COMESA (Common Market for Eastern and Southern Africa), and hosts the COMESA Secretariat.

In 2005, Zambia qualified for debt cancellation under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Inflation has decreased and has remained between 8 and 13% since 2006. It averaged 8.5% in 2010, down from 13.4% the year before.⁶ Declining world commodity prices and demand slowed GDP growth in 2008, but a sharp rebound in copper prices and a bumper maize crop helped Zambia recover. However, lack of economic diversity subjects Zambia to fluctuations in commodity prices.

The financial sector in Zambia is fairly well developed. Following a WB/IMF-led Financial Sector Assessment Plan carried out in 2002, the Government of Zambia embarked on the development and implementation of a Financial Sector Development Plan (FSDP). The FSDP was a comprehensive strategy formulated to address weaknesses in the Zambian financial system and the initial phase ran from 2004-2009. The FSDP aimed to work towards a financial

¹ Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2008 Revision and World Urbanization Prospects: The 2009 Revision*, <http://esa.un.org/wup2009/unup/>.

² Criteria for identification of LDCs: GNI/capita 3-year average above USD1086 for graduation+ other criteria, <http://www.unohrrls.org/en/lcd/related/59/>

³ <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>

⁴ Human Development Index 2010, Zambia, <http://hdrstats.undp.org/en/countries/profiles/ZMB.html>

⁵ It was then known as the Southern African Development Coordination Conference (SADCC)

⁶ Source: Bank of Zambia, http://www.boz.zm/snapshot_inflation.htm

system that is stable, sound and market-based and that would support efficient resource mobilization necessary for economic diversification, sustainable growth and poverty reduction. The absence of anti-money laundering regulations was identified in the FSDP as a sector-wide challenge, and some action has been taken in this respect (see 5.1.8. below).

The second phase of the FSDP (FSDP II) 2010-2012 is envisaged to deal with longer-term issues including the following⁷:

- Harmonisation of wider financial sector legislation;
- Strengthening the autonomy and enhancing the capacities of the regulatory authorities, namely the Bank of Zambia (BoZ), Pensions and Insurance Authority (PIA) and Securities and Exchange Commission (SEC);
- Improving corporate governance among institutions;
- Enhancing the payments systems;
- Awareness campaigns on financial services & costs;
- Bringing National Pensions Scheme Authority (NAPSA) under some independent supervisory authority and implementing the investment allocation guidelines for contractual savings providers; and
- Capacity building for key stakeholders.

The FSDP II is implemented through a number of working groups organised under the three main pillars of the programme:

- Market Infrastructure: Legal and Regulation, Payment systems, Accounting and Auditing Standards, Crisis Management and Market Exit Mechanism, Financial Identification System, Long-term funding mechanism, Corporate Governance.
- Increasing Competition: Increase Market Efficiency, Transparency (Credit Reference Bureau), Human Capital, Role of State Owned Enterprises (SOEs), Financial Institutions, Financial Literacy.
- Increasing Access to Finance: Access to Savings, Microfinance, Rural Finance, Development and Housing Finance.

Despite the government's efforts to develop the financial sector, access to finance was listed as the prime difficulty in doing business in Zambia in the 2010-2011 Global Competitiveness Report, followed by corruption and inadequate supply of infrastructure.⁸

⁷ FSDP Status Report March 2011, http://www.boz.zm/FSDP/FSDPStatusReport_March2011.pdf

⁸ Source: World Economic Forum, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

2. STATUS OF FIP IMPLEMENTATION

2.1. STATUS OF FIP RATIFICATION

Zambia signed the SADC Treaty on 17 August 1992 and ratified the Treaty on 16 April 1993. Zambia signed the FIP on 17 August 2007. However, the FIP was only very recently ratified on 4 January 2010.

2.2. FIP STRUCTURES

Zambia participates in all FIP sub-committees and is currently chairing the Legal and Operations sub-committee within the Committee of Central Bank Governors (CCBG).

There seems to be a weakness at the level of national co-ordination. SADC activities in general are coordinated by the Ministry of Foreign Affairs, and all official communication from the SADC Secretariat has to be sent via the Ministry. In order to enhance the implementation of the FIP, the Ministry of Finance and National Planning was asked by the Ministry of Foreign Affairs to take over the responsibility for coordinating and driving the implementation of the FIP. The intention of this coordinating responsibility was helpful, however, to date only one national co-ordination meeting has been held (in February 2010) and there is interest and need to implement a more structured approach.

As for private sector consultation, Zambia Chamber of Commerce and Industry (ZACCI) itself is not involved in FIP implementation, but one of its members, the Bankers' Association of Zambia, is actively involved. Consultation with the private sector, other than the financial sector, does not seem to take place.

2.2.1. ANNEX 1: COOPERATION IN INVESTMENT

Zambia is seen as an investor-friendly country relative to its SADC peers. In the World Bank "Doing Business" study Zambia is ranked as number 76 out of 183 countries in terms of "Ease of Doing Business" and 74 with regards to "Protecting Investors" (5.3 points out of 10). It is a member of MIGA (Multilateral Investment Guarantee Agency) and has acceded to the International Centre for Settlements of Investment Disputes (ICSID), and the Recognition and Enforcement of Foreign Arbitral Awards, known as the "New York" Convention. It was ranked 54th out of 132 countries in the Investor Protection index of the INSEAD Global Innovation Index (at par with countries such as France).

