ONE ZAMBIA ONE NATION

REPUBLIC OF ZAMBIA

Capital Markets Master Plan 2022

Glossary

8NDP
8th National Development Plan

BAZ
Bankers Association of Zambia

BoZ
Bank of Zambia

CIS
Collective Investment Scheme

CMAZ
Capital Markets Association of Zambia

CMMP
Capital Markets Master Plan

CSD
Central Securities Depository

DTA
Double Taxation Agreement

DvP
Delivery versus Payment

ESG
Environmental, Social and Governance

ETF
Exchange-Traded Fund

FDI
Foreign Direct Investment

FSAP
Financial Sector Assessment Programme

IAZ
Insurance Association Zambia

ICA
Institutional Capacity Assessment

ICMA
International Capital Markets Association

IDC
Industrial Development Corporation

IMF
International Monetary Fund

IOSCO
International Organisation of Securities Commissions

IPO
Initial Public Offering

KPI
Key Performance Indicator

LASF
Local Authorities Superannuation Fund

LuSE
Lusaka Securities Exchange PLC

MAR
Market Assessment Report

MoFNP
Ministry of Finance and National Planning

MoGEE
Ministry of Green Economy and Environment

MoJ
Ministry of Justice

MoLSS
Ministry of Labour and Social Security

MoNDP
Ministry of National Development Planning

MoSMED
Ministry of Small and Medium Enterprise Development

MSCI
Morgan Stanley Capital International

NAPSA
National Pension Scheme Authority

PESTLE
Political, Economic, Social, Technological, Legal, Environmental

PE/VC
Private Equity and Venture Capital

PSPF
Public Service Pensions Fund

REIT
Real Estate Investment Trust

SADC
Southern African Development Community

SEC
Securities and Exchange Commission

SME
Small and Medium Enterprises

WB
World Bank

WEF
World Economic Forum

ZACCI
Zambia Chamber of Commerce and Industry

ZAFFICO
Zambia Forestry and Forest Industries Corporation

ZDA
Zambia Development Agency

ZICA
Zambia Institute of Chartered Accountants

ZRA
Zambia Revenue Authority

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Foreword

The Government of the Republic of Zambia ("Government") is resolute in pursuing Vision 2030 which articulates our aspirations to become "A Prosperous Middle-Income Nation by 2030". To achieve this, it is of fundamental essence that we continue to formulate policy that promotes the actualisation of Vison 2030, primarily through our National Development Plans and others that support growth and sustainable economic development.

The Government is cognisant of the heavy financial resource demands (among other things) required to bring our developmental aspirations to fruition. This is more so because the nature of the objectives in our Vision 2030 and National Development Plans entails the channelling of huge investment capital towards priority sectors such as energy, agriculture, tourism and mining. While there is a valid justification for the resource requirements, we are alive to the fact that the funding requirement needed to implement our developmental agenda may not be entirely met by our current financing structures. Therefore, the onus to introspect, analyse and explore plausible options that will help us to address imminent financing challenges was inevitable.

In doing so, the Government has identified capital markets, which have tended to be largely excluded in the past, as being a key enabler that can spur the desired growth and sustainable development outcomes. Importantly, the capital markets, by design, primarily exist to provide solutions for medium to long-term financing – which we believe is a function that our domestic markets, once fully developed, can perform effectively. As such, it is crucial that we reposition our capital markets as an enabler for growth and sustainable economic development by putting in place a comprehensive long-term strategy for capital market development.

Considering the foregoing, the Government under the auspices of the Ministry of Finance and National Planning (MoFNP) and the Securities and Exchange Commission (SEC) spearheaded the development of the Capital Markets Master Plan (CMMP). The CMMP is a ten-year long-term strategy for capital market development in Zambia. Its objective is to provide a framework for Zambia's capital market development over a period of ten years. It is envisaged that the proper implementation of the CMMP will enable capital markets to fulfil their function of supporting economic development. As such, the plan addresses potential uses of the Zambian capital markets, as well as their structure, regulation and capacity, to enable them to be efficient, transparent and trusted in meeting those needs.

The CMMP is anchored on five key development areas, namely: (i) enhancing the government bond market; (ii) enhancing other traditional security markets; (iii) development of new and innovative products/markets; (iv) enhancing capacity building across capital markets; and (v) enhancing the capital market regulatory environment. These development areas have been identified as pertinent to transform our capital markets. From them, specific interventions will be planned to ensure the achievement of the envisaged outcomes. In light of this, it is envisaged that the CMMP shall foster development and deepening of the Zambian capital markets.

As I present the Capital Markets Master Plan, it is important to note that it is a mere reflection of collective thoughts and input from broad stakeholder consultations and previous capital market development efforts. As such, it can only be successfully implemented with the active participation of all that contributed towards its formulation. In this regard, I would like to express my sincere gratitude to the joint CMMP Secretariate (MoFNP and SEC) for their leadership in coordinating the development of the CMMP, and other stakeholders for providing valuable contributions and support towards its formulation.

The Government is confident that the CMMP will unlock the potential of our capital markets and as such serve as a good basis upon which capital markets can contribute towards meeting the objectives of Vision 2030 and the National Development Plans.

God Bless Zambia.

Hon. Dr. Situmbeko Musokotwane, MP

Minister of Finance and National Planning

Acknowledgement

The Securities and Exchange Commission would like to use this opportunity to acknowledge and thank the various stakeholders for their invaluable contributions towards the formulation of the Capital Markets Master Plan.

First and foremost, we would like to recognize and appreciate the leadership provided by the Government of the Republic of Zambia through the Ministry of Finance and National Planning, whose support and guidance was exceptional throughout the Master Plan's development process.

The Capital Markets Master Plan is cross-cutting and as such, its development was largely informed by input emanating from broad stakeholder consultations. For this reason, we are highly appreciative of the time, effort and substantial contributions made by various stakeholders (public and private) that participated during the extensive consultative engagements. These include among others, Government Ministries and Agencies, private sector institutions, industry associations, and civil society organisations.

Special gratitude is extended to our cooperating and development partners, especially the FSD Africa and Financial Sector Deepening Zambia for being our anchor partners, and for providing technical and financial support. In the same light, special recognition is extended to the Consultants engaged on the Capital Markets Master Plan project for their patience and meticulous work.

Lastly, but not the least, we would like to extend our sincere gratitude to the Steering Committee that was assigned to oversee the development of the Capital Markets Master Plan and members of staff in the Ministry of Finance and National Planning and the Securities and Exchange Commission who actively participated in formulating this Master Plan.

Mrs. Ruth Mugala

Commission Board Chairperson

1. Introduction and Rationale

Capital markets are essential for economic development and like in many countries, the markets have the potential to make a significant contribution to Zambia's economic development. This intervention is timely and shall be instrumental in catalysing Zambia's economic recovery and transformation, especially at a time when the country's macro-economic fundamentals have demonstrated resilience in the face of increasing global socio-economic uncertainty. The economy is estimated to have contracted by 2.7% in 2020 due to the covid-19 pandemic. However, the economy displayed its resilience and the GDP growth rate averaged 4.1% between 2021 and the first half of 2022. In addition, the inflation rate reduced from 21.5% at the beginning of 2021 to 9.7% in October 2022, while the Kwacha for a unit of a dollar appreciated by 26% relative to 2021. Notwithstanding, the country's debt position remains unsustainable. Positive strides have however been made in this regard, with the IMF approval of an External Credit Facility (ECF) of $1.3 billion to dismantle the debt arrears. In recognition of this, the plan aims to contribute towards the development of Zambia while remaining cognizant of the country's current realities. As a recent report from the International Organisation of Securities Commissions (IOSCO) notes, "deep, liquid, and well-regulated capital markets are instrumental in financing the economy and are the foundation for a thriving private sector – a key driver of job creation and growth".[1] Hence, the plan has been developed in line with the aspirations of the 8th National Development Plan (8NDP) as well as successor plans and Vision 2030. These aspirations include, among others:

8NDP:

- Economic Transformation and Job Creation anchored on industrialisation.
- Human and Social Development that shall entail having a well-educated, highly skilled and healthy labour force.
- Environmental sustainability that shall entail the sustainable utilisation of natural resources.
- Good Governance and Environment focusing on improving the policy and governance environment as well as promoting adherence to the rule of law and constitutionalism.

Vision 2030:

- Attaining and sustaining high levels of economic growth.
- Maintaining a macroeconomic climate and investment climate for attracting and retaining high levels of foreign and domestic investment.
- Improving access to capital by nationals for investment needs.
- Sustaining adequate levels of highly skilled and motivated human resources.
- Improving access to affordable credit and other financial services as well as the development of capital markets in both rural and urban areas, for both men and women.

This plan sets out an integrated national financing framework and notes that "financing the 8NDP will require policies, partnerships and an enabling environment that effectively mobilises and uses public finance and promotes impactful private finance".[2] The objective of this Capital Markets Master Plan (CMMP) is to ensure that Zambia's capital markets, alongside some similar sectors in the plan, make their contribution to help Zambia realise its potential.

The contribution of capital markets to economic development comes in different forms. They facilitate the flow of funds from those who hold savings to those who require long-term capital. Different capital market instruments, including debt, equity and asset securitisation, offer a range of risk-reward structures to meet the needs of the different users and providers of capital. Through the operation of liquid markets, they help to provide benchmarks for interest rates or prices that can be used across the economy. Capital markets also help to improve business performance, as the scrutiny provided by public markets helps to instil discipline on management and the close involvement of experienced investors in private markets, such as in private equity and venture capital, supports transfers of knowledge.

Actual and potential users of capital market funds include:

- Central and local government, both to finance expenditure and to facilitate privatisation of state-owned enterprises;
- Private businesses that need capital to grow and diversify their sources of funding away from reliance on bank finance: such as the development of micro, small and medium-scale enterprises, which is a goal of the 8NDP[3] (and successor plans); and
- Infrastructure, agricultural and environmental projects that need access to long-term finance:

[1] IOSCO, Development of Emerging Capital Markets: Opportunities, challenges and solutions, October 2020, page 3
[2] 8th National Development Plan (8NDP), 2022 - 26–21, page 87
[3] 8NDP, page 28, 41, 42, 44

for example, the 8NDP (and successor plans) prioritises investment in agriculture , energy and water resources.

Capital markets may operate publicly or privately and both have an important role to play. Examples of public capital markets include government debt markets facilitated by the central bank and secondary securities markets such as the Lusaka Securities Exchange Plc. Examples of private capital markets include private placements of bonds and private equity. Private capital markets have an important role to play in raising finance for small businesses which cannot bear the costs and disclosure requirements associated with rules-based public capital markets. Public markets, on the other hand, are more accessible to individual investors and provide a public good of price discovery, which can be used by other firms to benchmark their performance.

However, if capital markets are to fulfil these functions, they must meet a number of requirements. They must be efficient, meaning that the cost of intermediation must not outweigh the benefits they provide. They must be transparent, meaning that they should carry out their role of complete information disclosure which helps with price discovery. In addition, they must be trusted to carry out their role predictably and reliably. Meeting these requirements is important for all capital market participants, but especially so if they are to succeed in attracting foreign investment to Zambia, as international investors will not pursue opportunities in a market that appears expensive, opaque or untrustworthy.

The objective of this Capital Markets Master Plan, therefore, is to provide a framework for Zambia's capital market development over a period of ten years that will enable it to fulfil its function of supporting economic development and achieve the objectives of the 8NDP (and successor plans) and Vision 2030. The CMMP addresses potential uses of Zambian capital markets, as well as their structure, regulation and capacity to enable them to be efficient, transparent and trusted in meeting those needs. This work is timely, considering that the development of capital markets is one of the underlying pillars of Zambia's development goals over the next decade.

This plan is the result of a comprehensive assessment of the Zambian capital markets and extensive stakeholder consultations to ensure buy-in from relevant capital market stakeholders.

The development of the plan began with a desktop review of Zambia. This began with forming a broad understanding of the country, particularly its political, economic and social contexts, and was followed by a thorough review of the Zambian capital markets landscape. This included a detailed review of the legislative framework as it pertains to capital markets, covering topics such as taxation and foreign investment guidelines, as well as understanding the roles of various capital market regulatory stakeholders. Having identified a number of gaps and areas for improvement, a benchmarking exercise was conducted using a geographically varied sample of frontier and emerging peer markets, in order to gauge the Zambian market's performance relative to these countries and look for potential lessons. This benchmarking exercise considered a number of aspects, including, but not limited to, market liquidity, market infrastructure, private market activity and developments and trends in the global capital markets. The benchmarking exercise made use of internationally published literature and statistics. These findings were validated and refined by conducting an in-country visit, during which an array of stakeholders were interviewed in order to incorporate their views into the final plan. Ultimately, all of the insights gained from the research were combined into the market needs assessment report (MAR), which is summarised in Section 4 of this document.

The findings from the MAR revealed a number of challenges that will need to be addressed in order for Zambian capital markets to develop as intended. Some of these challenges are foundational and require urgent attention, while others will be addressed in the medium and long term. Consequently, a set of recommendations spanning across five thematic development areas were developed. These recommendations are underpinned by action activities, with clearly defined timelines and success parameters. The aim of this document is to present the recommendations in a comprehensive and logical manner, in order to explain clearly what must be done, by who, when, and to what end. Together, the MAR and the CMMP form a clearly defined roadmap for developing Zambia's capital markets in line with the country's development strategy and the capital markets' unique vision and mission.

[4] 8NDP, section 5.4.1,, page 34
[5] 8NDP, section 5.4.6, page 37
[6] 8NDP, section 5.4.8, page 38

2. Vision and Mission

VISION

The overall capital market vision is grounded on supporting Zambia to achieve its national development goals. Capital markets are a critical pillar that supports this development through the mobilisation of the required long-term capital. The CMMP Vision is:

> *"To reposition the Zambian capital markets to become an attractive international destination for long-term investment and be the primary choice for accessing long-term investment capital for Zambia, that will enable sustainable growth, development, and stability of the country."*

MISSION

The mission of the CMMP is a roadmap of how the vision will be achieved. Through the creation of an attractive environment for investors, borrowers and market intermediaries, capital markets will support the achievement of the vision. The CMMP Mission is:

> *To create efficient, transparent, effective, safe, innovative, inclusive and sustainable capital markets."*

3. Towards Realising the Vision and Mission

Zambia's capital markets will be an important conduit of domestic and foreign investments for the purpose of bolstering Zambia's economic development. This is in line with the development objectives of Vision 2030, which aims to make Zambia a prosperous middle-income nation by 2030. In addition, capital market development will aid in the achievement of the goals of the 8NDP (and successor plans), which will direct the country's course from 2022 and beyond.

Specifically, capital market development will aid in the goal of developing a broader, more inclusive economy, as well as reducing developmental inequalities by ensuring that long-term finance flows efficiently to the areas of the economy where it is most needed. In addition, efforts to reach the goal of reducing poverty and vulnerability can be bolstered by expanding the investor base and investor awareness, as well as the development of appropriate wealth-creating and innovative instruments for the general population. To this point, the aim is to develop deep, liquid and safe capital markets to support this economic objective, as outlined under Vision 2030.

The objectives set out below represent the achievement of Zambia's aspirations for capital market development:

- Zambia will actively promote its **attractiveness as an investment** destination for financial services in order to attract business entry into the market. This will involve creating a more friendly business environment through a number of business-related interventions, and in time, potential steps towards greater regional integration.
- By 2030, Zambia will have made progress towards transforming into a **choice market for domestic issuers and investors**. This is the first step towards the realisation of Zambia becoming a more significant regional market of choice. An integral part of realising this vision is through cooperation among key stakeholders from the private, public and donor sectors in the capital market through establishing strong foundations of transparency and operational excellence, which will allow for sustainable development of capital markets.
- Zambian capital markets will be able to play **a greater role in acting as a source of funds to those real sectors of the economy** in which Zambia already has some capacity and potential, including mining, infrastructure (including real estate) and wholesale trade, while also building capacity in the financial sector to develop innovative products and services that cater to the needs of the market.
- Zambia will make progress towards developing **deeper and more liquid capital markets based on strengthening financial market infrastructure**. This will require, first and foremost, the development of the country's government bond market, which will require significant intervention in order to underpin the above-mentioned progress. The capital markets will be supported by improved legal and governance frameworks to promote an open and competitive marketplace.
- The **country will benefit from the implementation of capacity-building programmes**, which will strengthen a number of stakeholders, including regulators and market participants, and broaden the domestic investor base. This will also allow capital markets to play a more significant role with the rest of the financial system, in which they will be a key supplier of long-term finance.
- This transformation will see the capital markets **support the achievement of the 8NDP (and successor plans) and Vision 2030** by making it easier to attract finance for vital infrastructure projects. This will give Zambian businesses and entrepreneurs a wider range of options for longer-term finance and for risk management, offering domestic and regional institutional investors greater breadth and diversity of investment products. In turn, this will provide Zambians access to greater diversification in their investments and create employment opportunities in the market. There will also be positive externalities for the Southern African Development Community (SADC) region as a whole, which will have easy access to a strong and diverse Zambian capital market.