FDI inflows during 2009 (latest year available) amounted to USD695 million, down from USD939 million in 2008. The sources of FDI in 2009 were as follows: India (USD296 million), Canada (USD203 million), Ireland (USD180 million), Netherlands (USD78 million), and China (USD76 million). Intra-SADC (net) FDI in 2009: SA (USD74 million), Botswana (USD-2 million), Mauritius (USD-6 million) and Zimbabwe (USD-17 million). The mining sector was the largest recipient in 2009, at USD367 million (53%), followed by manufacturing (41%), wholesale and retail trade (9%).⁹

⁹ Source: "Foreign Private Investment and Investor Perceptions in Zambia – 2010", Zambia Development Agency, Bank of Zambia, Central Statistical Office

The dominance of mining is evident also in FDI stock statistics from 2009, when the largest investors were Canada (USD1433 million), India (USD1278 million), Australia (USD810 million), Switzerland (USD805 million) and China (USD596 million). Only one country from the SADC region figures in the top 14 sources of FDI (stocks) in 2009 and that is South Africa in 7th place holding investments amounting to USD510 million.

The Zambia Development Agency (ZDA) is the only Investment Promotion Agency (IPA) in Zambia. They are also responsible for export promotion, SME development and privatisation. ZDA falls under the Ministry of Commerce, Trade and Industry and was created in 2006 through the merger of five institutions: Zambia Privatisation Agency, Zambia Investment Centre, Export Board of Zambia, Zambia Export Processing Zones Authority and Small Enterprises Development Board. ZDA's board is comprised of 16 members, eight of which are Permanent Secretaries of Ministries, while the other eight, including the Chairperson and the Vice-Chairperson, are private sector representatives.

ZDA participates in the SADC IPA Forum and has found the peer learning and the cooperation on joint marketing campaigns and the recent workshop in early 2011 to be very fruitful¹⁰. The Zambia Development Agency Act (2006) covers issues including the protection of investment, repatriation of funds, incentives, settlement of disputes, etc. The ZDA Act is available to the public on the ZDA website. Extensive documentation is also available on the ZDA website that outlines sector details, incentive programmes, and other information that a potential investor would require.¹¹ Investment Promotion and Protection Agreements (IPPA) have also been signed with individual firms, as well bilateral agreements with countries.¹² Any dispute arising out of an investment shall be settled in accordance with the Arbitration Act. The fact that Zambia has no exchange controls makes the issue of repatriation of funds straightforward.

Specifically, the ZDA Act provides protection of investment. Article 19 reads as follows:

19. (1) An investor's property shall not be compulsorily acquired nor shall any interest in or right over such property be compulsorily acquired except for public purposes under an Act of Parliament relating to the compulsory acquisition of property which provides for payment of compensation for such acquisition.

2.2.2. ANNEX 2: MACROECONOMIC CONVERGENCE

The macroeconomic division of the Department of Economic Management of the Ministry of Finance and National Planning (MoFNP) is responsible for the macroeconomic convergence matters of the SADC FIP. The sub-committee meetings are normally attended by officials from the Bank of Zambia (BoZ) and both the Budget Office and the Department of Economic Management of the MoFNP.

¹⁰ Information sourced from an interview with a ZDA representative

¹¹ <http://www.zda.org.zm/91-investor-guide>

¹² Zambia has also signed bilateral investment promotion and protection agreements with foreign companies investing in Zambia, such as Pick'n Pay from SA (2010), Zhongui Mining Group from China (2009), or countries such as the UK (2009).

The Macroeconomic Section, in cooperation with the BoZ, submits statistics to the CCBG on a quarterly basis. During the past five years, Zambia has been within, or in fairly close proximity to, the agreed targets for macroeconomic convergence, with the slight exception of the inflation rate. In 2010 the inflation rate was at 8.5%, which is below the 9.5% ceiling, but the previous year it was as high as 13.4%. The budget deficit to GDP ratio has remained stable at around 2%, which is well below the 5% indicator SADC has set for the member states. Public and publicly guaranteed debt to GDP rate is slowly increasing, but it is well below the 60% target. In 2008 it amounted to 18.1%, with an increase to 26.4% in 2009, and 27.6% in 2010.¹³

2.2.3. ANNEX 3: COOPERATION IN TAXATION AND RELATED MATTERS

Zambia participates actively in the subcommittee with delegates both from the MoFNP (Budget Office) and from the Zambia Revenue Authority (ZRA). Zambia has entered into a Mutual Agreement for Information Exchange with South Africa, and is currently in negotiations with Botswana. They have found the agreement with South Africa useful, specifically as it outlines the issue of exchange of information on goods in transit to neighbouring countries. The ZRA states that they have benefitted from interaction with South Africa on tax policy matters.