In giving credence to the vision of the capital markets, it is imperative that their transformation is supported through continuous monitoring and evaluation, guided by critical qualitative and quantitative measures on which performance will be benchmarked. Ultimately, a coordinated and concerted effort will help Zambia reach its growth targets. To this end, the following set of indicators in Table 1 reflect the outcome of ambitious yet attainable measures, which were set in accordance with performance of frontier market peers as identified during the research process.

Inevitably, these indicators are set in terms of public markets, as they are transparent and capable of being monitored. It will also be important that capital flows to smaller enterprises through other channels, such as private equity and private placements of bonds, but the success of these initiatives will ultimately be reflected in the performance of the indicators set out in Table 1 on the next page.

Table 1: Selection of indicators for Zambian capital markets

Indicators	Starting point (2022)	Short term (End 2024)	Medium term (End 2027)	Long term (End 2031)
MSCI[7] country rating	Not rated	Not rated	Frontier	Frontier
Lusaka Securities Exchange (LuSE) market capitalisation GDP ratio	16%	27%	30%	33%
Number of firms listed on LuSE	23	27	33	40
Implied market cap (USD)*	4 billion[8]	9.5 billion	13.9 billion	23 billion
Domestic share turnover ratio[9]	3.3%	6%	8%	11%
Firms in development pipeline	0	5	8	10
Total value of green bond issuance (USD)	0	Launch of first green bond	100 million	400 million
Mutual fund assets under management (USD)	68 million	100 million	170 million	250 million
Value of exchange-traded funds (ETFs) (USD)	None	None	First ETF listed	50 million
Value of real-estate investment trusts (REITs) (USD)	None	None	First REIT listed	20 million

Source: Consortium calculations
*Notes: Indicators represent achievements as at end-of-period. *Assumes real GDP growth of 4% per annum*

These aspirations represent the practical milestones to be reached towards fulfilling the vision and mission set out earlier. In addition, these aspirations are viewed as the natural consequence of the strategic initiatives set out in the implementation plan. Consequently, these milestones are disaggregated into short, medium and long timelines, and will serve as useful checkpoints as the country progresses on its capital market development journey.

The first milestone in the mission plan relates to Zambia's market classification as awarded by Morgan Stanley Capital International (MSCI). The classification takes a variety of criteria into account and provides a broad signal to global investors on a market's overall accessibility. Zambia does not currently have an MSCI rating, which does not encourage investor confidence, particularly considering that several African peers do have 'frontier' or 'emerging' ratings. However, the short-term strategic initiatives outlined in the implementation plan, if successfully executed, will address the capital markets' most pressing issues. This could pave the way for the country receiving a 'frontier' classification from MSCI in the medium term, which will then be consolidated as the market continues its development towards 2031.

Such a rating would provide a signal to foreign investors on the market's level of development, which will inspire confidence. In order to be awarded a 'frontier' classification, Zambia will require to have two companies listed with a total market capitalisation of USD 700 million or more and total free float of USD 53 million. In addition, an annualised trade value ratio (the ratio of annual value of shares traded versus their free float market capitalisation) of 2.5% will be required. The country will require a well-functioning clearing and settlement system based on the Bank for International Settlements' Principles for Financial Market Infrastructures, with no prefunding. In addition, the market will require the appointment of custodian banks (currently Zambia has two of these, namely Stanbic Bank Zambia Limited and Standard Chartered Bank Zambia PLC) to provide custody services, as well as a well-functioning registry or central securities depository (CSD), which allows for the possibility of off-exchange[10] transactions.[11]

There are also other benchmarks that Zambia can

[7] Morgan Stanley Capital International
[8] Implied market cap (USD) as at December 2021– US$4 billion
[9] Consortium team analysis, 2020 – based on value of shares traded compared to exchange market capitalisation
[10] Note: 'Off-exchange transactions' refers to trading conducted between two parties without the supervision of an exchange
[11] See MSCI Global Investable Indexes Methodology, October 2020, pages 107 and 109; https://www.msci.com/eqb/methodology/meth_docs/MSCI_GIMIMethodology_Oct2020.pdf

aspire to attain, such as debt/bond-related index benchmarks. The composition of these bond/debt-related international benchmarks are more complicated than for equities, as there are more variables (currency, maturity, inflation linking etc.)

Zambia's hard-currency government debt is already included in the widely used Bloomberg Barclays Emerging Markets Hard Currency Government Bond Index, but it will also be advantageous for Zambia to be included in an index of emerging market local currency debt, such as the Bloomberg Barclays Emerging Markets Local Currency Liquid Government Bond Index, which has wider coverage than the similar JP Morgan index. Currently South Africa is the only African country included in either index. Inclusion depends both on the country classification of Zambia and the domestic bond market meeting criteria for minimum market size and an evaluation of market investability.[12] However, based on Zambia's current level of capital market development, it is unlikely that the country would realistically meet this target over the time horizon of the Master Plan. While this target inclusion would be useful, it is not currently tenable given the prevailing capital market needs.

The next three indicators – the LuSE's market capitalisation, the number of listed firms and Zambia's GDP – are interlinked. A key objective is to ensure that the LuSE's market capitalisation relative to GDP grows, which means that more firms should be listed, and should grow at an individual level. Consequently, the nominal GDP figures provided should not be seen as an explicit target, but rather as a means of orienting the implied LuSE market capitalisation figures. The growth in nominal GDP is assumed to be 10% – this is based on a projection of inflation settling at approximately 6-8% per annum, with real GDP growth equalling approximately 4% per annum. Regardless, the LuSE's market capitalisation to GDP ratio should show gradual growth over the coming decade as the market develops, new issues take place and new instruments are introduced.

Currently, the Zambian market is characterised by low liquidity, which is reflected in the market's domestic share turnover ratio of 3.3% (as of October 2022). The ratio represents the number of shares traded in a period as a proportion of total shares in issue and thus is an indicator of the difficulty of selling shares in the market. To this end, an indicator has been set to enhance the market's liquidity to levels more commonly seen among frontier market peers. This will entail the market's turnover ratio increasing to 6% in the short term, 8% in the medium term and 11% in the long term.

Additionally, Zambian capital markets are characterised by low listing activity. Consequently, after extensive consultation, it became clear that there is scope for the development of a pipeline of firms for listing. In particular, there is a need to broaden the existing pipeline to include both state-owned and privately owned listings. However, it appears there is no granular framework and strategy to identify such firms and guide them to a public listing. To that end, the indicators represent the development of such a pipeline, along with gradual growth that improves the flow of business towards the capital markets to satisfy their long-term financing needs.

It is clear that Zambia has seen some of the effects of climate change, which is a particularly pertinent issue in a country that employs a sizable proportion of its labour force in agriculture. As a result, from a capital markets viewpoint, it is important to encourage the development of instruments that can contribute to the country's broader aim of combating climate change developments. To this end, the development of green bonds as an asset class is of particular importance. Zambia has taken the first steps towards making green bonds a reality. Consequently, in the short term, the issuance of the country's first green bond is a key indicator. Over the medium and long term, the goal is to bring total issuance closer to what some frontier peers have managed thus far. This is in line with the 8NDP (and successor plans), which seeks to mainstream and promote economic growth in a way that mitigates climate change.

A further quantifiable indicator relates to the country's total mutual fund assets under management – an area in which the country is far behind its peers. Nevertheless, the indicators reflected above represent a high growth rate. Further growth will mostly be driven by opening the substantial wealth under the management of the National Pension Scheme Authority (NAPSA) to private sector fund managers. In addition, the indicators incorporate an adjustment to both NAPSA and private sector pension fund investment guidelines, specifically with an aim to stimulate this asset class. More broadly, this should aid in the development of the country's mutual fund industry, which, in part, will also be aided by greater capacity building in the market (more detail provided in Section 5.4).

Finally, the Zambian market does not have as broad a product landscape as certain peer markets, particularly as far as ETFs and REITs are concerned. As the market is developed, it is envisaged that these products will be added. In the case of ETFs, they can aid in broadening the investor base by providing retail investors in particular with a more accessible, diversified asset to invest in at an affordable cost. However, it will be necessary for sufficient underlying securities to exist before these can be developed. As such, it is envisaged that the first ETF will be listed by 2027, with a total ETF market value of USD 50 million being reached by 2031. Similarly, the aim will be to have the first REIT listed by the end of 2027, with the intention that this will help address

[12] See Bloomberg Barclays Methodology, April 2020;
https://www.bbhub.io/indices/sites/2/2017/03/Index-Methodology-2017-03-17-FINAL-FINAL.pdf

infrastructure development needs by filtering funds towards the real estate sector. It is envisaged that these instruments will aid in meeting the goals of the 8NDP (and successor plans) and Vision 2030, with justification and rationale for broadening the product landscape provided within the relevant sections.

The CMMP sets out the pathway to realise the above aspirations and will ensure that the key success factors are met. The Master Plan is anchored on five key development areas that form the basis for the transformation, from which specific initiatives will be planned to ensure the achievement of the envisaged outcomes.

4. Summary of Market Assessment Report Findings[13]

The MAR contains an extensive review of Zambia's macroeconomic context and regulatory landscape, as well as a benchmarking assessment of the existing capital market landscape compared to certain peers. Additionally, the assessment was amended to include key findings from stakeholder consultations. Given the length and complexity of the MAR, this section only summarises the most pertinent topics discussed in that document. This review was important in order to ensure that all analysis is performed with a strong understanding of the current Zambian market landscape.

The macroeconomic review revealed a fragile outlook based on a PESTLE (Political, Economic, Social, Technological, Legal, Environmental) analysis, with a stable political landscape, technological progress and a strong legal framework. The country's economy, which is dominated by the trade, mining and construction sectors, is beset by substantial fragility, such as unsustainably high sovereign debt and interest rates and low foreign exchange reserves equal to approximately two months import cover, which have depressed the country's economic growth. The outlook has subsequently worsened as Zambia's sovereign credit rating has been classified as near default by the two major international credit ratings agencies, namely Moody's Investor Services and Standard and Poor's. The capital markets can contribute to recovery by improving the depth and liquidity of the country's government bond markets, which in turn could lead to a lower cost of financing for government debt and ultimately reduce the cost of financing for the private sector as the sovereign rate falls. The capital markets can also ensure that Zambia continues to raise debt for certain initiatives such as green project financing to ensure that the development of the country is not halted by the economic situation.

In addition, the country, which holds lower middle-income status from the World Bank (with a per-capita GDP of USD 1,540) will face a negative socio-economic impact from the global and local spread of the COVID-19 pandemic, largely as a consequence of dampened business sentiment and general uncertainty. While the impact of the pandemic on Zambia will only become clearer in the future, it is safe to say that the country's overall landscape will be significantly affected. In particular, the pandemic may threaten Zambia's ambitions to achieve upper middle-income status. In addition, the pandemic may further entrench Zambia (which has a Gini coefficient of 0.57) as one of the more unequal societies in the world.[14] Finally, the country has experienced the impact of climate change, which has impacted the country's agricultural sector, specifically in the form of uncertain weather conditions, including droughts and floods. Consequently, Zambia has taken steps to mitigate the effects of climate change and remains committed to doing so as it continues its development path.

The high-level review of the country's market context revealed that the LuSE has 23 listed firms, with the latest to join being the Zambia Forestry and Forest Industries Corporation (ZAFFICO) in early 2020. However, this was the first listing on the exchange since Madison Financial Services, which held its IPO in 2014. In addition, the market is dominated by one company, the consumer goods and services firm Shoprite Holdings, which makes up more than 50% of the exchange's market capitalisation.

Zambia Regulatory Review

The review of Zambia's regulatory context (especially as applied to the capital markets) revealed several challenges.

There is a lack of coordination between the Securities and Exchange Commission (SEC), which is mandated to develop the capital markets, and other regulatory stakeholders such as Bank of Zambia (BoZ), NAPSA and the Pensions and Insurance Authority (PIA) – an observation raised at the Zambia Capital Markets Indaba in 2017. Good coordination among regulators is important in ensuring the appropriate distribution of resources and smooth functioning of regulatory oversight in capital markets, and to ensure that these bodies are ultimately empowered to drive capital market development.

Efforts to restructure the country's state-owned enterprises have run into regulatory constraints – specifically the requirement for businesses to demonstrate a track record of three years of profitability before being allowed to list on the exchange. During stakeholder consultations, various companies also revealed that the IPO and listing fees were prohibitive.

In addition, regulatory stakeholders, such as the SEC,

[13] The Market Assessment Report was a precursor assessment to the Master Plan done in 2020 and no aspect of the Report was updated at the time of the CMMP approval. http://www.seczambia.org.zm/wp-content/uploads/2020/05/Market-Assessment-Report-2019-1.pdf

[14] The Gini coefficient is a measure of how income is distributed across a population. It is calculated by considering how much income is concentrated in progressively larger portions of the population. The Gini coefficient takes a value between 0 and 1 – a coefficient of 0 would mean perfect income equality, while a coefficient of 1 means that all income is concentrated in a tiny fraction of the population. Zambia's coefficient of 0.57, last calculated in 2015, is considered high – only a little lower than South Africa (sometimes called the most unequal society in the world), which had a ratio of 0.63 in 2014. It is important to note that the Gini coefficient does not measure the overall wealth of a country – only how income is distributed. As a result, a high-income country may be more unequal than a middle or low-income country, despite possessing greater wealth overall.

currently have capacity gaps that will need to be addressed in order to ensure that they are appropriately equipped to perform their roles and coordinate the development of the country's capital markets. These capacity gaps extend more broadly across players involved in the capital markets, such as auditors, legal practitioners and accountants – the players whose professions require contact with the regulation surrounding the capital markets.

The country's tax regime was found to be moderately competitive compared to a sample of five frontier and five emerging market peers, with particularly high corporate tax rates and dividend taxes being somewhat mitigated by low capital gains taxes.[15] The decision to select more developed frontier market peers was made to establish a target for Zambia to aspire to, with emerging market peers representing a long-term target.

There are some positive aspects of Zambia's relationship with foreign investors: it has no foreign ownership limits across economic sectors, a straightforward registration policy for foreign investors and good availability of information in English. However, there are concerns. The country's perceived appetite for nationalisation, while not a major threat at present, may leave investors feeling that their investments are vulnerable if it grows over time. In addition, the country lacks a broad-based strategy or policy to attract foreign investment.

International Benchmarking Analysis

During the international benchmarking analysis, it emerged that Zambia's capital markets offer a lower product variety than the peer group, and stand to gain from broadening the provision of capital market instruments to ultimately stimulate greater investor participation. Development of these new asset classes, such as ETFs and REITs, is particularly important. It will aid in the diversification of long-term financing instruments, particularly when the global growth of these asset classes in recent years is taken into account, as well as aiding in greater investor participation within the markets.

In addition, the LuSE's market capitalisation is 12% of GDP, compared with a peer group average of 62%. The LuSE is a highly illiquid market, with the value of shares traded equal to four% of GDP, which is lower than the majority of the peer group. This is an important consideration given that higher market liquidity makes it easier for investors to buy and sell instruments, which aids in the mitigation of risk. Stakeholder discussions revealed that the illiquidity is driven by a lack of issuers, low trading activity and the high returns offered by government bonds, which attract large pools of institutional investment such as NAPSA that ultimately stifle trading activity in equities. In particular, the low issuance activity seems to be a result of macroeconomic factors, a perceived lack of benefits and the high costs associated with listing – which are higher than for the majority of the peer group.

Government bond issuance

The country's government bond issuance process is generally well-defined, with the BoZ conducting bond auctions. However, the auctions are open to members of the public, rather than being the sole domain of institutional investors. Furthermore, the process could benefit from greater transparency (especially with regards to the timing of the auction results) and movement towards a true primary dealership system. The establishment of such a primary dealership system would involve the country's large commercial banks being obligated to buy government bonds in the primary market and then quote both buy and sell prices to the market at all times. This would contribute to greater transparency in the government bond market, and along with the implementation of an electronic trading platform for government bonds, would likely reduce investor costs and create a more dynamic, liquid market. As discussed later, however, there are some prerequisites for the establishment of primary dealership systems.

Establishing a vibrant primary and secondary market for government bonds (which is one of the key aims discussed later) is of crucial importance as such a market is, in many ways, foundational to the development of the capital markets. This is particularly true as far as completing the government bond yield curve is concerned, as this serves as a benchmark for the rates on a number of other securities. Consequently, assessing the country's current government bond environment and streamlining it are of great importance in order to drive capital market development.

Protecting minority shareholders

While Zambia affords some protections to minority shareholders, the World Bank's Ease of Doing Business report suggests that there are areas where the country could look to make amendments. This is an important aspect of encouraging greater confidence for both retail and institutional investors. There are several examples of areas where Zambia should look to make alterations. There is no regulatory obligation to include independent/non-executive directors on company boards, for potential conflicts of interest to be reviewed by external bodies, or for companies to disclose management/board member compensation.

Private capital markets

Private capital markets – including venture capital (VC), private equity (PE) and private debt – play an important role, particularly in helping small and micro enterprises raise non-bank funding. For these businesses, the costs and documentation

[15] The frontier peers were Argentina, Botswana, Namibia, Kenya and Mauritius. The emerging peers were Brazil, Chile, Indonesia, Malaysia and South Africa.

requirements, together with the governance and disclosure obligations, put a public issue outside their reach. In addition, a supportive VC or PE investor will provide advice, guidance and contacts (technical assistance) in addition to finance. However, over-reliance on private markets in the long run reduces transparency and limits opportunities for individual investors to access the capital markets. The exit from VC or PE investment is therefore important. Ideally, VC, PE and private debt would be seen as steps on the road to a local public listing, deepening local capital markets, rather than exiting through a trade sale or a listing abroad. This is an important policy objective, though few countries have achieved it.

Overall, Zambia has been successful in accessing private capital markets. Zambia returned a total private equity/venture capital origination value of USD 280 million over 35 deals between 2013 and 2018, which is higher than for some peers. Crucially, the amount raised through private markets easily exceeded the total value of new listings on the LuSE over this period.[16] However, it emerged that Zambia's laws and regulations do not make sufficient provision for the growth and expansion of private equity/venture capital as an asset class, referring only to unlisted equity and establishing maximum thresholds for investment by NAPSA, rather than setting a floor and ceiling as for other asset classes. Promotion of private equity/venture capital as an asset class is an important stepping stone in broadening the profile of longer-term finance, and ultimately developing an environment more conducive to public listing.

The total value of merger and acquisition activity of USD 700 million recorded by the country between 2013 and 2018 exceeds both the values for private equity/venture capital and the amount raised on the LuSE and represents a value of approximately 0.5% of Zambia's GDP per year. Zambia's total was, however, dwarfed by the amounts attracted by most peers. Overall, the development of private markets is part of the overall goal to develop capital markets – they have the potential to assist in mobilising long-term financing for private businesses, which can aid in the overall development of the Zambian economy. While the low liquidity of the LuSE reduces the possibility of a successful exit for private investors by floating their businesses on the exchange, the potential for private markets to develop the economy by making long-term finance available to businesses is a goal worth pursuing.

Post-trade infrastructure

The post-trade infrastructure in a market is important, as it gives investors confidence that their assets will be held securely and that they will be able to transfer ownership efficiently and with low risk of loss. In a market such as Zambia, the key post-trade institution is a central securities depository, which keeps records of security ownership and settles the trades whereby these securities change hands.

Zambia currently has two CSDs, operated by the LuSE and BoZ, for corporate and government securities respectively. The key considerations when evaluating the optimal CSD structure for a market are efficiency and risk. Efficiency is concerned with the overall cost of post-trade operations, including both the direct cost of operating the CSD and the indirect costs for market participants of interacting with the CSD. The key risk to be addressed is the possibility that a market participant may suffer a loss in the settlement process because the counterparty to a trade fails to deliver either the securities or the payment. This risk is minimised by adopting a Delivery versus Payment (DvP) process, whereby neither party to a trade receives payment until it has delivered the securities and vice versa.

Operating two CSDs in a small, developing country, such as Zambia, means that both CSDs are operating below their optimal levels of efficiency and imposing duplicate costs on market participants who need to connect to each CSD. This structure exists in many developing markets and, in some cases, this duplication of costs can be justified if it means that each CSD can be best adapted to the specific requirements of its market. In Zambia, however, both CSDs fall below best practice, but it is difficult for either CSD on its own to justify the investment necessary to provide a modern, low-risk DvP service that meets best international standards. In this case, consideration should be given to the advantages of combining them into a single CSD, which would reduce costs for participants and provide an efficient DvP settlement service.

New market developments

Zambia has taken some steps to remaining abreast of the disruptions and trends emerging across global capital markets. This has included taking the first steps in introducing green bonds – which have become a well-established part of global capital markets – into the market. The country has maintained periodic monitoring of international capital market trends, such as artificial intelligence. In addition, Zambia has taken some steps towards establishing a pipeline of potential listed companies in order to make the journey of growing businesses to the exchange easier, though there is scope for greater formalisation in this regard, both in terms of how businesses are assessed ahead of inclusion and in the breadth of businesses considered.

In the long term, other capital market developments may be appropriate for Zambia. These include an investor education programme, establishing small and medium enterprise (SME) equity and debt funds to incubate and, eventually, looking towards regional integration with other regional capital markets. While there may be benefits to regional integration, there is a more pressing need for establishing a strong capital market foundation.

[16] The only public listing between 2013 and 2018 was Madison Financial Services, which raised USD 10.2 million during its 2014 initial public offering

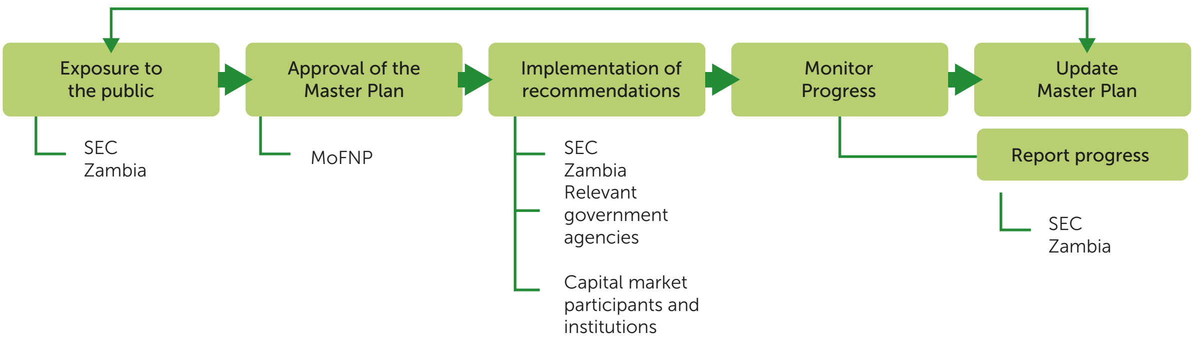
5. Development Areas and Implementation Plan

A key recommendation from the IOSCO Report referred to earlier is that "Policy makers and regulators should develop a holistic strategy for the development of capital markets".[17] Thus, although the CMMP is presented below in the form of a number of separate development areas, it is important that they are seen as parts of an integrated whole.

The approach to implementing the Master Plan is outlined in Figure 1. The SEC will be responsible for managing the implementation of actions devised in the Master Plan within the relevant time frame, in conjunction with other stakeholders such as the Ministry of Finance and National Planning (MoFNP) and the BoZ. The successful implementation of the plan relies on sensitisation of the plan to the public and timely implementation of recommendations. Furthermore, ongoing monitoring and reporting back of progress is essential to ensure all implementing partners are informed and aligned on the development plan.

Progress in implementing the Master Plan will be monitored against the performance measures outlined under the various strategic initiatives. Ongoing measurement of performance will be monitored and communicated by the CMMP Steering Committee. Progress reports will also be made publicly available through appropriate channels such as the websites of the SEC and MoFNP, to ensure that all industry participants and the general public are well informed of the progress.

Figure 1: Implementation process



Source: Consortium analysis

Based on the findings from the market analysis, five development areas most pertinent to the development of the Zambian capital markets were identified. The development areas are presented in Figure 2. The Building blocks are developed off the back of extensive stakeholder consultations and an assessment of the prevailing state of Zambia's capital markets.

[17] IOSCO, Development of Emerging Capital Markets: Opportunities, challenges and solutions, October 2020, page 33

Figure 2: Building blocks for Zambian capital market development

	Development Area	Building Blocks
1.	Enhancing the government bond market	Enhance primary market issuance and transparency
		Develop secondary market trade
		Develop secondary market post-trade
2.	Enhancing other traditional security markets	Develop the corporate bond market
		Enhance the equity market
		Develop collective investment schemes
3.	Development of new and innovative products/markets	Enhance the private equity, debt and venture capital markets
		Tracking and supporting of capital market developments
		Developing ETFs, REITs and retail bonds
		Developing securitisation and mortgage refinancing
		Developing the market for green bonds
4.	Enhancing capacity building across the capital markets	Enhancing the capacity among regulators and stakeholders
		Enhance investor education
		Develop sustainable funding models across the capital markets
5.	Enhancing the capital market regulatory environment	Enhance regulation to empower regulatory oversight
		Enshrine investor protection
		Develop sound investing and reporting guidelines

A visual representation of the structure of Zambia's capital markets and the requisite working groups can be found in Figure 3. The successful implementation of the Master Plan hinges on the coordination of efforts within the structure, specifically the efficiency of the regulators to create the regulatory environment to stimulate growth, and of capital market practitioners to create the appropriate market dynamic. The MoFNP provides the highest level of oversight given its power of instituting regulations over the broader mandate of financial sector governance and development. It is important to note at this point that it will be necessary for the Steering Committee and Implementation Committee (discussed below) to conduct a mid-term review of this implementation plan after five years, in order to ensure that the strategic initiatives outlined in Section 5 are still relevant and that the associated action activities are being completed in a timely manner.

CMMP STEERING COMMITTEE

The Steering Committee is aimed at providing a representative view of Zambian capital market practitioners and as such is composed of various government and industry bodies (see Figure 3 below). Cognisant that each of these bodies may have their own strategic plan, it is important to have a high-level forum to achieve coordination in the development of Zambian capital markets. To this end, the following critical responsibilities lie with the Steering Committee:

- Facilitate the **cooperation and implementation** of strategies among all relevant agencies.
- Ensure **timely communication** of issues and developments across working groups.

The SEC will serve as the secretariat and will convene quarterly meetings of the Steering Committee. The terms of reference of the Steering Committee will include:

- Taking **responsibility for the implementation** of the Master Plan.

- **Facilitation of the Implementation Committee and working groups** to ensure timely completion of actions.
- **Identification, recommendation and approval of funding options** as may be required throughout the course of implementing actions contained in the Master Plan.

Additionally, instituting periodic meetings of the Steering Committee and working groups will aid in ensuring timely progress being made in achieving the action items and communication to the public.

IMPLEMENTATION COMMITTEE

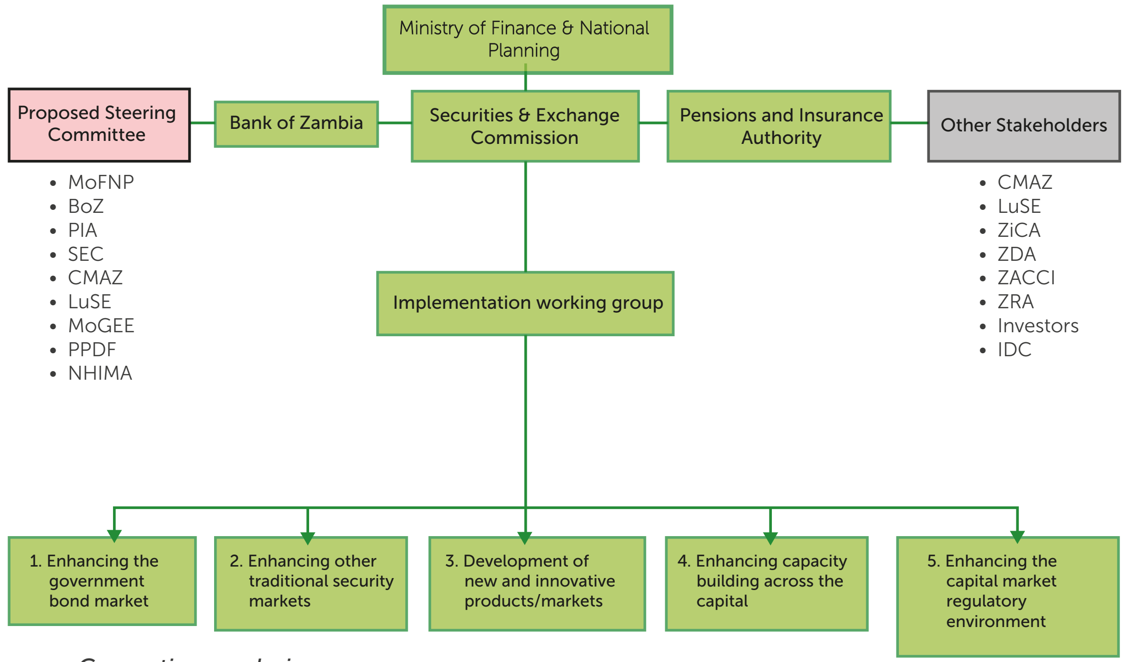
The Steering Committee will establish the Implementation Committee to ensure effective and efficient implementation of the CMMP. The Implementation Committee will comprise key champions identified in each of the working groups as well as rely on expertise of industry participants, financial sector regulators and professional consultants as necessary.

For coordination to work, these representatives ought to be given authority to make commitments on behalf of their constituencies to the process of implementation. The Implementation Committee will then appoint project leads with adequate resourcing in each of the working groups. The key responsibilities of the Implementation Committee are as follows:

- **Coordinating the implementation of actions**, including liaising with the various working groups and the Steering Committee secretariat (SEC).
- **Identifying and managing the resolutions** of issues which may arise.
- Undertaking the **monitoring of progress and evaluation** of performance relative to targets.

The Implementation Committee will meet quarterly and report back to the Steering Committee on issues arising and progress made by the working groups.

Figure 3: Stakeholder mapping



Source: Consortium analysis

Each of these five areas has a working group assigned to it, with each working group comprising a number of relevant stakeholders who will be involved in addressing the relevant development areas[18]. Each working group is headed by one or more lead partners. These lead partners may be a Ministry or abodywith regulatory power e.g.the MoF, BoZ and SEC. The SEC is the chief implementing partner, but lead partners in each of the working groups are ultimately responsible for ensuring timely completion of their workstreams and reporting into the Implementation Committee. The purpose for this design of working groups is to maintain ongoing monitoring and coordination of progress across all the working groups. The respective working groups assigned to each development area, along with the general responsibilities of each group, are set out in Table 2.

[18] The working groups will be complemented by action teams composed to undertake specific tasks which may or may not be cross cutting e.g. Fiscal policies action team, choice international investment destination action team, MSCI and financial hub model action team, capacity building action team, product development action team and SEC funding model action team.

Table 2: Working groups, partners and areas of responsibility

#	Working group	Lead partner(s)	Other members	Areas of responsibility
1.	Enhancing the government bond market	MoFNP, SEC, BoZ, MoJ	LuSE and potential primary dealer banks	• Government auction process • Price discovery • Settlement and clearing of transactions • Record of ownership • Electronic bond trading platform
2.	Enhancing other traditional security markets	BoZ, SEC	LuSE, ZDA, IDC	• Corporate bond dealing • Promotion of issuance • Listing requirements • Pipeline development
3.	Development of new and innovative products/markets	MoFNP, BoZ, SEC	LuSE, ZDA, donors	• New product development • Updated trends and disruptions
4.	Enhancing capacity building across the capital markets	MoFNP, BoZ, SEC	CMAZ, LuSE	• Capacity building • Funding policies • Investor education
5.	Enhancing the capital market regulatory environment	MoFNP, BoZ, SEC	LuSE, IAZ, NAPSA, PIA, ZRA, ZDA	• Regulatory mandates • Investor protection • Investment guidelines • Reporting standards

Source: Consortium analysis

Each of the development areas mentioned above are underpinned by a number of strategic initiatives. These initiatives are split across short, medium and long-term timelines, depending on how critical they are to developing the market. The short term is defined as 1–3 years (i.e. to the end of 2024), the medium term is 4–6 years (end of 2027) and the long term is 7–10 years (end of 2031). Short-term initiatives are highlighted in red, medium-term initiatives are highlighted in amber and long-term initiatives are highlighted in green. Each strategic initiative contains a set of action activities, which represent the practical steps required to carry out the strategic initiative, including a measure of success and a key performance indicator (KPI). Each strategic initiative also has a result associated with it, which represents the outcome that follows from carrying out the action activities. These results are linked to a target state, which shows the 'best' outcome or ultimate aim of the strategic initiative.

While not set out in the tables, some strategic initiatives have linked dependencies – activities that need to be completed before the initiative in question can be successfully implemented. These are explained, where necessary.

While the strategic initiatives are grouped by their development areas below, they are grouped by their respective timelines in the Appendix, in order to present a clear picture of which initiatives require the most urgent attention.

5.1 ENHANCING THE GOVERNMENT BOND MARKET

The improvement of the primary and secondary markets is a crucial facet of creating the infrastructure required for a vibrant capital market. Establishing a strong government bond market is a precursor to the development of the broader capital markets. Since government bonds carry a relatively low level of risk (being backed by the creditworthiness of the state), the government bond market serves as an important benchmark for establishing the riskiness of other long-term instruments – including, for example, private debt. Consequently, failing to establish a vibrant government bond market will render broader capital market development all but impossible. Therefore, establishing sound foundational principles for government bonds develops the platform for further capital market instruments, which will ultimately broaden the investor base for the benefit of the general Zambian population.

Primary Market Issuance

The efficient and transparent issuance of government bonds is a crucial pillar underpinning the enhancement of the broader government bond market. An efficient issuing system will aid in greater price discovery, which in turn will result in greater transparency and hence greater confidence in the market. This will subsequently have a positive knock-on effect on the secondary market, hence aiding in benchmark building for the market. Given the foundational nature of the government bond market to the capital markets as a whole, and the aim of capital markets to serve as an efficient source of sovereign funding (and hence contributing to economic development), it is crucial that the above benefits are realised.