It is politically and economically sensitive to make drastic changes within a country regarding indirect taxation policies. ZRA mentioned that regional harmonisation in the area of VAT may be difficult in some instances as the SADC member states currently apply different rates of VAT, as well as different VAT structures. They argued that a country may find it difficult to levy VAT on items or services that are currently VAT-free, as it would result in price increases. As an example ZRA mentioned that passenger transport is zero-rated in Zambia, and it would have considerable ramifications if VAT were to be introduced in this sector, both financially and administratively. Besides passenger transport, other items mentioned where changes in VAT levying may be problematic are farming and medical products.

Discussions are on-going within the Zambian government on how to measure the effectiveness of tax/investment incentives, and the country welcomes the regional work being done on cost-benefit analyses etc. Significant tax reforms are also on-going as part of the FSDP. Infrastructure development is a high priority in Zambia and incentives have proven a necessary tool to attract investments into this area.

Staff members from ZRA and MoFNP have attended a number of courses on tax matters, both at the African Tax Institute in Pretoria and under the EU FIP Support Programme (through the SADC Secretariat). Examples of courses include indirect taxation, transfer pricing skills, modelling, and forecasting. The Customs Department of ZRA would like to see courses on classification, valuation, risk assessment and management, institutional arrangement when implementing a customs union and the management of one-stop border posts.

Double taxation agreements (DTAA) have been entered into with Tanzania and South Africa within the SADC region, while agreements with Mauritius and Zimbabwe have not yet been ratified.

¹³ Source: "Performance in the SADC Mec Primary Indications 2008-2010", SADC Secretariat/Macroeconomic sub-committee

2.2.4. ANNEX 4: COOPERATION AND COORDINATION OF EXCHANGE CONTROL POLICIES

Zambia liberalised all exchange control measures in 1994 and the Zambian Kwacha is directly convertible with Botswana Pula, South African Rand and the US Dollar at Zambian commercial banks. In the east of Zambia, the Bureaux de Change converts Zambian Kwacha into Malawian Kwacha and vice-versa. Indirect convertibility exists via the US dollar. Some establishments in Lusaka set their prices in USD, which has become a debatable practise, since USD is not legal tender in Zambia. It is possible, however, to operate a foreign currency account with a commercial bank in Zambia.

Zambia has a MoU with Mozambique for the repatriation of bank notes. A trilateral agreement is under discussion with Mozambique and Malawi.

2.2.5. ANNEX 5: HARMONIZATION OF LEGAL AND OPERATIONAL FRAMEWORKS

Under the FSDP, which commenced in 2004, pertinent laws relating to the financial sector have been reviewed. The review of the Bank of Zambia (BoZ) Act was initiated under the FSDP, but was also influenced by recommendations of the FSAP undertaken in 2008 and provisions in the SADC Central Bank Model Law. The BoZ has now (2010) submitted a draft revised Bank of Zambia Act to the MoFNP for approval and to facilitate enactment once finalised. According to the BoZ, the revised Act is in line with the principles of the Model Act, although it does not follow the text word by word. BoZ states that the amendments have generally been met with the approval of the Ministry, but some specific details are under discussion. The BoZ and the MoFNP both made reference to the autonomy of the central bank as one area which was subject to discussion when the Act was revised as the BoZ is currently not independent.

2.2.6. ANNEX 6: COOPERATION IN PAYMENT, CLEARING AND SETTLEMENT SYSTEMS

The Banking, Currency and Payments Systems department of the BoZ participates in the payment, clearing and settlement sub-committee. Real Time Gross Settlement (RTGS) was implemented for all local transactions in 2004. Some measures that will assist in the implementation of a common linked regional clearing process have already been implemented in Zambia, including liberalisation of exchange controls and the (ongoing) laying down of a fibre-optic cable connecting with cables from Namibia and the Indian Ocean. The National Payments Systems Act, dated 2007, regulates the payment, settlement and clearing system.

As required in the FIP, the BoZ has developed Rules and Guidelines for risk mitigation, including managing credit risk and collateral requirements. The internal auditor monitors risk and reports annually to the Risk Management Department within the Bank. There is also an ICT disaster recovery centre 15 km from Lusaka's Central Business District, where the BoZ is located.

The (commercial) Bankers Association of Zambia is well versed with the FIP and participates actively in the regional meetings held under the umbrella of SADC Bankers Association. It receives detailed feed-back from the CCBG meetings that the SADC Bankers Association

attends. In 2009, the Association commissioned a study to establish the commercial implications of the implementation of the FIP. Currently ten regional projects are underway amongst the member states, including the use of VISA in ATMs, repatriation of bills, and convertibility.

2.2.7. ANNEX 8: COOPERATION IN THE AREA OF BANKING SUPERVISORY MATTERS

Banking and non-banking regulation and supervision in Zambia is today divided between three institutions: the BoZ, the Securities and Exchange Commission (SEC) and the Pensions and Insurance Authority (PIA). A possible merger of the three institutions was previously discussed under the FSDP, but to date, no conclusive decision has been made. As it stands, a merger is no longer seen to be a priority or a preferred route to take.