At present, auction results and yields in the primary government bond markets are not communicated to the market in a timely manner, as conveyed by extensive stakeholder discussions. This undermines the above ambitions to some extent. Consequently, it will be necessary to ensure that transparency is enhanced within the BoZ auction process.

1.1 Effect changes to BoZ auction process to ensure enhanced transparency in line with international best practice

It is important for the BoZ government bond auction process to be reviewed, and benchmarked with other jurisdictions and international best practice to ensure enhanced transparency. This will aid in the price discovery process in the market for government bonds, and is an important step in ensuring that the government bond yield curve is completed. In addition, greater price discovery in the government bond market (which underpins price discovery for other instruments) will ensure that long-term finance in private markets is accurately priced.

1.1.1. BoZ to update bond process regulations to mandate immediate reporting of auction results and winning yields

This will require bond auction regulations to be updated in order to formalise the required adjustments. Specifically, auction results should be announced immediately and transparently, with winning yields and prices being reported. The ultimate target of these changes is to ensure a fully transparent BoZ auction process, with auction results and the yields on successful bids being published immediately. The key measure for this strategic initiative is the modernisation of Zambia's government bond auction process to align with international best practice, with the KPI involving fully updated and implemented regulations.

1.1.2. MoFNP, SEC and MoJ to amend the Securities Act by including an explicit provision on the status of government bonds with respect to registration with the SEC

There currently is a lacuna in the law where it is not clear whether government securities are exempt from registration with the SEC or whether they are deemed registered. It is important to uphold the international best practice of having an explicit provision which provides clarity and certainty with respect to government's resolve to have government securities listed on the exchange as a way of promoting the development of the capital markets. The measure and KPI for this activity is the amendment of the Securities Act to incorporate explicit provisions on the status of government bond registration with the SEC.

1.2. Creation of benchmark bonds

The creation of a set of benchmark bonds is crucial in allowing for the government bond yield curve to be completed. A completed government bond yield curve would mean that the price of government debt has been established across different maturities, with the time value of money suggesting that the yields on longer-term bonds would be higher than those on shorter-term bonds in order to reward investors for making a longer-term investment. Given that the government bond yield curve (i.e. the price of government debt of different maturities) represents a risk-free rate, the issuance of other, riskier assets such as corporate bonds will require a completed government bond yield curve in order to allow for accurate pricing.

1.2.1. MoFNP to finalise the updating of the issuance policy to align with benchmark bond building

A successful bond issuance and trading system needs a comparatively low number of bonds – one for each maturity bracket, in order to facilitate trading and to create more liquidity around key expiration dates. These bonds become benchmark bonds and the trading is concentrated around them. In order to achieve this, the MoFNP needs to finalise the updating of the issuance policy, merging different bonds with similar maturity dates. The goal is to concentrate the trading around those single bonds, for each maturity. Ideally the trading must be around a total of a dozen bonds with five benchmark bonds. The measure for this action activity will be whether or not the MoFNP has updated its issuance policy, with the KPI being the establishment of five benchmark bonds.

The result of this initiative will be to ensure an updated MoFNP issuance policy, with the target state being the completion of the government bond yield curve.

Secondary Market Trade

Once government bonds have been issued into the market, it is important that efficient mechanisms exist for them to be traded among institutional investors and the public as a whole. This in turn will encourage greater trading activity and hence deeper, more liquid secondary markets, which will in turn allow the bond market to serve its role in creating a benchmark for other capital market securities.

To that end, two key interventions are required. Firstly, it will be necessary to create a framework for the country's commercial banks to be appointed as primary dealers. Secondly, it will be important to establish an electronic bond trading platform that allows for bond trading and for prices to be quoted to the market in a continuous and transparent manner, which will facilitate further trading activity in the market.

In addition to the banks' appointment as primary dealers, improving interbank liquidity is important in order for them to fulfil their role as market makers within the secondary government bond market. Tools to assist with recycling of liquidity, such as horizontal repos, could be used in order to ensure liquidity flows are adequate.[19] These instruments are used in other African markets, including Kenya, Rwanda, Uganda and Tanzania.

1.3. Create framework for appointing the banks as primary dealers

The creation of a primary dealership system (with banks appointed as primary dealers) would mean that these banks are the only entities allowed to participate in the BoZ government bond auctions. In return for this privilege, these banks would be obligated to quote both buy and sell prices for these securities at all times, with other market participants (including individuals) then acquiring government securities from these banks (this requires implementation of a government bond trading platform – see next initiative). This is likely to facilitate greater activity and liquidity in the government bond market, which, as mentioned, is a fundamental requirement for establishing a complete government bond yield curve, along with the associated benefits to the economy as a whole. However, some pre-conditions are necessary for a successful primary dealership system. The first and foremost is a transparent and predictable issuance policy from the Ministry of Finance and National Planning. The PDs need to know in advance what the needs of the country will be in terms of financing, as well as being provided with a precise calendar of issuance. The creation of benchmarks (see 1.2) is also a key element. A certain level of market-making knowhow from the banks is also necessary.

1.3.1. MoFNP and BoZ to identify suitable banks to act as market makers in accordance with a transparent framework

In order to facilitate this strategic objective, the MoFNP and BoZ will need to complete the process of identifying and getting the buy-in of the banks most suitable to act as primary dealers, in line with international best practice and utilising a transparent identification process with transparent criteria that are clearly visible to all relevant parties. The measure for this action item is the identification and buy-in of banks, with the KPI being the identification and buy-in of suitable banks.

1.3.2. MoFNP and BoZ to update regulations as necessary to appoint selected primary dealers

The MoFNP and BoZ should update regulations in order to formally appoint the selected banks as primary dealers, which represents the success of this strategic initiative. The measure for this action will be the appointment of banks as market makers, with the KPI being that banks are appointed and regulations updated as necessary.

1.3.3. MoFNP and BoZ to communicate changes in compliance standards to banks

Finally, the MoFNP and BoZ should inform the commercial banks of their new

[19] Horizontal repo is a form of secured interbank lending that is conducted among banks, as opposed to between a commercial bank and central bank (vertical repo).

position as market makers and ensure that they understand the new role that they will be fulfilling. The measure for this action will be the communication of changes to banks, with the KPI being that all changes are communicated and that the banks are compliant.

This initiative is an important step in reaching the ultimate target state, namely the establishment of a primary dealership system within the Zambian capital markets. It is important to note at this point that the success of this strategic initiative depends on the transparency of the government bond auction process, which has some room for enhancement. By appointing the banks to act as market makers, the aim is to ensure that government bonds are traded in a well-defined, efficient manner in order to complete the government bond yield curve, which serves as a foundational benchmark for the prices of other securities in the market. There is also an interdependency with the implementation of an electronic government bond trading platform, which will provide additional transparency to the government bond market, hence improving the flow of information and resulting in lower trading fees for individual investors.

1.4. Enhance electronic government bond trading mechanism

One of the key short-term strategic initiatives is the development and implementation of an electronic government bond trading mechanism. Engagements with the BoZ suggest that some progress has been made with regards to the introduction of the electronic government bond trading platform. However, further efforts are required to bring this to fruition. As mentioned earlier, developing an efficient government bond auctioning process is a key step in enhancing the primary market for these securities. In addition, it will ensure that investors buy and sell these bonds in a transparent environment, as two-way prices will be quoted at all times. These transparency enhancements will likely result in lower bid/offer spreads, to the benefit of investors, as opposed to current, less transparent processes. At the same time, it is necessary to ensure that the trading landscape underlying trade in government bonds is efficient and transparent. Market makers (primary dealers) will have an obligation to quote prices. They need a vehicle that enables them to do so and enables the authorities to monitor their compliance. As alluded to above, this recommendation goes hand in hand with the need to ensure a transparent government auction process and establish a primary dealership system, i.e. it is these three interventions together that will lay the foundations for a vibrant government bond market and the associated benefits for the capital markets as a whole.

1.4.1. MoFNP and BoZ to fully implement the electronic bond trading platform

The MoFNP and BoZ should ensure the successful and full implementation of the electronic bond trading platform. This extends to expanding its usage beyond interbank trades, to include bank-to-client as well as client-to-client transactions. The measure and KPI for this action activity is the electronic bond trading platform being fully implemented.

1.4.2. MoFNP and BoZ to educate market participants on new platform and implement to market

It will be beneficial for the MoFNP and BoZ to ensure that market participants are educated on the use and benefits of the new bond trading platform, following which it should be formally implemented to the market. The measure and KPI for this action activity is the successful implementation of an electronic bond trading platform.

Given the role that this platform is expected to play, not only in providing an efficient trading landscape but also in the development of the government bond market as a whole, the development of the platform should be a priority, with success being defined as the platform's successful implementation and operationalisation.

Secondary Market Post-trade

In conjunction with secondary market trading, there must be an accompanying secure and reconciled record of ownership. This will be established via the implementation of a CSD system with a fully functional DvP. A fully functional DvP is particularly important in establishing finality and enhancing investor confidence in the system. Additionally, post-trading reporting requirements should be developed in line with best practice to further bolster confidence and transparency in the market. Ultimately, establishing good standards in secondary market post-trade allows for greater transparency and deepening of market trade.

1.5. Implementation of safe, efficient CSD including fully functional DvP

One of the short-term strategic objectives for this development area is to ensure that the post-trade structure contributes to reducing the costs and risks of capital market intermediation. The key institution in achieving this is the CSD, which both holds the underlying securities and carries out the settlement of trades. The existence of two CSDs that are not integrated creates an inefficient CSD system and was highlighted as a key gap in Zambia's capital markets by various capital market stakeholders. It is an important requirement for increased participation in the market by international investors, who require the assurance that their assets will be safe.

The safety of the CSD structure requires that assets are held in a way that is legally and technically secure and that trades are settled in a way that does not expose buyer or seller to risk of loss. Best practice for CSDs is set out in the Principles for Financial Market Infrastructures, issued by the Bank for International Settlements and IOSCO.[20] These set out the key legal and technical requirements for a secure and resilient infrastructure. One element of this is DvP settlement, which ensures that delivery of the security from the seller to the buyer and the payment from the buyer to the seller take place in such a way that there is no risk that one party delivers its asset without receiving anything in return. This may be achieved through different technical means but achieving the objective is important to enable investors to trade with confidence and generally enhance the attractiveness of Zambia's capital markets.

The efficiency of the CSD structure requires that it should not impose unnecessary costs on the market. At present Zambia has two CSDs, with the result that costs are doubled and neither CSD can achieve economies of scale.. As pointed out in the MAR, there is no universally acknowledged best practice for the number of CSDs that a given country should have. A structure with separate CSDs as exists in Zambia, means that each CSD can focus on its core market requirements, but this comes at the cost of imposing inefficiencies and duplicate costs on the market as a whole. Integration into a single CSD would promote efficiency and should be considered, provided it can satisfy the requirements of both government paper and corporate security markets.

1.5.1. Based on MAR findings, BoZ, SEC and LuSE to develop process for CSD enhancements, including DvP settlement

For the establishment and operation of the CSD, the BoZ, SEC and LuSE should familiarise themselves with the best practices set out in the Principles for Financial Market Infrastructures, and determine the appropriate enhancements and structure for the Zambian market. The measure and KPI for this action is for the CSD enhancements to be reviewed.

1.5.2. BoZ, SEC and LuSE to appoint consulting team to provide technical assistance on implementation of CSD enhancements with a view to eventual consolidation

The BoZ, SEC and LuSE should engage the required consulting expertise in order to drive the implementation of the identified structure. The measure and KPI for this action is the implementation of enhancements through the provision of technical assistance from the identified consultants.

1.5.3. MoFNP, BoZ and SEC to increase retail participation in the secondary bond markets

The MoFNP, BoZ and SEC should undertake efforts aimed at increasing retail participation in secondary bond markets. Increased retail participation can have a positive impact on the markets and potentially improve their liquidity, depth and resilience. The measure and KPI for this action activity is increased retail participation in the secondary markets.

1.5.4. MoFNP, BoZ and SEC to undertake study for rationalising of the LuSE and BoZ CSDs

The MoFNP, BoZ and SEC should undertake a study to ascertain the pros and cons for rationalising the LuSE and BoZ CSDs. This study is important as it will assist with policy directions going forward, with the view to optimising market efficiency and mitigating risk. The measure and KPI for this action activity is that the study for rationalising the LuSE and BoZ CSDs is undertaken and the recommendations are implemented.

The result of this strategic intervention will be a reconciled, transparent record of ownership across the capital markets, with the ultimate goal being to create a single, consolidated CSD for the entire market. The level of adjustment made to the current CSD structure will be the measure for this objective, with success being defined as the implementation of a safe, efficient CSD system that includes real DvP.

1.6. Alter post-trade reporting requirements to enhance transparency[21]

Linked to the above strategic initiative is the need to review and alter post-trade reporting requirements in order to ensure transparency. Stakeholder interviews revealed that existing post-trade reporting requirements are not strongly enforced in the market, leading to a lack of transparency and poor flow of information in the market, given that there is little consequence for not reporting trading activity. This lack of transparency would hamper the chances of attracting foreign investment and detracts from price discovery in the market. Again, this has consequences for the ability to price long-term finance in the market in general.

1.6.1. SEC, BoZ and LuSE to review current reporting requirements and compare to international best practices on reporting

The SEC, BoZ and LuSE should review and

[20] BIS Committee on Payment and Settlement Systems and IOSCO Technical Committee, Principles for Financial Market Infrastructures, 2012; https://www.bis.org/cpmi/publ/d101a.pdf

compare the market's current reporting requirements to international best practices. This could include borrowing from the European Union's Markets in Financial Instruments Directive (MiFID), by establishing post-trade requirements such as publishing of a trade report containing relevant volumes and prices after each trade in equities or bonds has been concluded. The measure and KPI for this action activity is the successful review of reporting requirements in line with international best practice.

1.6.2. SEC and LuSE to identify gaps in current reporting requirements and implement changes in reporting requirements

Post-trade reporting standards should be updated and implemented, driven by the SEC and LuSE. The measure and KPI for this action activity is the implementation of efficient post-trade requirements in line with international best practice.

The result (updated post-trade requirements) will aid in reaching the target state of enhancing the market's transparency and ensure better flow of information, which is also useful for participant confidence and the market's overall efficiency.

Table 3: Enhancing the government bond market – strategic initiatives

S#	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
Primary market issuance						
1.1	Effect changes to BoZ auction process to ensure enhanced transparency in line with international best practice	1.1.1	Update bond process regulations to mandate immediate reporting of auction results and winning yields	Bond auction process relative to international best practice	Revised bond auction process and standards implemented	**Result:** Transparent BoZ auction process **Target state:** Fully transparent BoZ auction process, results and yields reported as soon as possible
		1.1.2	MoFNP, SEC and MoJ to amend the Securities Act by including an explicit provision on the status of government bonds with respect to registration with the SEC	Securities Act amended to incorporate provision on status of government bonds registration	Provisions on the status of government bond registration with the SEC incorporated in Securities Act	
1.2	Creation of benchmark bonds	1.2.1	MoFNP to finalise the updating of the issuance policy to align with benchmark bond building	MoFNP policy updated	Establish five benchmark bonds	**Result**: MoFNP Policy updated **Target state**: Benchmark bond established and completion of government bond yield curve
Secondary market trade						
1.3	Create framework for appointing the banks as primary dealers	1.3.1	MoFNP and BoZ to identify suitable banks to act as market makers	Identification and buy-in of banks	Suitable banks identified and buy-in sought	

[21] The observations under this section primarily relate to secondary market.

		1.3.2	MoFNP and BoZ to update regulations as necessary to appoint selected primary dealers	Appointment of banks as market makers	Regulations updated and banks appointed as market makers	**Result:** Banks appointed as market makers, no more individual participation in bond auctions **Target state:** Establishment of primary dealership system
		1.3.3	MoFNP and BoZ to communicate changes in compliance standards to banks	Communication of changes to banks Identify suitable consultants	Changes communicated, banks compliant	
1.4	Enhance electronic government bond trading mechanism	1.4.1	MoFNP and BoZ to fully implement the electronic bond trading platform and benchmark against international best practice, i.e. other markets like South Africa	Identify suitable consultants	Suitable consultants appointed	**Result:** Development of electronic trading platform to support market-making operations and (primary dealer) obligations **Target state:** Transparent and efficient bond trading landscape
		1.4.2	MoFNP and BoZ to educate market participants on new platform and implement into market	Implementation of electronic bond trading platform	Electronic bond trading platform implemented	
Secondary market post-trade						
1.5	Implementation of safe, efficient CSD including fully functional DvP	1.5.1	Based on MAR findings, BoZ, SEC and LuSE to develop process for CSD enhancements, including DvP settlement	Review CSD enhancements	CSD enhancements reviewed	**Result:** Creation of a reliable record of ownership and removal of risk and inefficiency of settlement process **Target state:** Single, consolidated CSD with real DvP created
		1.5.2	BoZ, SEC and LuSE to appoint consulting team to provide technical assistance on implementation of enhancements with a view to eventual consolidation	Implementation of enhancements	Technical assistance and enhancements implemented	
		1.5.3	MoFNP, BoZ and SEC to increase retail participation in secondary bond markets	Increase retail participation in the secondary markets	Retail participation in the secondary markets increased	
		1.5.4	MoFNP, BoZ and SEC to undertake study for rationalising the LuSE and BoZ CSDs	Study for rationalising the LuSE and BoZ CSDs undertaken	Study for rationalising of the LuSE and BoZ CSDs undertaken and recommendations implemented	
1.6	Alter post-trade reporting requirements to enhance transparency		SEC, BoZ and LuSE to review current reporting requirements and compare to international best practices on reporting	Review of reporting requirements	Reporting requirements reviewed	**Result:** Updated post-trade reporting requirements and guidelines **Target state:** Better information flow as a result of improved transparency of trading landscape
			SEC and LuSE to identify gaps in current reporting requirements and implement changes in reporting requirements	Implement revised post-trade reporting requirements	Efficient post-trade requirements consistent with international best practice	

Source: Consortium analysis
Notes: Red = short-term initiative, amber = medium-term initiative, green = long-term initiative

5.2 ENHANCING OTHER TRADITIONAL SECURITY MARKETS

In addition to the development of the government bond market discussed above, it will be necessary to enhance other markets for traditional (in the sense that they are well established among peer markets) securities. Specifically, within the Zambian context, there is scope for the development of two particular traditional securities: equities and corporate bonds. In both cases, the focus lies on strengthening Zambia's private sector. In light of the stated goals of the 8NDP (and possibly successor plans) to ensure more diversified economic growth and reduce development inequalities, it will be necessary to enhance the private sector's ability to raise funds (both through equity and debt) on public markets (with private markets discussed later) in order to expand and contribute to the country's economic development. This expansion, in turn, will create a more dynamic private sector, driving job creation and hence human development, which is another of the 8NDP's stated aims, along with reducing poverty.

Corporate Bond Market

2.1. Develop and implement study on corporate bond dealing landscape

Over the long term, the development and implementation of a study on the corporate bond dealing landscape will be undertaken. The reason for making this a long-term priority is due to the necessity of enhancing the government bond market before the corporate bond market can develop. The reason for this is that corporate bonds, being inherently more risky than government bonds, derive their pricing (yields) from the yields of government bonds, plus a risk premium to compensate the investor for taking on the additional risk. As a result, it will not be possible for accurate price determination to take place within the corporate bond market until the yield curve for government bonds is well established and transparently communicated to the market. This view was supported by stakeholder consultations, which revealed that the underdeveloped nature of the corporate bond market is primarily due to the illiquid secondary market for government bonds.

In addition, corporate bond market development is held back by the current macroeconomic landscape, which involves high interest rates. Given that corporate bonds are by definition more risky than government bonds, the effect of high interest rates would be emphasised for corporate debt. Overall, while there is no clear need for regulatory intervention in the area of government bonds, it will be useful for the SEC to better understand the financing needs of the broader Zambian business environment in order to understand how corporate bond activity may better be encouraged.

2.1.1. SEC and PIA to conduct primary research across cross-sectional sample of businesses on their financing needs and reasons for lack of corporate bond activity

Over and above the need for improvement of the government bond landscape, which will be developed over the short and medium term, a SEC-led, primary research study of a cross-sectional sample of businesses should be undertaken to understand their financing needs and reasons for use or lack of corporate bond listings. The study should consider the existing investment guidelines issued by the PIA and determine whether the guidelines should be revised.

The intention of this initiative is to develop a task force which will research and uncover the existing impediments to bond issuance. This will ultimately assist in implementing recommendations in line with improving corporate bond issuance. The measure of this action activity will be whether or not the corporate bond landscape study has been completed, with the KPI being that the study has been completed and the recommendations are implemented.

The result of this initiative will be the completion of a corporate bond dealing landscape study, with a target state of publishing the study and commissioning a task force to implement the recommendations.

Equity Market

The expansion of Zambia's public equity markets is beset by a number of obstacles, which make it difficult for the market to play its role as a source of financing for the country's developing private sector. Specifically, the LuSE suffers from little to no listing activity, with few businesses progressing to the stage of listing on the exchange. The reasons for this are many. There is a perception among the business community that there are few benefits to be gained from listing on the exchange. A peer market comparison suggested that the exchange's listing conditions could be adjusted, both in terms of the requirements to list and the costs associated with doing so. Given the 8NDP (and possibly successor plans) aims to expand and diversify the economy, enhancing the public market as a source of equity funding for the private sector is an important goal if the capital markets are to contribute to Zambia's broader development agenda.

2.2. Making the market more attractive for issuers

The Zambian market would also benefit from exploring avenues to attract a larger number of issuers both domestically and from across the SADC region (specifically for companies that have a commercial presence in Zambia).

2.2.1. ZDA, SEC and LuSE to conduct roadshow with strategic sectors across regional and international markets / platforms to gather views and identify potential developments to improve issuing activity

The Zambia Development Agency (ZDA), SEC and LuSE should conduct a roadshow with strategic sectors (in line with its own development agenda) across regional and international markets/platforms in order to gather views from these sectors and identify potential developments that are likely to attract greater listing interest from relevant participants. The success measure for this action activity will be the level of completion of the roadshow, with the completion of the roadshow, the gathering of views and the identification of the required developments being the KPI.

2.2.2. ZDA and LuSE to develop strategy based on views gathered in roadshow

The ZDA and LuSE will be able to develop a coherent strategy based on the gathered views. The level of completion of the strategy and subsequent increase in the number of listed firms will be the measure for this action activity, with the KPI being a total of 27 firms listed on the exchange by the end of 2024.

The result of these activities will be a coherent strategy to attract more issuers from across the region, with a target of growing the issuer base.

2.3. Develop a pipeline of companies with long-term equity and debt financing needs

In order to ensure the growth of the Zambian equity market, it will be necessary to develop a consistent pipeline of businesses for incubation with the ultimate goal of ensuring that these firms are listed on the LuSE. It is envisaged that, over time, this will allow for gradual development of the country's equity markets, hence expanding the number of assets available to both retail and institutional investors. It will also allow for economic diversification, as a larger number of private sector businesses will have access to additional sources of funding, thus furthering the ambitions of the 8NDP (and successor plans), which aims to diversify the economy.

2.3.1. ZDA, IDC, LuSE and CMAZ to assemble task force in partnership with business associations to identify potential equity and debt listings and private placement opportunities

As Zambia does not currently have a well-defined pipeline of firms, the first step is for the ZDA, Industrial Development Corporation (IDC), LuSE and Capital Markets Association of Zambia (CMAZ) to assemble a task force in partnership with business associations such as the Zambia Chamber of Commerce and Industry (ZACCI), to identify potential businesses with a need for long-term financing and private placement opportunities. The measure for this action activity will be whether or not the task force has been assembled, with the KPI being the successful assembly of the task force.

2.3.2. ZDA, IDC, LuSE and CMAZ to determine conditions for pipeline inclusion (e.g. revenue, ESG standards, largest taxation payers, etc.) and incentives

The second step will be for the ZDA, IDC, LuSE, ZACCI and CMAZ to determine the conditions and incentives required for inclusion in the pipeline. The conditions might include, for instance, environmental, social and governance (ESG) standards, the total revenue a business earns and/or businesses that pay the largest amounts of tax to the Zambia Revenue Authority (ZRA). Incentives might include, for example, existing listed companies benefitting from a 5% corporate tax discount. This mechanism could be used to incentivise further corporates from listing through increases in the discount rate. The measure for this action activity would be whether or not conditions and incentives for pipeline inclusion have been developed, with the KPI being the completion of these conditions and incentives.

2.3.3. ZDA, IDC, LuSE and CMAZ to identify and engage initial businesses for inclusion and launch pipeline

Following this, the ZDA, IDC, LuSE and CMAZ may identify the first businesses for inclusion in the pipeline and formally engage these, with the measure of success being the number of firms entering into the pipeline. The KPI for this action activity will involve five firms entering into the pipeline by the end of 2024, with a view to listing as and when appropriate.

The result from this strategic initiative will be the formal launch of the pipeline, which will contribute to the eventual listing of these firms on the LuSE, with the target state being the development of a pipeline. It is important to note that the development of this pipeline is heavily dependent on properly conveying the benefits of listing to prospective listed companies. To that end, this strategic initiative depends on building the required capacity across market participants, as well as in ensuring that businesses of a certain size are required to prepare audited financial statements (as discussed later). Hence, while this initiative effectively assumes that there are businesses that are fit for inclusion for the pipeline, it will be crucial that the required capacity is built across the market to ensure that this will happen.

2.4. Adjust LuSE listing requirements

In light of stakeholder consultation revealing that the requirements for listing on the LuSE are somewhat onerous, the working group should adjust the listing requirements for listing on the LuSE, especially for aspects such as the number of years that the business has been in operation or its level of profitability. At the same time, such an adjustment represents an opportunity for the working group to prioritise the introduction of ESG principles as a fundamental contributor to the public equity market. The above changes are particularly important in light of the stakeholder discussions, which revealed that the exchange's listing requirements represent a challenge. More specifically, certain stakeholders revealed that both initial listings and additional fees are expensive, while the benefits gained are few.

2.4.1. LuSE and CMAZ to review current listing requirements compared to peer markets (e.g. profitability, years in business, ESG requirements, etc.) to identify gaps

In the short term, the LuSE and CMAZ should review current listing requirements with a view to making ESG principles a fundamental part of the Zambian capital markets, along with incentives to encourage their adoption, given that these principles are playing a bigger role in investor decision making. The measure for this action activity will be the level of completion of the review of current listing requirements, with the KPI being that the review should be completed, with any gaps being identified and revised listing requirements effected.

2.4.2. LuSE and CMAZ to develop adjustments and update regulations as necessary to implement new listing requirements in order to attract more listings

The LuSE and CMAZ should update regulations as necessary, resulting in updated listing requirements and subsequently an increase in the number of firms listed on the LuSE. The measure of success for this action activity will be the number of firms listed on the LuSE, with the KPI being 33 listed firms by the end of 2027.

2.4.3. SEC to review and adjust requirements for registration of securities and introduce new requirements for SMEs

It will be necessary to review and revise the SEC requirements for registration of securities to take into account the peculiar characteristics of SMEs. This should include revisions to the SIs such as the Registration of Securities Rules and the Licensing and Fees SI (among others). The measure for this action activity will be the completion of the review of the SEC registration requirements, with the KPI being the adjustments made to the necessary SIs.

The result of this strategic initiative will be an updated set of listing requirements for the LuSE, with the target state being to ensure a larger number of issuers.

Collective Investment Schemes/Mutual Funds

Collective investment schemes (CIS) are based on the idea of pooling investor funds and investing thesefunds in a collection of assets, ranging across bonds, equities and cash. Within the Zambian context, the collective investment scheme space remains nascent. The mutual funds industry in Zambia has a size of about USD 68million, which accounts for less than 1% of GDP. This is significantly smaller than the next largest peer market, Kenya, which reported a mutual fund industry size of USD 0.6 billion (or 0.8% of GDP). However, the fact that Zambia has the required regulatory framework to allow for mutual funds is a positive factor.

To that end, there is less need to introduce collective investment schemes to the market than there is to improve market awareness of their existence among the investor base. Given that collective investment schemes, by definition, are suitable instruments for pooling investor funds, they would represent a suitable vehicle for retail investors to gain access to the capital markets. Consequently, they have the potential to aid in expanding the investor base, aiding in the attainment of the 8NDP (and successor plans) objectives.

2.5. Enhance investor awareness of collective investment schemes to bolster uptake

As discussed above, the need around collective investment schemes relates largely to the need for expanding investor awareness and uptake of the product among the investor base. In addition to investor awareness, asset managers will also require adequate training in order to assist in uptake. Furthermore, asset managers need to engage in market sensitisation to promote stronger product uptake among collective investment schemes.

2.5.1. CMAZ to conduct demand assessment to determine additional demand for CISs from investor base

The CMAZ should begin this process by performing an assessment of the level of awareness among the investor base as far as CISs are concerned, as well as an understanding of how well current CIS offerings meet the needs of the market. The measure for this action activity will be whether or not the demand assessment has been completed, with the KPI being the completion of the demand assessment and analysis of the results.

2.5.2. CMAZto conduct roadshow in order to promote uptake for CIS from pools of investor base where demand was gauged to be the strongest

Once demand for further CIS uptake has been gauged, CMAZ should conduct a roadshow to formally promote mutual funds as an investment instrument, in order to drive greater uptake and expand the investor base. The measure for this action activity will be whether or not the roadshow has been completed, with the KPI being the completion of the roadshow.

2.5.3. MoFNPto consider formulation of a government-backed CIS

The MoFNP should consider spearheading the formulation of a CIS targeting the Civil Service and other public sector employees, savings groups, credit unions and cooperatives such as the ones run by the Defence Forces. This initiative is aimed at encouraging the aforementioned target groups to invest in existing CISs or the government-backed CIS, depending on their investment strategies. This will create an opportunity for priority sectors to be funded by the pooled resources. The measure for this action activity will be the successful formulation of a government-backed CIS, with the KPI being efficient mobilisation of targeted funds into the CIS.

2.5.4. SEC to enhance regulatory and supervisory oversight over the CIS industry, including corporate governance structures, CIS Rules and Regulations and codes

The SEC should enhance regulatory and supervisory oversight of the CIS industry, including enhancement of the corporate governance structures, CIS Rules and Regulations and codes of conduct. These reforms should be part of the overall strategy of enhancing the SEC's regulatory mandate. Of prime importance is the creation of a CIS Unit within the SEC, whose primary mandate will be the regulation and supervision of the CIS industry. Other reforms include changes to the CIS rules to streamline the roles, responsibilities and obligations of the fund managers, the Trustees and the Custodians in the operation of CISs. In this process, enhancing investor protection by introducing mandatory disclosures (as can be achieved through a Key Facts Statement) will be critical. The measure for this action activity will be the creation of an adequately resourced CIS Unit within the SEC, with the KPI being the implementation of enhanced regulatory and supervisory oversight of the CIS industry.

The overall result of this strategic initiative will be a completed roadshow to promote the uptake of CIS across Zambia, with the target state being an increase in the size of Zambia's mutual fund industry from its current size of USD 68 million to USD 100 million by 2024.

Table 4: Enhancing other traditional security markets – strategic initiatives

S#	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
			Corporate bonds			
2.1	Develop and implement study on corporate bond dealing landscape	2.1.1	SEC and PIA to conduct primary research across cross-sectional sample of businesses on their financing needs and reasons for lack of corporate bond activity	Completion of study	Study completed and recommendations implemented	**Result:** Completed study on corporate bond dealing landscape **Target state:** Publish study and commission task force to implement recommendations Equities
			Equities			
2.2	Making the market more attractive for issuers	2.2.1	ZDA, SEC and LuSE to conduct roadshow with strategic sectors across SADC (including Zambia) to gather views and identify potential developments to improve issuing activity	Completion of roadshow	Roadshow completed, views gathered and developments identified	**Result**: A coherent strategy to attract more issuers **Target state:** Implement strategy and grow issuer base
		2.2.2	ZDA and LuSE to develop strategy based on views gathered in roadshow	Launch strategy to increase number of listed firms	Increase number of listed firms to 27	
2.3	Develop a pipeline of companies with long-term equity and debt financing needs	2.3.1	ZDA, IDC, LuSE and CMAZ to assemble task force in partnership with business associations to identify potential equity and debt listings and private placement opportunities	Assembly of task force	Task force assembled	**Result:** Pipeline launched **Target state:** Develop vibrant pipeline with firms for listing
		2.3.2	ZDA, IDC, LuSE and CMAZ to determine conditions for pipeline inclusion (e.g. revenue, ESG standards, largest taxation payers, etc.) and incentives	Development of conditions for pipeline inclusion	Conditions for pipeline inclusion developed by task force	
		2.3.3	ZDA, IDC, ZACCI and CMAZ to identify and engage initial businesses for inclusion and launch pipeline	Number of firms within pipeline	Five firms in pipeline by end of 2024 with a view to listing by end of 2025	
2.4	Adjust LuSE listing requirements	2.4.1	LuSE to review current listing requirements compared to peer markets (e.g. profitability, years in business, ESG requirements, etc.) to identify gaps	Review of current listing requirements	Current listing requirements reviewed, gaps identified and revised listing requirements effected	

		2.4.2	LuSE and CMAZ to develop adjustments and update regulations as necessary to implement new listing requirements in order to attract more listings	Number of firms listed on LuSE	33 firms listed on LuSE	**Result:** Updated listing requirements **Target state:** Larger number of issuers on LuSE
		2.4.3	SEC to review and adjust SEC requirements for registration of securities and introduce new requirements for SMEs	Completion of the review of the SEC registration requirements	SEC registration requirements reviewed and adjustments to necessary SIs made	
Collective investment schemes/mutual funds						
2.5	Enhance investor awareness of collective investment schemes to bolster uptake	2.5.1	CMAZ to conduct demand assessment to determine additional demand for CISs from investor base	Completion of demand assessment	Demand assessment completed	**Result:** Greater promotion of CISs across investor base **Target state**: Increase in size of mutual fund industry to USD 100 million by end of 2024
		2.5.2	CMAZ to conduct roadshow in order to promote uptake of CISs from pools of investor base where demand was gauged to be the strongest	Completion of CIS promotion roadshow	CIS promotion roadshow completed	
		2.5.3	MoFNP to formulate a government-backed CIS	Successful formulation of a government-backed CIS	Targeted funds efficiently mobilised into the CIS	
		2.5.4	SEC to enhance current regulatory and corporate governance structures/codes for the CIS industry	Creation of an adequately resourced CIS Unit within the SEC	Enhanced regulatory oversight of the CIS industry implemented	

Source: Consortium analysis
Notes: Red = short-term initiative, amber = medium-term initiative, green = long-term initiative

5.3 DEVELOPMENT OF NEW AND INNOVATIVE PRODUCTS/MARKETS

In addition to the initiatives aimed at developing Zambia's government bond markets and more traditional markets, there are opportunities, over the time horizon of the plan, to expand the country's capital market product suite. As mentioned earlier, the development of the country's government bond market remains the most foundational requirement at present and is a prerequisite for the launch of any further products. However, once the government bond market has been developed to the required level of maturity, additional products will act as further conduits for pools of capital to flow to where they are most needed. This will aid in broadening the investor base, both at an institutional and retail level (hence aiding in human development), while creating a number of new instruments for this broader pool of funds to flow into.