According to the BoZ, it complies with the Basel Core Principles for Banking Supervision and underwent a WB/IMF Financial Sector Assessment Programme (FSAP) in November 2008. Zambia is also in the process of reviewing its Banking and Financial Services Act, and the BoZ is hoping it will be finalised for approval by Parliament in 2012. This exercise is part of the FSDP, and is likely to be completed before the SADC-wide audit of national laws agreed by the CCBG. The Bank has not conducted any self-assessments, but plans to do so once the new Basel Principles are adopted. According to the Bank, it follows international financial accounting standards. Internal accounting and auditing reports are verified by an external auditor.

The Bank holds information seminars for parliamentarians twice per year, in order to build awareness of the business of the Bank and to inform the parliamentarians of possible legal changes that are being discussed and will later be tabled at Parliament for approval.

The BoZ states that Zambia is actively involved in ESAAMLG (Eastern and Southern Africa Anti-Money Laundering Group), which is an observer body at the Financial Action Task Force (FATF). Zambia participates in the peer review processes called "mutual evaluations", which all ESAAMLG members are obliged to undergo, and was assessed in August 2008¹⁴. The report found that Zambia had made significant commitments to establish a strong Anti-Money Laundering/Combating the Financing of Terrorism system, partly reflected by the adoption of the Prohibition and Prevention of Money-Laundering Act and the Anti-Terrorism Act, as well as the establishment of the Anti-Money Laundering Investigations Unit. However, the report identified deficiencies in the existing systems and recommended a strengthening of the legal and institutional framework, as well as capacity building and awareness making.

In April 2010, Zambia adopted a country strategy paper for 2010-2012 on Anti-money laundering and the Combating of Financing of Terrorism¹⁵. The paper makes reference to the FIP and refers to Annex 8 and the requirement that SADC member states should implement a framework to deal with money laundering. In 2010 a Financial Intelligence Unit was set up, housed at the BoZ.

¹⁴ "Mutual Evaluation Report for the Republic of Zambia" http://www.esaamlg.org/reports/view_me.php?id=195

¹⁵ "Anti-money laundering and combating of financing of terrorism. Country Strategy Paper 2010-2012". http://www.esaamlg.org/userfiles/Zambia_National_Strategy.pdf

2.2.8. ANNEX 9: COOPERATION IN RESPECT OF DEVELOPMENT FINANCE INSTITUTIONS

The Development Bank of Zambia (DBZ) is the only Development Finance Institution in Zambia. It was established in the early 1970s. The bank ownership is: Government of Zambia 63.5%; Exim Bank of India 19.7%, and the Development Bank of Southern Africa (DBSA) 9.4%.

During the past decade DBZ has been restructured and scaled down considerably after having seen an increase in bad debt, coupled with poor management. In 2009 DBZ had USD31 million in total liability and equity, and an income of USD237,000. Since then the bank has scaled down even further and the staff complement is now 14 in total (27 in 2009). According to the DBZ management, the Bank is currently undercapitalised and struggles to operate effectively, but the Government of Zambia has formally decided to recapitalize DBZ by ZMK15 billion (approximately USD3 million) this year.

The DBZ is a member of the DFRC network, and states that it is paying off a back-log of unpaid fees, but is up to date on current fees. No rating has been done of DBZ, but the Bank states that it has done a self-assessment through the Association of African DFIs.

In 2010 DBZ staff members attended multiple DFRC courses including Risk Management Programme (3), Project Management Training (2), Human Resource Development Training Programme (1), and SME Appraisal and Entrepreneurship (1). DBZ views the capacity-building as one of the major attractions of belonging to the DFRC.

The DBZ has not been involved in any Public Private Partnerships (PPPs). When the DBZ is recapitalised and fully functional, it has aspirations to collaborate on regional projects with institutions such as the South African Industrial Development Corporation and the DBSA. These institutions have projects involving Zambia, but DBZ has not been in a position to participate due to lack of capital according to the DBZ.

Zambia launched a PPP policy in November 2008, and the Public Private Partnership Act came into force in August 2009, when a PPP Unit was established within the Ministry of Finance and National Planning. This unit looks to participate in SADC PPP activities.

2.2.9. ANNEX 10: COOPERATION ON NON-BANKING FINANCIAL INSTITUTIONS AND SERVICES

Non-Banking Financial Institutions (NBFI) are supervised and regulated by the following three institutions:

- Securities Exchange Commission (SEC) - oversees the Lusaka Stock Exchange, brokers and investment advisers;
- Pensions and Insurance Authority (PIA) - is in charge of pension funds and insurance (incl micro-insurance);
- Bank of Zambia: Non-Bank Financial Institutions Supervision Department - this department supervises Microfinance institutions (26), Bureaux de change (52), leasing

companies (10), building societies (3), the Development Bank of Zambia, the Credit Reference Bureau Africa Ltd and the National Savings and Credit Bank of Zambia.

SEC is a member of the International Organization of Securities Commission (IOSCO), and PIA is a member of the International Organisation of Pension Supervisors (IOPS) and the International Association of Insurance Supervisors (IAIS). It is the institutions' intention to bring laws and regulations in line with a future SADC Framework, and they do not foresee any difficulties in this as they are already aligned to the international organisations' strict membership criteria.