Enhance Private Equity, Debt and Venture Capital

There is substantial scope for furthering the role of private equity and private debt within the capital markets, in order to channel financing to the private sector, specifically to those businesses that are not yet ready to raise capital in the public markets. Consequently, private equity and debt investments can contribute to Zambia's economic development by channelling funds to a diverse set of private sector players.

Important lessons can be learned from other African countries with attractive private equity and venture capital markets, specifically Kenya and Nigeria, which are the dominant PE/VC markets in East and West Africa respectively. For example, PE/VC funds in Kenya benefit from a special taxation regime and are regulated under the Capital Markets Regulations Act. Furthermore, in Nigeria, PE/VC funds with a capital commitment of more than NGN 1 billion (USD 2.6 million) must be registered with the Nigeria Securities and Exchange Commission. Pension funds are allowed to invest in PE/VC funds in Nigeria, but any such PE/VC fund must be registered with the SEC, with the fund's manager also registered. Similarly, the fund manager must have three sponsored individuals (on whose advice investors will be expected to rely) who must also be registered with the SEC. These three sponsored individuals must include the fund's Managing Director as well as a compliance officer. PE/VC funds are not allowed to invest any more than 30% of their total capital in a single opportunity, in order to provide sufficient risk diversification to investors.

An important avenue to explore in expansion of private equity and debt is the role of SME funds as a viable alternative to SME financing and development. For example, South Africa's SME Fund has identified eight SME-focused funds to which it will distribute its approximately USD 100 million pool of capital. Additionally, Business Partners International (BPI) – a private debt fund – has developed a solution to provide debt and equity financing to SMEs in Southern and East Africa. BPI's average deal size is USD 250k to USD 300k, but deals can rise to USD 1 million. Additionally, BPI provides capacity-building support via interest-free loans of up to 30% of the total investment amount[22]. GroFin, another private debt provider, provides financing to 13 countries across Africa and the Middle East, including Zambia. They are focussed on providing loans to businesses who make positive socio-economic impacts, including job creation, environmental sustainability and empowerment of women. These three funds provide a useful business case for the Zambian context given the strong mandate of small business development facilitated by the capital markets.

3.1. Adjust regulatory provision for private equity and debt

In addition to creating a pipeline of business with long-term financing needs, it will be necessary to stimulate greater PE/VC and private debt activity in the Zambian capital markets in the medium term. This may in turn result in some of these businesses proceeding to being listed, while the broader economy will benefit from greater long-term financing being extended to businesses that need it.

3.1.1. MoFNP, MoLSC and PIA to adjust current regulation on private equity and debt to set an appropriate minimum and maximum for private equity investment for both public and private sector pension funds

It will be necessary for the MoFNP and PIA to adjust the current regulation on private equity and debt to set an appropriate minimum and maximum threshold for private equity investment for both private and public sector pension funds. Setting this threshold will aid in developing more diverse portfolios in public and private sectors and also guard against over-reliance on any one type of asset class. This should be accompanied by the investor education programme to raise awareness of the asset class. The success of this action activity will be measured by assessing Zambia's ability to attract PE/VC activity, with a KPI of USD 80 million per year, up from the current average of USD 46 million per year.

3.2. Explore the nascent space of establishing SME debt, equity and technical assistance funds

In the long term, Zambia should explore the

[22] Global Impact Investing Network, 2020

still-nascent space of establishing SME funds. Some examples on how such funds might be structured are presented in the MAR.

3.2.1. MoFNP, MoSMED, ZDA,CMAZ and SEC to establish task force to carry out study on feasibility of SME debt, equity and technical assistance funds

The MoFNP, MoSMED, ZDA,CMAZ and SEC should establish a task force to study the feasibility of SME funds. Based on the findings of this feasibility study, the task force should recommend guidelines concerning the incubation of SMEs through equity or debt investment and technical assistance. The success of the action activity will be measured by whether or not the task force has completed its study and submitted its findings, leading to the establishment of the required SME assistance funds. The KPI will be the operationalisation of the SME assistance funds.

3.2.2. MoFNP, MoSMED, ZDA,CMAZ and SEC to establish task force to consider the role of the capital markets in pursuing interventions identified in existing feasibility studies of SME debt/equity lines

The MoFNP, MoSMED, ZDA, CMAZ and SEC should identify and engage relevant institutions and associations to implement the recommendations emanating from activity 3.2.1. The measure and KPI for this activity is the engagement of relevant stakeholders and implementation of the recommendations.

The result of this strategic initiative will be the development of guidelines for SME incubation and operationalisation of SME assistance funds, with an ultimate target of ensuring that a group of SMEs is successfully incubated and that they graduate to public listing at the appropriate time.

Tracking and Supporting of Capital Market Developments

A key aspect of maintaining an up-to-date outlook on capital market innovations is to ensure that there is ongoing tracking of new developments which could ultimately fit the Zambian context. An example of this is crowdfunding, an innovation that involves leveraging technology to raise capital via small contributions made by a large number of people. In order to successfully introduce new innovations into the Zambian context, it is important that the given innovation meets regulatory requirements. In order to achieve this, regulatory sandboxing could be implemented to ensure that ongoing introduction of new capital market developments occurs within the realm of a safe and secure regulatory environment. This will ultimately ensure effective roll-out.

3.3. Convene committee to track capital market developments

In the long term, it will be necessary to explore ways of incorporating appropriate capital market developments into the Zambian context. As detailed in the MAR, such developments may include crowdfunding or sandboxing initiatives, which may represent innovative ways of channelling funds to where they are needed via private transactions, thus strengthening the avenues through which funds can flow via the private markets. While the Zambian capital markets will require further development before they are ready to accommodate such changes, crowdfunding and sandboxing would represent two of the most likely innovative developments to be bought into the market.

3.3.1. SEC to set up committee to review global capital market trends

This will involve the establishment of a committee by the SEC to review global market trends on a periodic basis. The measure and KPI for this action activity is to identify and convene a task force who report to MoFNP and SEC biannually.

3.3.2. MoFNP, ZDA, CMAZ and SEC to appoint a task force to identify appropriate trends and implement trends into Zambian market

The MoFNP and SEC should appoint a task force that will identify appropriate and ongoing capital markets trends that are appropriate for Zambia and guide their implementation. The measure and KPI for this action activity is the identification and implementation of trends.

The target state of this initiative is therefore to ensure that the country's capital markets are up to date with any appropriate trends that emerge from market research.

3.3.3. MoFNP and SEC to undertake monitoring and evaluation

The MoFNP and SEC should develop a framework to monitor and evaluate (M&E) progress of adopted capital market trends. The measure for this will be the development of the M&E framework with the KPI being the implementation of the framework.

ETFs, REITs and Retail Bonds

The new products proposed for eventual adoption in Zambia include exchange-traded funds (ETFs). These can contribute to expanding the investor base by providing an affordable, accessible instrument through which retail investors can gain exposure to the country's capital market. This will help to reduce poverty and vulnerability, as well as create a more diversified investment landscape.

Similarly, retail bonds will provide an additional fundraising instrument for the government while also providing for easy participation in the capital markets by retail investors. In addition, the creation of real estate investment trusts (REITs) can serve to channel capital towards real estate development, thus aiding in expanding Zambia's infrastructure footprint, with the subsequent expenditure on housing real estate also contributing to human and social development, which is a stated aim of the 8NDP (and possibly successor plans).

3.4. Expand market product offering to expand number of assets available for investments

In the medium term, development of asset classes such as REITs, ETFs and retail bonds is essential in building a product landscape which appeals to a wider range of investors with various risk appetites and profiles. This will provide more choices to both retail and institutional investors and create more avenues for long-term finance to flow through. A number of actions will need to be taken.

3.4.1. MoFNP, MoLSC SEC, PIA and ZRA to assess demand for expanded number of asset classes in the market via surveys of both retail and institutional investors (e.g. introducing REITs, ETFs, retail bonds)

The MoFNP, SEC, PIA and ZRA should assess demand for the above-mentioned products in the market via retail and institutional investor surveys (on topics such as introducing REITs, ETFs, retail bonds, warehouse receipts and derivatives). The measure for this action activity will be whether or not demand for these products has been assessed, with the KPI being a completed household survey.

3.4.2. SEC to assess adequacy of current guidelines in allowing for these asset classes

The SEC should assess the adequacy of the current guidelines in allowing for these asset classes. The measure of this should be whether the review of these guidelines has taken place, with the KPI being a completed assessment of the current guidelines and the identification of areas for adjustment.

3.4.3. SEC to expand product landscape and required guidelines based on demand and in line with MAR findings[23]

The SEC can then expand the market's product landscape to incorporate these new asset classes based on the identified demand and MAR findings. The measure for this action activity will be whether or not new products have been introduced into the market, with the KPI being updated guidelines and an expanded number of products, including ETFs and REITs.

It should be noted that, in introducing the asset classes mentioned above, it is important to consider the underlying level of market development required for their implementation, which is the motivation for this initiative being a medium-term recommendation. The introduction of, for example, ETFs, is dependent on the existence of a sufficient number of underlying equities and/or bonds in order to facilitate the creation of a vibrant market, and should consequently be a medium-term goal (as set out in the initial table of aspirations earlier). Similarly, REITs require an investment group to acquire an underlying portfolio of properties for investment. Retail bonds, by contrast, may be more easily issued.

The result of this strategic initiative will be a revised and expanded product landscape, with the target state being a generally improved product landscape.

Securitisation and Mortgage Refinancing

There is scope for the development of a securitisation and mortgage refinancing framework, with the aim of repackaging a set of underlying financial securities in order to convert these to capital market instruments. Common examples of securitisation include commercial debt, mortgage loans and vehicle debt. A key benefit of securitisation is that it makes capital available for the originators of the security and ultimately raises liquidity, while also creating long-term investment assets for fund managers, including pension funds. Given Zambia's current liquidity standing, the country stands to benefit from a clearly defined framework for securitisation. However, to fully capitalise on the benefits of securitisation, there is a need to establish an accurate government bond yield curve so that instruments in the private market are appropriately priced.

An additional consideration is provision for mortgage refinancing to improve liquidity in the market. This entails a process whereby third parties provide greater liquidity to commercial banks. This ultimately enables the bank to originate more mortgage loans through lower cost of capital. Mortgage refinancing parties are awarded commensurate cash flow according to the given risk

[23] No survey on the demand for these products has been completed as yet.

profile of the underlying asset. This sharing of risk leads to the reduction of cost of capital. Ultimately, freeing up more liquidity in banks through long-term refinancing such as the Zambian mortgage market aids the development of greater long-term financing options.

3.5. Develop framework for securitisation and mortgage refinancing to improve liquidity

The development of a framework to allow for the securitisation of assets, as well as mortgage refinancing, will be necessary in order to allow for these products to be formally introduced into the market. This process should begin with an assessment of the appetite for these products, after which further steps may be taken in order to formally develop them.

3.5.1. Conduct market assessment to gauge demand for securitisation and mortgage refinancing in private market in line with best practice

In order to develop securitisation and mortgage refinancing, the SEC will need to conduct a market assessment to gauge the demand for securitisation and mortgage refinancing. The assessment will entail reviewing the appetite and potential use cases for securitisation. The measure for this action activity will be whether or not the assessment has been completed, with the KPI represented by the completion of the assessment and identifying ways in which the provisions for private market long-term financing need to be amended or created.

3.5.2. Develop framework and requisite capabilities for securitisation and mortgage refinancing

In line with the identified needs for the establishment of the framework, the SEC will need to develop guidelines for the operationalisation of the long-term financing products mentioned above, in order to allow for their formal introduction into the market. The measure for this action activity will be the completion of these guidelines, with the KPI being that the guidelines have been fully completed and approved, rendering them ready for formal implementation.

3.5.3. Conduct market sensitisation to raise profile and usage of securitisation and mortgage refinancing and implementation

Finally, in order to formally introduce the updated guidelines to the market, it will be necessary for the SEC,MoFNP, MoSMED to conduct a market sensitisation exercise around long-term financing with market participants. This will ensure that all relevant participants are up to speed with the potential benefits of these long-term financing approaches, after which the guidelines may be formally brought into force in the market. The measure of this initiative will be completion of the market sensitisation exercise and formal implementation of the new guidelines, with the KPI being that both of these have been completed.

The result of the above strategic initiative will be an updated framework for long-term financing via private markets, with the target state being a vibrant long-term financing environment for private businesses.

Green Bonds

The launch of green bonds, i.e. long-term debt instruments with funds specifically earmarked for climate-friendly investments, will give Zambia the opportunity to tap into pools of climate-conscious capital. Doing so will allow for the country's government to raise additional financing, specifically with the aim of aiding it in fighting the effects of climate change, which were raised as a crucial challenge for Zambia to address in Vision 2030. Furthermore, the introduction of green bonds will send a positive signal to international investors, particularly at a time of global concern about climate change. Consequently, establishing a framework to govern the issuance of these securities will benefit both the country's liquidity needs and its need to address sustainability challenges.

Given Zambia's endowment in terms of its rich biodiversity, the aspiration to position Zambia as a preferred global green investments hub is a noble cause that warrants necessary steps to actualise.

3.6. Develop framework for issuance of securities to finance specific green projects

In addition to adapting the structure of the market landscape, it is important to build and develop suitable long-term financing products for the Zambian market. To this end, a review of the development of securities to finance green bonds is an essential step in building a broader suite of financial products, particularly as these products have the potential to drive infrastructure development as well as counteracting climate change, which is one of Zambia's overarching goals.

3.6.1. MoFNP, MoGEE, SEC, BoZ, PIA, CMAZ and LuSE to develop conditions and incentives for these securities in line with international body standards and ESG and ICMA principles

The development of this framework will begin with the MoFNP, MoGEE, BoZ, PIA and SEC developing conditions and incentives in line with global ESG standards. Zambia is currently developing a framework and guidelines to assist in launching green bonds in conjunction with existing partners, such as Biofin. The framework for these bonds should be developed in accordance with the Green Bond Principles of the International Capital Markets Association (ICMA). These principles cover four key components: how the proceeds from green bond issuance should be used, how projects should be evaluated, how proceeds from the bond's issuance should be managed and how the use of proceeds should be reported. Adherence to these principles would confer international recognition on Zambia's green bonds and consequently open them up to a broader audience. To that end, the MoFNP should take leadership by deliberately showcasing the practicality of these conditions and incentives. The measure and KPI for this action activity will be whether or not appropriate conditions and incentives for green bonds have been developed.

3.6.2. SEC to update regulations to provide a comprehensive framework for these instruments

Following the development of the framework, the SEC should update regulations as necessary to ensure that there is a comprehensive framework for these instruments to be issued. The success of this action activity will be measured by whether or not regulations have been updated in order to allow for the framework to be implemented.

3.6.3. SEC and CMAZ to conduct roadshow and/or workshops with stakeholders to introduce these instruments to the market

There will be a need for market sensitisation. This could be carried out through workshops and/or roadshows with all relevant stakeholders, so that these instruments can be formally introduced to the market. Ultimately, this should lead to the launch of Zambia's first green bond by the end of 2022, as mentioned in the action activity's measure and KPI.

3.6.4. CMAZ to develop a database for green investable projects

CMAZ should develop a database that will create a pipeline of potential green investable projects. The measure for this action activity will be that the database is developed and green investable projects are identified.

3.6.5. MoFNP, MoGEE and SEC to develop concept note on positioning Zambia as a preferred global green investment hub

MoFNP, MoGEE and SEC should develop a concept note that will provide a roadmap of strategies, initiatives and activities aimed towards positioning Zambia as a global green investment hub. The measure for this action activity will be the concept note developed and recommendations implemented.

The result of this initiative will be a fully developed framework for green and project bonds. The ideal target state for this strategic initiative would be that the development of the project bond framework and successful launch of the country's first green bond take place by the end of 2024. In addition, the Country will reposition to attract Green Financing.

Table 5: Development of new and innovative products/markets – strategic initiatives

S#	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
			Enhance private equity/debt and venture capital			
3.1	Adjust regulatory provision for private equity	3.1.1	MoFNP and PIA to adjust current regulation on private equity to set an appropriate minimum and maximum for private equity investment for both public and private sector pension funds	Annual size of PE/VC activity	PE/VC activity of USD 80 million per year, up from current value of USD 46 million per year	**Result:** Updated private equity regulation **Target state:** Greater number of firms with PE/VC investment that ultimately exit into public markets

3.2	Explore the nascent space of establishing SME debt, equity and technical assistance funds	3.2.1	MoFNP, MoSMED, ZDA, CMAZ and SEC to establish task force to commit study on feasibility of SME debt, equity and technical assistance	Completion and implementation of task force findings	SME assistance funds operational	**Result:** Operationalisation of SME assistance funds **Target state**: Successful implementation of debt, equity and technical assistance funds
		3.2.2.	MoFNP, MoSMED, ZDA, CMAZ and SEC to establish task force to consider the role of the capital markets in pursuing interventions identified in existing feasibility studies of SME debt/equity lines	Engagement of relevant stakeholders	Recommendations from activity 3.2.1. implemented	
Tracking and supporting of capital market developments						
3.3	Convene committee to track capital market developments (crowdfunding, sandboxing)	3.3.1	SEC to set up committee to review global capital market trends	Committee convened	Committee to meet and report to MoFNP and SEC biannually	**Result:** Trends identified and implemented as appropriate **Target state:** Capital markets up to date with appropriate trends
		3.3.2	SEC to identify appropriate trends and implement them into Zambian market	Identification of trends	Trends identified and implemented	
		3.3.3	CMMP Secretariate / Committee to undertake monitoring and evaluation	Development of the M&E framework	M&E framework implemented	
ETFs, REITs & retail bonds						
3.4	Expand market product offering to expand number of assets available for investments	3.4.1	SEC, PIA, MoFNP, MoLSC and ZRA to assess demand for expanded number of asset classes in the market via surveys of both retail and institutional investors (e.g. introducing REITs, ETFs, retail bonds, derivatives)	Assessment of demand for expanded asset classes	Completed survey in order to gauge demand	**Result:** Revised product landscape **Target state**: Improved product landscape
		3.4.2	SEC to assess adequacy of current guidelines in allowing for these asset classes	Review of current provisions and identification of required changes	Completed assessment of current guidelines and identified areas for adjustment	
		3.4.3	SEC to expand product landscape and required guidelines based on demand and in line with MAR findings	Number of new products introduced into market	Updated guidelines and expanded number of products including ETFs and REITs	

Securitisation and mortgage refinancing						
3.5	Develop framework for securitisation and mortgage refinancing to improve liquidity	3.5.1	SEC and MoFNP to conduct market assessment to gauge demand for securitisation and mortgage refinancing in private market in line with best practice	Completion of assessment	Assessment completed	**Result:** Completed market assessment and implemented framework around securitisation and mortgage refinancing **Target state:** Raise the profile of securitisation and mortgage refinancing to expand financing landscape
		3.5.2.	SEC and MoFNP to develop framework and requisite capabilities for securitisation and mortgage refinancing	Development of framework	Framework completed	
		3.5.3	SEC, MoFNP and MoSMED to conduct market sensitisation to raise profile and usage of securitisation and mortgage refinancing and implementation	Completion of market sensitisation and framework implementation	Market sensitisation and framework completed and implemented	
Green bonds						
3.6	Develop framework for issuance of securities to finance green bonds	3.6.1	MoFNP, MoGEE, SEC, BoZ and PIA to develop conditions and incentives for these securities in line with international body standards and ESG and ICMA principles	Development of appropriate conditions and incentives	Conditions and incentives for green bonds developed	**Result:** Green and project bonds framework developed **Target state:** Launch green bonds
		3.6.2	SEC to update regulations to provide a comprehensive framework for these instruments	Implementation of framework	Regulations updated and framework formally implemented	
		3.6.3	SEC and CMAZ to conduct roadshow and/or workshops with stakeholders to introduce these instruments to the market	Launch of green bond	Zambia to launch first green bond by end of 2022	
		3.6.4	CMAZ to develop a database for green investable projects	Database of green investable projects developed	Green investable projects identified	
		3.6.5	MoFNP, MoGEE and SEC to develop concept note on positioning Zambia as a preferred global green investment hub	Consultants to develop Concept note to position Zambia as global green investment hub developed	Recommendations implemented.	

Source: Consortium analysis
Notes: Red = short-term initiative, amber = medium-term initiative, green = long-term initiative

5.4 ENHANCEMENT OF CAPACITY ACROSS THE CAPITAL MARKETS

As detailed above, there is a need to enhance several of the underlying markets that collectively make up the Zambian capital markets, including enhancing the markets for government bonds and traditional securities, launching new and innovative products and carving out a greater role in the market for private equity and debt. However, in order for these enhancements to take full effect, they will need to be underpinned by a broad-based capacity-building drive across the capital markets. This will need to span the country's regulatory stakeholders, including the MoFNP, BoZ and SEC, the investor base, the LuSE, businesses and other market intermediaries and professional advisors. This is important as it will ensure that capacity across the capital markets grows in line with the market itself. This will in turn ensure that regulators are able to properly supervise and provide oversight to the market, that practitioners conduct themselves at the level of international best practice, and that businesses are properly equipped to take full advantage of the benefits afforded by the capital markets. Furthermore, investors will be knowledgeable about the investment opportunities available to them within the capital markets.

These initiatives will ensure the creation and maintenance of a well-supervised capital market, with a broader investment base and greater business capacity. This will leave the capital markets better placed to play a role in developing and diversifying the economy, while contributing to human and social development, as stated in the 8NDP (and possibly successor plans) and Vision 2030. However, they will also require that the institutions concerned are adequately funded and able to attract and retain appropriate staff capacity.

Another recommendation from the IOSCO study referred to earlier is that "Securities regulators should have adequate powers, proper resources and the capacity to perform their functions and exercise their powers".[24] This recommendation is addressed in the following two actions.

4.1. Develop ongoing capacity building for regulators based on international best practice

A review of regulatory mandates requires the ongoing development of capacity for regulators based on international best practice in order to ensure that they are able to fulfil their roles in the market.

4.1.1. MoFNP, SEC and BoZ to leverage on existing reports and assessments that identify capacity gaps across regulators and put in place measures to effect necessary changes.

The MoFNP, BoZ and SEC will leverage on existing assessment reports such as the 2020 Institutional Capacity Assessment (ICA) Report[25]; the 2019 Toronto Centre Diagnostic Review of Supervisory and Methodology Practises; and the 2017 International Monetary Fund (IMF) Zambia Financial Sector Assessment Programme (FSAP) Report. The objective of the foregoing is to address the capacity gaps as identified. The measure and KPI will be the identification and consolidation of the precise capacity building requirements.

4.1.2. MoFNP, SEC and BoZ to schedule and execute skills development programmes to ensure capacity building programmes are in line with international standards

The MoFNP, SEC and BoZ,, having consolidated the capacity building requirements, will need to identify the relevant skills development programmes. Initiatives can include self-developed programme trainings and other trainings with institutions that have proven capacity to offer international best practice programmes, e.g. IOSCO, CISNA, TC, CISI, COSE, ASEA, MEFMI, Bloomberg etc.. The measure for this action activity will be whether or not the skills development programmes have been implemented, with the KPI being that capacity should be built to international standards.

4.1.3. MoFNP, SEC and BoZto ensure built capacity is maintained through annual review and continued skills updates

MoFNP, SEC and BoZ should ensure that built capacity is maintained by conducting annual reviews of regulatory capacity and updates of skills requirements. The measure and KPI for this activity will be whether or not regulatory capacity is maintained at international standards.

The target state for this process is to develop well-resourced and skilled capital market regulators. Ultimately, this will ensure that regulators are properly able to carry out their mandates of oversight and capital market development.

4.2. Strengthening the Securities and Exchange Commission

As the capital markets regulator, it is important that the SEC be fully equipped to perform its function in that role in an independent manner. In addition to the broad-based capacity-building initiatives, a review of the existing SEC funding model is necessary to assist in building capacity to carry out its mandate and development of both public and private capital markets. Findings from the MAR revealed that the SEC funding model relies heavily on trading fees (bond and equity) with some financial support from the Government. This reliance on trading fees may prove a difficulty for the capital markets as it

[24] IOSCO, Development of Emerging Capital Markets: Opportunities, challenges and solutions, October 2020, page 35
[25] The 2020 ICA is a comprehensive institution capacity assessment for the SEC that was undertaken by A2F Consultants with the support of FSD Africa

could act as a hindrance for trade. It may be more feasible to have greater government funding in the short term to develop the Zambian capital market, after which it may be more tenable to create a hybrid funding model involving both government and market funding.

4.2.1. MoFNP and SEC to review current SEC funding policy/model against its needs to identify shortfalls/shortcomings and undertake a benchmark study with other regulators

The immediate action activity in this regard will be for the MoFNP and SEC to conduct a review of existing SEC funding mechanisms relative to peer markets in order to identify the current funding shortfalls/shortcomings, with the measure and KPI being the completion of the review and quantifying the size of the shortfall as well as identifying any other shortcomings. Although peers operate under different contexts, they offer practical lessons to Zambia for developing appropriate funding models.

4.2.2. MoFNP and SEC to engage government and market players to develop updated SEC funding mechanism and implement it

On the basis of findings in action 4.2.1 above, the MoFNP and SEC should engage with the government to develop a suitable funding model for the SEC, with a view to reducing reliance on MoFNP financing, after which the enhanced funding mechanism should be implemented. The measure for this action activity will be whether or not there have been changes to the SEC's funding policy, with the KPI being the implementation of a sustainable funding policy that should coincide with the SEC levying lower trading fees to market participants.

Ultimately, this process should bring about a robust funding model which creates a sustainable funding environment to build the necessary capacity within the SEC, without potentially crowding out trading activity in the market.

4.3. Develop new funding model for LuSE

In addition to adapting the SEC funding policy, it will also be necessary to develop a new funding model for the LuSE, which is currently reliant on high listing and annual fees. While the size of the market makes it unlikely that these services will nullify the need for the LuSE to collect listing and annual fees in the short term, this initiative represents an important effort to diversify the exchange's sources of income. Consequently, several action items will be required:

4.3.1 CMAZ and LuSE to identify current shortcomings in funding models for various key market players such as exchanges, CSDs, brokerage firms, fund managers, etc.

The working group, overseen by CMAZ in conjunction with LuSE, should identify the current shortcomings in key market players' funding models, with the measure and KPI being the identification of shortcomings, including quantification of any funding shortfalls.

4.3.2. CMAZ and LuSE to determine scope for value addition services as revenue generators, e.g. publishing market research, information dissemination, etc.

CMAZ and LuSE should explore the development of certain additional services as a means of revenue generation, informed by existing demand in the market. This may include, for example, conducting and publishing market research, creating information dissemination services and/or developing technology solutions for market participants. The measure and KPI for this action activity will be whether or not the working group has identified new value addition services.

4.3.3. CMAZ and LuSE to develop required capacity to implement identified value addition services

Where necessary, CMAZ and LuSE will need to ensure that additional capacity is built in order to allow these new value addition services to be implemented. The measure and KPI for this action activity will be whether or not the required capacity has successfully been built within LuSE.

4.3.4. CMAZ and LuSE to implement additional value addition services and revise transaction fees (e.g. listing fees, trade commissions, annual fees)

Finally, the additional value addition services should be implemented, which will allow key market players such as exchanges to reduce initial listing and annual fees. The measure for this action activity will be whether or not new value addition services have been implemented, and whether or not key market players have reduced transaction fees (e.g. initial listing fees, trade commissions, annual fees, etc.). The KPI will be the implementation of sustainable funding policies and models with new value addition services and lower market transaction costs.

The result of this initiative will be new funding models where possible for key market players, with a target state of establishing sustainable operations across key market players, i.e. exchanges, CSDs, brokers, fund managers, etc.

4.4. Develop broad-based capacity building initiatives

There is a need to develop broad-based capacity building initiatives which serve to uplift all stakeholders within the capital markets. Specifically, it will be necessary to ensure that market practitioners, including but not limited to auditors, advocates, accountants, brokers, bankers, corporate financiers and financial journalists, are capacitated to perform their roles efficiently and effectively. This in turn will aid in developing a more well-functioning market and enhance investor confidence. The strategic initiative serves to develop capacity and deepen knowledge across all capital market practitioners.

4.4.1. SEC and CMAZ to commission study on best practice for capacity building

This exercise will be operationalised through identification of existing knowledge gaps among capital market practitioners following a study, commissioned by the SEC along with the CMAZ, into best practice for capacity building in capital market knowledge building. This exercise should leverage the current capacity-building assessment being performed by FSD Africa. The completion of the study and the identification of capacity building best practices represent the measure and KPI of this action activity.

4.4.2. SEC and CMAZ to identify gaps with existing capital market practitioners

Following the identification of capacity building best practices by the SEC and CMAZ, knowledge gaps will be identified among auditors, accountants, brokers, bankers, corporate financiers and financial journalists, through a consultative process, in order to determine the demand for skills development programmes and suitable funding mechanisms. The identification of capacity gaps among the capital markets practitioners therefore represents the measure and KPI for this action activity.

4.4.3. SEC and CMAZ to identify skills development programmes to bridge knowledge gap and partner with education provider to design curriculum

The identification process above will inform the demand for skills development. This will culminate in the development of a skills development programme, driven by the SEC and CMAZ in partnership with an education provider, who will be responsible for developing a fit-for-purpose curriculum, as well as making use of any currently available solutions. Whether or not appropriate skills development programmes have been identified represents the measure of this action activity, with the KPI also including that an appropriate education partner has been found.

4.4.4. SEC and CMAZ to develop and execute schedule for participating in bridging knowledge gap

The SEC and CMAZ should ensure that the capacity building programme is scheduled and executed in order to build the required capacity. In ensuring the foregoing, strategies around securing sponsors to support aspects of the capacity building programme should be prioritised. The development of the capacity building schedule represents the measure of this action activity, while the KPI is that the schedule has been developed and executed, resulting in the required capacity being built.

4.4.5. SEC and CMAZ to schedule and execute capacity building maintenance in order to update skills as required

The SEC and CMAZ should carry out periodic maintenance to ensure that the built capacity is maintained and updated as necessary, in order that skills remain in line with international standards. The measure and KPI for this action activity will be whether or not competency is maintained in line with international standards and whether or not ongoing scheduling and development of skills programmes take place.

The result of this initiative will be that the market's capacity gaps will be addressed and maintained, thus moving the market towards competency in line with international standards, which is the target state.

4.5. Develop and implement a targeted investor education programme

Zambia's market landscape would benefit from an investor education programme, with an aim to ensure full and vibrant retail and institutional investor participation in the capital markets. Specifically, the aim would be to ensure that a larger proportion of the population are well informed about the benefits and rationale of the capital markets. This will encourage greater participation, and result in more funds flowing into the markets.

4.5.1. SEC and CMAZ to conduct study on public literacy and capital market views to identify gaps in knowledge and develop educational material

It will be necessary for the SEC and CMAZ to gain a thorough understanding of the Zambian public's understanding of and views towards the capital markets, especially with regards to the benefits associated with different asset classes and the importance of long-term financial planning. As a developing market, it is unlikely that the majority of Zambian citizens will participate in the capital markets. Regardless, it is necessary to ensure the existence of an educated retail investor population. The measure of this will be the completion of a study on the public markets, with the KPI being that the study has been completed and the gaps in public market knowledge have been identified.

4.5.2. SEC and CMAZ to schedule and execute public programmes to deliver educational material

Based on the findings of these discussions, the SEC and CMAZ should identify where the most pressing gaps in the public's knowledge are. After this, the required educational material can be developed. The working group should ensure delivery of the educational material through a number of channels, including public workshops, university and school visits and marketing via radio, television and billboard (for example). The measure of success of this action activity will be the execution of appropriate education programmes, with the KPI being that these workshops and education programmes will be executed and periodically updated as necessary.

The result of this strategic initiative will be the successful development of an investor education programme, with an ultimate view of ensuring an improved level of capital markets knowledge across Zambia as a whole.

4.6 Establish an institute to facilitate capital market courses and programmes

In order to facilitate the smooth delivery of capital market capacity-building requirements, it will be important to consider the establishment of an independent body of academics, practitioners and industry players, which will provide broad-based, capital market-specific courses and programmes. This institute will provide thought leadership in new areas of interest in the development of capital markets. It will also seek to build skill sets to drive innovation of customer-centric products to address Zambia's developmental needs. Similarly, the institute will play a role in raising awareness of opportunities in the capital markets, through user-friendly training strategies targeting a broad spectrum of investors.

4.6.1 SEC and CMAZ to undertake a feasibility study for the establishment of a multi-pronged institute for capital markets

The SEC and CMAZ should undertake a feasibility study to assess the practicality of establishing a multi-pronged institute for capital markets. The measure of success of this action activity will be the feasibility study being undertaken, with the KPI being that the pros and cons of establishing an institute have been ascertained and recommendations developed.