PIA feels that the CISNA activities related to consumer awareness have had a positive impact on their programmes, and they have also interacted with their counterparts in the region during the courses. Financial Education is part of the FSDP, hence a number of activities have been carried out to increase consumer awareness including pamphlets, radio, TV shows, incorporation of capital market in school curriculum, and the training of teachers. Simple and informative material has also been published by the SEC and the Lusaka Stock Exchange (LuSE).

Staff members from both SEC and PIA have participated in CISNA capacity building activities, especially related to enhancement of supervisory skills. SEC also sent staff to FSB familiarisation courses almost every year and has seconded staff to FSB on a short-term basis for learning and skills transfer.

There is no Zambian data on the CISNA website, although SEC states that they have submitted information.

2.2.10. ANNEX 11: COOPERATION ON SADC STOCK EXCHANGES

The Lusaka Stock Exchange was established in 1993. It currently has 20 listed companies. Market capitalisation has increased from USD4,106 million at the end of 2008 to USD6,302 million at the end of 2010. It is currently at USD7,552 million (26 May 2011). Foreign portfolio investment inflows amounted to USD211 million in 2010, and outflows to USD111 million.

LuSE's regulations and listing requirements are aligned with those of the Johannesburg Stock Exchange (JSE), and they already have dual listings in place so they do not foresee any difficulties in complying with the future regional framework on these points. Staff members from the LuSE have attended regional capacity building activities and consider them beneficial. LuSE has fruitful cooperation with the JSE, as well as with the exchanges in Malawi and Botswana. This cooperation is useful in terms of benchmarking etc. JSE has also provided valuable advice throughout the years.

Shoprite Holdings Ltd has a dual listing at the Johannesburg Stock Exchange (JSE) and at the LuSE, and the LuSE-listed Zambia Consolidated Copper Mines is cross-listed at the Paris and London exchanges.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1. CONCLUSIONS

The overall impression is that Zambia is proceeding well with the implementation of the commitments outlined in the SADC FIP. It does appear, however, that the most significant contributing factor is not specifically the FIP as the driving force, but the implementation of the comprehensive Financial Sector Development Plan (FSDP), which has been ongoing since 2004. Most stakeholders interviewed referred to the FSDP as an important part of their work regarding reform and modernisation of the sector and the associated legal and regulatory framework, while alignment to the FIP is a coincidence in many respects.

A brief overview of progress towards FIP commitments:

- **Investment:** The Zambian investment regime meets the FIP commitments. The Zambian Development Agency (ZDA) participates fully in the SADC IPA Forum. Investment incentives, protection, repatriation of funds, and other relevant issues necessary for a good investor protection regime are governed by the Zambia Development Act (2006) and the country is a member of MIGA and signatory of ICSID and the “New York Convention.” Zambia is ranked on par with the OECD average for Strength of Investor Protection in the WB Doing Business rankings, and is therefore maintaining an investment climate that is aligned with international standards.
- **Macroeconomic convergence:** In 2010 Zambia met the criteria for macroeconomic convergence: inflation rate below 9.5% (8.5%), budget deficit to GDP below 5% (2.2%) and public debt to GDP below 60% (25.4%). Zambia participates actively in the macroeconomic sub-committee.
- **Taxation, exchange controls, legal and operational frameworks for central banks, and banking supervision:** With regards to the BoZ, the review of the Bank of Zambia Act is currently underway and the Bank of Zambia believes it has captured the principles of the SADC Model Central Bank Law. Approval by the MoFNP and enactment are still outstanding. An RTGS is operational for local transactions and the pre-conditions for linking to a common system appear to be in place as Zambia has no exchange controls, and is currently upgrading its telecommunications system through fibre optic cables. The Banking and Financial Services Act is being revised, and the Bank’s supervisory standards are, according to the Bank of Zambia aligned to the Basel Core Principles for Banking Supervision, however, must begin to complete self-assessments.
- **DFIs:** The Development Bank of Zambia (DBZ), Zambia’s only DFI, is currently undercapitalised and activity is low. It is currently not in a position to take on the role envisaged in the FIP, however, it is due to be recapitalised by the Government of Zambia by ZMK15bn this year (approximately USD3 million).
- **CISNA:** Three institutions supervise non-bank financial institutions: Bank of Zambia, SEC and PIA. PIA is a member of IOPs and IAIS and SEC is a member of IOSCO. Both SEC and PIA participate in CISNA meetings and capacity building activities.
- **COSSE:** The LuSE regulations and listing requirements are aligned with those of the JSE and it has two dual listings. It cooperates actively with other exchanges in the region.

Despite the significant progress made in Zambia, national coordination could be stronger particularly to develop a harmonised domestic platform to ensure continued consistent messaging by all national FIP stakeholders in Zambia. Specifically, there does not seem to be any coordination between the FSDP and the FIP implementation.

A conscious effort to identify any positive or negative effects on the regional agenda and/or the FIP provisions by the implementation of the FSDP is hence uncoordinated. There should not be any contradictions as both the FSDP and the FIP aim to emulate international best practice, but some form of coherence between the two processes would be beneficial.

In the absence of concrete regional frameworks for SADC within the areas of taxation matters, investment framework, and non-banking financial services framework, amongst others, Zambia continues to strive towards the international standards. Zambia has indicated that they are open to aligning to regional frameworks and guidelines once these are finalised and approved by regional subcommittees and ministers.

3.2. RECOMMENDATIONS

The comprehensive FSDP is all encompassing of the Zambian finance and investment sectors and guides the country towards international best practices and standards. Establishing a formal link between the implementation of the FSDP (housed at the Bank of Zambia) and FIP implementation (coordinated by the MoFNP) would be helpful as many of the activities and objectives are aligned.

It is important that a concerted effort be made to conduct analyses of the regional implications (positive or negative) of any planned FSDP activity, such as legal reforms, to ensure that all activities implemented under the FSDP are in line with any requirements and commitments set by the FIP. Additionally, it may be most effective to actually consolidate the efforts of the FSDP activities with national FIP-coordination rather than create a new FIP unit.

With regards to capacity available within Zambia, there are a number of specific areas that have been highlighted as requiring further up-skilling and increased expertise of the various government and regulator officials. Specifically, statistical data is a concern as discrepancies between similar statistical data were noted in different sources, as well as outdated online data; and improved statistical expertise would be of great use in the BoZ and the MoFDP. Additional areas for capacity building interventions include taxation - for example, the Customs division of the SRA would like to see SADC-wide courses in certain areas; and for non-banking financial sector regulation. It should be noted that there is on-going support in taxation from both the Norwegian government and the GIZ. Therefore, efforts should be made to avoid duplication of capacity building activities.

4. REFERENCES

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Bank of Zambia, <http://www.boz.zm/>

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INSEAD, Global Innovation Index, <http://www.globalinnovationindex.org/gii/main/analysis/showcountrydetails.cfm>

The World Law Guide, Legislation Zambia, <http://www.lexadin.nl/wlg/legis/nofr/oeur/lxwezam.htm>

Ministry of Finance and National Planning, <http://www.mofnp.gov.zm>

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Zambia Development Agency, <http://www.zda.org.zm/>

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World Economic Forum, Global Competitiveness Report 2010-2011, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

5. APPENDICES

5.1. APPENDIX 1: INTERVIEW LIST

Annex Subcommittee	Institution	Name
Legal and Operational Frameworks	Bank of Zambia	Mr Matthew Chisunka
CISNA	Bank of Zambia	Mr Chisha Mwanakatwe
CISNA	Bank of Zambia	Mr Musapenda J Phiri
Banking Regulation and Supervision	Bank of Zambia	Mr Ephraim Musilekwa
	Bank of Zambia	Mr Nicholas Mbuya
	Bank of Zambia	Mr Jonathan M Chipili
Payments Systems	Bank of Zambia	Mr Lazarous Kamanga
Exchange Control	Bank of Zambia	Mr Ivan Zyuulu
Macroeconomic Convergence	Bank of Zambia	Mr Jacob Lungu
	Bankers Association of Zambia	Mr David Chewe
DFI	Development Bank of Zambia	Mr Abraham Mwenda
COSSE	Lusaka Stock Exchange	Ms Beatrice Nkanza
Macroeconomic Convergence	Ministry of Finance and National Planning	Mr Crane Muleya
Macroeconomic Convergence	Ministry of Finance and National Planning	Mr David Zulu
Macroeconomic Convergence	Ministry of Finance and National Planning	Mr Akapelwa Imwiko
Macroeconomic Convergence	Ministry of Finance and National Planning	Mr Emmanuel Kaunda
Macroeconomic Convergence	Ministry of Finance and National Planning	Mr Mike Masiye
CISNA	Pensions and Insurance Authority	Mr Martin Libinga
CISNA	Securities and Exchange Commission	Mr Clement E Sichembe
CISNA	Securities and Exchange Commission	Mr Michael M Liweleya
None - Private Sector	Zambia Association of Chambers of Commerce and Industry (ZACCI)	Ms Prisca M Chikwashi
Investment	Zambia Development Agency	Mr Muhabi Lungu
Tax	Zambia Revenue Authority	Mr Mambwe L Kaenga
Tax	Zambia Revenue Authority	Mr Mathias M Mwela

5.2. APPENDIX 2: MATRIX OF COMMITMENTS

Colour	Status
Achieved	Green
Partially achieved	Yellow
Not achieved	Red
Not assessed	White
Not applicable	Grey

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
None	None	FIP instrument ratified by all member states.	Green	SADC Secretariat	
None	None	National FIP coordinating structures in place to facilitate better FIP implementation.	Yellow	SADC Secretariat	
Annex 1: Cooperation in Investment	5,6,8,9,27	Existence of domestic investment law that: Protects investors, allow repatriation of profits, allows access to courts	Green	ZDA	All three present = green

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	21	Signatory to international conventions: New York Convention		http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYC_convention_status.html	Member = green
	21	Signatory to international conventions: ICSID		http://icsid.worldbank.org/ICSID/Index.jsp	Member = green
	21	Acceded to international conventions: MIGA		http://www.miga.org/about/index_sv.cfm?stid=1695	Member = green
	8	Investment policies, information etc. easily accessible to investors		ZDA	
	23	MS has an active IPA		ZDA	
	2	Member ranked above (or equal) to OECD average rating of the Strength of Investor Protection Index		World Bank Doing Business, Investor Protection Index	Better than or equal to OECD average = green; worse = red
	19	MS's national policies and regulations comply with the Regional Investment Policy Framework and/or the minimum principles for investment regimes in the region.	Not Assessed (not measured in 2011)	ZDA	
	19	Regional Investment Policy Framework is drafted and agreed to by MS	No standard framework yet exists in the region.	Investment subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	23	Evidence of events and activities run by IPA Forum and attended by MS IPAs	The SADC IPA forum has been established, however the most recent event was poorly attended by CEOs of IPAs operating in MS	Investment subcommittee	
Annex 2: Macroeconomic Convergence	2,3,4	Inflation rate low and stable (< 9%)	8.5%	MoFNP	Within range = green; out of range = red
	2,3,4	Public and publicly guarantee debt to GDP < 60%	2%	MoFNP	Within range = green; out of range = red
	2,3,4	Budget deficit to GDP ratio at widely accepted prudent levels (< 5%)	27.6%	MoFNP	Within range = green; out of range = red
	5,8	Cooperation/Information Sharing: submission of data to SMSD		MoFNP	
	7	Cooperation/Information Sharing: participation in peer review panel	N/A	MoFNP	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 2: Macroeconomic Convergence	7	The Peer Review Mechanism is approved for establishment and operational	Discussions towards establishment of the mechanism are on-going. Framework and guidelines have not yet been adopted. Generally, MS are supportive of the Peer Review Mechanism, but have specific concerns which need to be addressed at subcommittee level.	Macroeconomic Convergence subcommittee	
Annex 3: Cooperation in Taxation Matters	5.3	Number of DTAs signed with other SADC member states	2: Tanzania and South Africa	ZRA	< = 6 red, 7 - 10 orange, 11 - 14 green
	2	Up to date and publicly available tax database (national)		ZRA	
	2	Up to date information submitted to SADC Tax Database (when fully operational)	N/A	ZRA	
	6..6	Signatory to the Mutual Agreement for Information Exchange with member states (AATM)	N/A	ZRA	
	6	Harmonised to the regional guidelines for the administration of Indirect Taxes	N/A	ZRA	
	4	Harmonised to the regional tax incentives guidelines	N/A	ZRA	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 3: Cooperation in Taxation Matters	3	Tax officials participate in capacity building activities		ZRA	
	5	Existence of Model Double Taxation Avoidance Agreement	Model DTAA and Commentary approved and adopted by all member states.	Tax subcommittee	
	4	Guidelines for the appropriate treatment of tax incentives drafted and approved for adoption by MS.	Drafting of guideline documents still in progress.	Tax subcommittee	
	4	A Fiscal Model for cost benefit analysis developed and approved by Ministers of Finance. Fiscal Model must comply with items articulated in Art. 4 section 5.	Cost Benefit Analysis model not yet developed.	Tax subcommittee	
	6	SADC Agreement for Assistance in Tax Matters (AATM) approved and signed by all member states (multi-lateral agreement).	Finalised in 2008, waiting for approval by Ministers of Justice/Attorneys General awaiting clearance and signature by Summit.	Tax subcommittee	
	6	Guideline for the administration of indirect tax in the region is approved for adoption by member states.	Still under review by the Indirect Taxation working group.	Tax subcommittee	
	7	Mechanism for the Settlement of Tax Disputes developed and approved by Ministers of Finance.	Has not been developed or approved for implementation	Tax subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 4: Cooperation on Exchange Control	2a	Liberalised Current Account		BoZ	
	2a	Liberalised Capital (Financial) Account		BoZ	
	2c,3.1.c	Full Currency Convertibility		BoZ	
	2d, 3d	Collect and publicise data on foreign exchange transactions (e.g. automated cross border reporting system)		BoZ	
	2a	Roadmap for exchange control liberalisation in current and capital (and financial) account transactions is drafted and approved	The roadmap has been drafted by the subcommittee. All countries except the DRC have signed and approved the roadmap, and so it has not been implemented as yet.	Exchange Control subcommittee	
Annex 5: Harmonisation of Legal and Operational Frameworks	3b	Autonomy/independence of Central Bank		BoZ	
	2	Compliant with SADC Central Bank Model Law (when/if made binding)	N/A	BoZ	
	4.2	Adoption of price stability as mandate		BoZ	
	3c	Ability of Central Bank to set own budget		BoZ	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 5: Harmonisation of Legal and Operational Frameworks	2e	Extent to which central bank can lend to government	Yes - only requirement is for terms and conditions to be agreed upon between Bank and government	BoZ	
	3	Existence of Model Central Bank Law	The Model Central Bank Law has been drafted and approved by all SADC member states	Legal and Operational Frameworks subcommittee	
	2	Roadmap for the establishment of a Common Central Bank developed and approved.	Legal & Operational Committee has recently been tasked with the development of a roadmap for the establishment of a single Central Bank. No progress yet on this matter.	Legal and Operational Frameworks subcommittee	
Annex 6: Cooperation on Payments Systems	3a	Payments systems in place domestically		BoZ	
	3c, 3e, 4.1.c	Risk mitigation strategy implemented		BoZ	
	4.1.d	Existence of national payments system law		BoZ	
	2	National payment system law aligned to regional model law	N/A	Payments Systems subcommittee	
	2, 3d	MS linked to SADC regional payments systems (when operational)	N/A	Payments Systems subcommittee	
	2	Model Payment System Law developed and approved	Law is being drafted and is to be approved at regional level	Payments Systems subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 6: Cooperation on Payments Systems	3	Model Payment System Strategy is developed.	This is not in place yet. However, the strategy is being developed for the CMA countries to be piloted in this sub-regional bloc. The intention that this will allow a 'tried and tested' strategy to be rolled out to the rest of the region	Payments Systems subcommittee	
Annex 7: Cooperation in the area of ICT	3, 4	Legal framework for data privacy in place	Not Assessed (not measured in 2011)	BoZ	
	3	Standard regarding ICT systems interpretability in place	Not Assessed (not measured in 2011)	BoZ	
	3.5	IT Governance framework adopted for the region.	Not Assessed (not measured in 2011)	ICT Forum	
	3	ICT communication Infrastructure to connect member states in place	Not Assessed (not measured in 2011)	ICT Forum	
Annex 8: Cooperation in Banking and Regulatory Supervision	2	Compliant with the 25 BASEL core principles		BoZ	Less than 20 = red; 21 to 25 orange; 25 green
	2	Self-assessment audit happening on annual basis		BoZ	
	Annex 14	Membership of ESAAMLG & completion of a mutual evaluation		BoZ	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 8: Cooperation in Banking and Regulatory Supervision	Annex 13	Compliant with international standards for auditing and accounting - IFRS		BoZ	
	2, 4	Regional agreement on framework for central bank supervision.	Harmonisation of banking supervision and regulatory principles in progress.	Banking Regulatory and Supervisory subcommittee	
Annex 9: Cooperation on Development Finance Institutions	3, 9	Participate in regional development projects through cooperation in pooling of funds, project identification, project management.		DBZ	
	3f, 7	Attending capacity building activities organised by DFRC (secondment, work placement, training)		DBZ	
	Annex 1	PPP: Establishment of PPP Policy Framework, Legal Framework, Institution Framework	Not Assessed (not measured in 2011)	Ministry of Trade and Industry, or relevant ministry	
	2	The DFI network and DFRC are established and active.	Yes.	SADC Secretariat	
	11	Regional Insurance Guarantee system in place and approved.	The Regional Insurance Guarantee scheme has not been agreed upon or implemented.	DFI Network	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 9: Cooperation on Development Finance Institutions	3	Number of regional development projects in progress (where regional refers to projects with benefits to more than one country, or with more than one country collaborating on a project)	Only evidence of regional projects is DBSA projects, which are not necessarily attributable to the DFI network. No collaboration between DFIs on regional development projects.	DFI Network	
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	7	Membership of IOSCO (harmonising to international standards)		http://www.iosco.org/lists/display_members.cfm?memID=1&orderBy=None	
	7	Membership of IOPS (harmonising to international standards)		http://www.iopsweb.org/document/14/0,3343,en_35030657_35030370_35152654_1_1_1_1,00.html	
	7	Membership of IAIS (harmonising to international standards)		http://www.iaisweb.org/IAIS-members-31	
	3, 4, 5	Committed to information sharing (Multi-lateral agreement signed by all CISNA members)		SEC, PIA, BoZ	N.B. except Seychelles who has not yet participated in CISNA
	10	Participating in capacity building activities		SEC, PIA, BoZ	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	9	Alignment to SADC regulatory framework for Non-Banking Financial Institutions (when drafted and approved)	N/A	SEC, PIA, BoZ	
	9	SADC regulatory framework for non-banking financial institutions established and approved for the region	SADC Framework is not yet developed. But progress has been made in that member states' NBFIs authorities have been tasked with drafting the various components of the framework.	CISNA	
Annex 11: Cooperation in SADC Stock Exchanges	2	Cooperation: Member of COSSE		LuSE	
	2	Cooperation: Information Exchange		LuSE	
	2.3	Participate in capacity building activities (either attend or host)		LuSE	
		MS harmonised to SADC common principles.	Not Assessed (not measured in 2011)	LuSE	
	2.5	MS who are completing the minimum standards for surveillance and risk assessment.	Not Assessed (not measured in 2011)	LuSE	
	2.7	Extent of diversification of the registered market participants on MS stock exchange (% individuals, % trusts, % corporates)	Not Assessed (not measured in 2011)	LuSE	