4.6.2. SEC and CMAZ to establish a capital markets training institute

The SEC and CMAZ should spearhead the establishment of an institute to facilitate capital market-specific courses and programmes. The approach could be to leverage digital platforms (aside traditional mechanisms) to provide technical short courses and/or awareness programmes on specific subjects. The measure of success of this action activity will be the establishment of a multi-pronged training institute, with the KPI being that capacity is built across the broad spectrum of capital market stakeholders.

The result of this strategic initiative will be the successful development of an investor education programme, with an ultimate goal of ensuring an improved level of capital market knowledge across Zambia as a whole.

Table 6: Enhancing capacity across the capital markets – strategic initiatives

S#	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
			Corporate bonds			
4.1	Develop ongoing capacity building for regulators based on international best practice	4.1.1	MoFNP, BoZ and SEC to leverage on existing reports and assessments that identify capacity gaps across regulators and put in place measures to effect necessary changes	Identification and consolidation of precise gaps	Gaps identified and consolidated	**Result:** Greater capacity at regulatory level **Target state:** More effective regulatory oversight
		4.1.2	MoFNP, BoZ and SEC to schedule and execute skills development programmes to ensure capacity building programmes are in line with international standards	Successful execution of skills development	Skills development programmes completed and capacity built to international standards	
		4.1.3	MoFNP, BoZ and SEC to ensure built capacity is maintained through annual review and continued skills updates	Regulator skills capacity overview	Regulator capacity maintained at international levels	
4.2	Strengthening the Securities and Exchange Commission	4.2.1	MoFNP and SEC to review current SEC funding policy/model against its needs to identify shortfalls/shortcomings, and undertake a benchmark study with other regulators	Review of SEC funding policy/model	Size of shortfall quantified and shortcomings addressed	**Result:** Alternative funding model for SEC developed **Target state**: SEC has sustainable funding operations
		4.2.2	MoFNP and SEC to engage government and market players to develop updated SEC funding mechanism and implement taking into consideration findings under 4.2.1	Changes to SEC funding policy	Sustainable SEC funding in place	
4.3	Develop new funding model for LuSE	4.3.1	CMAZ and LuSE to identify current shortcomings in funding models for various key market players such as exchanges, CSDs, brokerage firms, etc.	Identification of shortcomings	Shortcomings identified, including quantifying size of any shortfall	**Result:** Alternative funding model for LuSE developed **Target state:** LuSE has sustainable funding operation
		4.3.2	CMAZ and LuSE to determine scope for additional value addition services as revenue generators, e.g. publishing market research, information dissemination	Identification of value addition services	New value addition services identified	

		4.3.3	CMAZ and LuSE to implement additional value addition services and revise transaction fees (e.g. listing fees, trade commissions, annual fees)	Development of capacity	New capacity developed within LuSE	
4.4	Adjust regulatory provision for private equity	4.3.4	LuSE, CMAZ and All to implement additional value addition services and revise listing and annual fees	Changes to market players' (e.g. exchanges, CSDs, brokers, fund managers) transaction fees (e.g. initial listing fees, trade commissions and annual fees), addition of value addition services	Sustainable funding policies and models in place with lower market transaction costs	**Result:** Updated private equity regulation **Target state**: Greater number of firms with PE/VC investment that ultimately exit into public markets
4.4	Develop broad-based capacity building initiatives	4.4.1	SEC and CMAZ to commission study on best practice for capacity building	Completion of study	Study completed, best practices identified	**Result:** Capacity gaps addressed, capacity built and maintained **Target state:** Competency in line with international standards
		4.4.2	SEC and CMAZ to identify gaps with existing capital market practitioners (including auditors, advocates, accountants, brokers, bankers, corporate financiers, financial journalists, etc.) through surveys and workshops	Identification of capital market practitioner capacity gaps	Surveys/workshop s conducted, capacity gaps identified	
		4.4.3	SEC and CMAZ to identify skills development programmes to bridge knowledge gap and partner with education provider to design curriculum	Identification of development programmes	Appropriate skills development programmes identified, education partner found	
		4.4.4	SEC and CMAZ to develop and execute schedule for participating in bridging knowledge gap	Development of capacity-building schedule	Capacity- building scheduling developed and executed, capacity built	
		4.4.5	SEC and CMAZ to schedule and execute capacity building maintenance in order to update skills as required	Broad-based competency in line with international standards throughout capital markets	Ongoing scheduling and development of skills programme	
4.5	Develop and implement targeted investor education programme	4.5.1	SEC and CMAZ to conduct study on public literacy and capital market views to identify gaps in knowledge and develop educational material	Completion of study on public capital market literacy and development of educational material	Study completed, gaps identified and educational material developed	**Result:** Investor education programme developed **Target state**: Improved knowledge of capital markets

		4.5.2	SEC and CMAZ to schedule and execute public programmes to deliver educational material	Execution of workshop and appropriate education programmes	Executed workshop and education programmes and conducted periodic investor education programmes	
4.6	Establish an institute to facilitate capital market courses and programmes	4.6.1	SEC and CMAZ to establish an institute to facilitate capital market-specific courses	Feasibility study being undertaken	Pros and cons of establishing an institute ascertained and recommendations developed	
		4.6.2	SEC and CMAZ to establish a capital market training institute	Establishment of a multi-pronged training institute	Capacity built across the broad spectrum of capital market stakeholders	

Source: Consortium analysis
Notes: Red = short-term initiative, amber = medium-term initiative, green = long-term initiative

5.5 ENHANCING THE CAPITAL MARKET REGULATORY ENVIRONMENT

A sound capital market requires a strong regulatory framework to ensure its proper functioning. A sound regulatory environment ensures that investors and practitioners alike can navigate the market with confidence and with predictable outcomes as far as issuing and trading processes are concerned. Such an environment serves to bolster the confidence of local players, which may make them more willing to participate in the market in terms of supplying and demanding capital. This will aid the country's development and create a more inclusive economy, in line with the 8NDP (and successor plans). At the same time, an enhanced regulatory environment would allow the local markets to send positive signals to the international community, which may in turn encourage greater regional and international participation.

In light of the above, it is important to ensure that efforts at capital market development are underpinned by relevant regulatory interventions. To that end, it is necessary to ensure that regulators that govern the capital markets are assigned streamlined mandates, with clear cooperation between regulatory stakeholders. In addition, protection of investments is an important signal to both local and international markets, and should subsequently be strengthened, both at a local level (for minority shareholders) and for foreign investors. In addition, creating a more encouraging business environment will require revisions to the tax regime (though this will be challenging given Zambia's current macroeconomic climate), as well as investigating the opportunity for double taxation agreements (DTAs) with key trading partners.

It is envisaged that guidelines requiring unlisted firms seeking long-term financing to prepare audited accounts will be developed, to the benefit of the market as a whole as well as the firms in question. Finally, the capital markets would benefit from adjustments to NAPSA's investment guidelines, given the large pool of wealth under its stewardship. Such an adjustment would be undertaken with the aim of better allowing capital to flow to where it is most needed within the economy. This will help to achieve the 8NDP's (and successor plans') stated aims of diversifying the economy and reducing developmental inequalities.

5.1. Streamline mandates of capital market regulators and communicate to market

In light of the aim to ensure that Zambia's capital markets are underpinned by a strong regulatory framework, a key short-term objective pertains to the efficacy of regulatory oversight and coordination in order to ensure that regulators are able to oversee both public and private capital markets in an effective manner. While effort has already been made to update the Bank of Zambia Act (1996) to uphold the Securities Act's (2016) jurisdiction over the capital markets, it will be useful to continue making efforts to ensure regulatory alignment on an ongoing basis.

5.1.1. MoFNP, BoZ, SEC and PIA to review existing regulatory mandates of the major regulatory stakeholders, including BoZ, SEC and MoFNP, and compare regulatory mandate to peer group

This involves the MoFNP, BoZ, SEC and PIA conducting an extensive review and streamlining of the regulatory mandates of all major regulatory stakeholders based on a review of the regulatory responsibilities and powers of the peer group. The importance of this review is based on the lack of a streamlined regulatory approach across the board, which, as revealed during stakeholder interviews, has led to difficulties in implementing changes aimed at developing the market. The measure and KPI for this action activity will be the completion of regulatory mandates in order to identify where changes need to be made.

5.1.2. MoFNP, BoZ, SEC and PIA to coordinate and consolidate regulatory mandate to ensure alignment, with possible implementation of the twin peaks model of regulation (stability and conduct)

Following the review, it will be necessary for the MoFNP, BoZ, SEC and PIA to coordinate and consolidate the regulatory mandates to ensure alignment. This will be followed by possible implementation of a twin peaks model of regulation, with one regulator ensuring overall stability of the capital markets while another oversees the conduct of market participants. The success of this action activity will be measured by the alignment of regulatory mandates across regulatory stakeholders, with the KPI being the implementation of revised mandates across regulators.

The target state for this strategic initiative will be to develop well-coordinated areas of responsibility for regulators and to have greater oversight of the various components of capital market regulations entrusted to them. The process will require extensive consultations between regulators to ensure that appropriate revised mandates and resourcing are in place, thus ensuring that these entities can successfully carry out their aim to provide market oversight and, more broadly, market development. The measure of success for this process will be to institute revised mandates and sensitise changes with the market regarding responsibility of regulators.

5.2. Establish and update investment guidelines for NAPSA

A crucial short-term strategic initiative in enhancing market liquidity involves changing the role that NAPSA currently plays. Although NAPSA's primary obligation is to manage its assets for the benefit of future pensioners, the size of its presence in the market puts it in a position where it can significantly shape the development of the Zambian capital market. Ultimately, a deeper, more liquid market will be in the interest of NAPSA and its beneficiaries, while also contributing to a more diversified economy as funds flow to a wider array of investments. At present, the substantial funds under NAPSA's management are mostly held in the form of government bonds, which are not actively traded. To that end, the aim should be to update the guidelines governing NAPSA's investments in order to ensure greater diversification across asset classes. These may include equities and corporate investment schemes, as well as private equity and debt, which would create a greater pool of accessible capital for private businesses, aiding their development and private sector development more broadly. At the same time, outsourcing the management of a portion of NAPSA's funds to the fund management industry would allow for greater trading activity, further deepening market liquidity. Such an action would also allow for the development of the fund management industry, providing a form of capacity building.

5.2.1. MoFNP, MoLSC, NAPSA and SEC to review which products are most appropriate for outsourcing in order to guide updated guidelines and opportunities for outsourcing fund management to private sector

The MoFNP, MoLSC, NAPSA and SEC should review the current investment guidelines for National Pension Schemes such as NAPSA, LASF and PSPF, and identify which asset classes (e.g. equities, CIS or private equity) are most appropriate for the schemes to increase their holdings with. This is to ensure that they list, as well as look at opportunities for outsourcing fund management to the private sector, which would help to develop private sector fund management capacity.

It is crucial, however, that this outsourcing effort is well considered in order to ensure that NAPSA does not trade against itself, creating unnecessary costs. Rather, it is envisaged that different portfolios (e.g. bonds, equity, CIS, etc.) will be outsourced to different fund managers, thus allowing for greater trading activity while benefitting NAPSA's overall portfolio. Ultimately, this will result in greater liquidity and improve attractiveness for investors across the capital markets. The measure of success of this action activity will be whether the review of products has been completed, with the KPI being a completed review with appropriate products identified.

5.2.2. MoFNP, MoLSC, NAPSA and SEC to aid in developing new investment guidelines based on study findings and update regulations in order to implement new guidelines

The minimum and maximum of these asset classes should subsequently be increased through regulatory changes, driven by the MoFNP, MoLSC, NAPSA and SEC in order to effect a more broad flow of

[26] Pension Funds Regulations: Pension Fund Act 1956

NAPSA's current holdings. The state of development of these new investment guidelines represents the measure of success for this action activity, with the completion of the investment guidelines being the KPI.

5.2.3. MoFNP, MoLSC, NAPSA and SEC to implement framework for outsourcing fund management to private sector

Concurrently, regulation should be developed by the MoFNP, MoLSC, NAPSA and SEC to allow a substantial portion of NAPSA's portfolio to be administered by private sector asset management funds[26]. This is an important aspect of the strategic initiative and has several potential benefits. It will allow for the leveraging of current private sector asset management capacity. In addition, it will allow for substantial diversification in investment decisions, given that the same pool of funds will be spread across a number of different players, each with their own understanding of where the most worthwhile investments lie.

Furthermore, as mentioned above, this will allow for a form of capacity building across the fund management industry, which will be necessary as the market develops. The measure of success for this action activity will be the state of development of new guidelines for NAPSA to outsource part of its investment portfolio to the private sector, with the implementation of these outsourcing guidelines being the KPI.

This strategic initiative therefore relies on two interlinked steps: there must be greater freedom for NAPSA's funds to flow to a number of different asset classes, and the capacity of the private sector should be leveraged in order to ensure that this occurs in practice. To that end, the result of this strategic objective will be updated legislation that has been formally implemented, with a target state of NAPSA's funds flowing to a larger range of assets.

5.3. Strengthen regulatory protections afforded to minority shareholders in line with the Companies Act of 2007

Findings on minority shareholder protection in the MAR indicated that Zambia ranked the lowest among the peer group. This was primarily driven by low scores on the shareholder governance index, which consisted of a lack of regulatory obligations for the inclusion of independent directors and a lack of provision for shareholder approval before issuing additional shares[27]. The importance of shareholder protection is key in the protection of domestic investor interests and ensuring that the market is attractive to retail and institutional investors alike.

5.3.1. SEC to adjust regulations as necessary – such as mandating appointment of independent directors to company boards, strengthening requirements around conflict of interest and allowing a group of minority shareholders to put items on the meeting agenda

The SEC should update regulations in order to enhance minority shareholder protection in line with international best practice, including mandating the appointment of independent directors to company boards, strengthening requirements around conflict of interest disclosure and also allowing minority shareholders to put items on the meeting agenda. In addition, all minority shareholder protections should be strengthened in line with the Companies Act of 2007. The measure of success for this action activity will be whether these adjustments have been made, with the KPI being that regulations have been updated and implemented.

5.3.2. SEC to communicate changes to the market with a timeframe for implementation

The SEC should communicate the updated regulations to the market with a timeframe for implementation by public companies, resulting in improved shareholder protections. Addressing issues raised by the World Bank Ease of Doing Business report provides a practical yardstick to improve Zambia's protection of minority shareholders. To this end, the measure for this initiative will be the World Bank Ease of Doing Business report, with a KPI score of 75%, up from 50% at present.

5.3.3. SEC to curb non-compliant conduct by issuers.

A number of issuers are in violation of listings requirements, such as not publishing annual financial statements in a timely manner, engaging in transactions without complete approvals, and improperly appointing directors and executives. To fulfill its mandate of investor protection, the SEC will take enforcement action against such non-compliant acts. The KPI for this initiative will be the number of instances of ongoing non-compliance by issuers.

The result of this initiative is to update shareholder protections, with a target state of protection in line with international standards.

5.4. Make protection of foreign investments explicit

Following the protection of mostly domestic minority investors, similar protection should be

[27] The findings of the MAR must be considered in context given the provisions of Rule 23 of the Securities (Registration of Securities) Rules.
[28] This must be read in context with the time the MAR was undertaken (2020)

created for foreign investment. Currently Zambia has no explicit impediments to foreign investment, but the perceived political appetite for nationalisation[28], particularly in the mining sector, may deter it. While it is unclear if nationalisation is a genuine threat in the near term, the potential for it to be perceived as a threat may reduce foreign investor appetite. Consequently, it is important to ensure that property rights are as strong as possible in order to ensure a viable environment for both public and private investments to occur.

5.4.1. MoFNP and ZDA to develop broad-based foreign investment policy based on international best practices

It is imperative for the MoFNP and ZDA to develop broad-based foreign investment policy which enshrines the protection of foreign investment. The completion of this policy represents the measure of this action activity, with the KPI being the development and implementation of the policy.

5.4.2. MoFNP and ZDA to drive updated regulation to remove potential for nationalisation, e.g. through stronger property rights

Driven by the MoFNP and ZDA, regulations will need to be updated in order to make these provisions for the protection of foreign investment explicit, such as through the strengthening of property rights. In this regard, the World Economic Forum's (WEF) competitive rating for property rights will provide a useful measure of success. To improve on their existing property rights, Zambia will need to reach a target of 5 out of 7 on the WEF competitiveness rating on property rights in the medium term, which will represent the KPI for this action activity. This will bode well for improving the attractiveness of all investments within the Zambian private sector.

The final result and target state of this strategic initiative will be to ensure the explicit protection of foreign investment, with strong property rights.

5.5. Adjust tax regime with potential incentives for businesses and investors in strategically important sectors

An additional mechanism for increasing the inflow of investments is to develop a tax regime which incentivises the flow of funds into strategically important sectors. This should occur in conjunction with diversifying the Zambian economy towards a larger variety of sectors, in order to encourage greater economic activity. Consequently, these sectors may proceed to make a larger contribution to the country's capital markets. In addition, research revealed that the Zambian taxation regime is relatively uncompetitive compared to peers, particularly as far as corporate taxation is concerned. Consequently, incentivising greater activity in strategically important sectors could offer the dual benefits of contributing to the country's capital market growth and the development of the economy as a whole.

Given Zambia's current macroeconomic challenges, it is understood that achieving this initiative will be difficult, particularly in the short term, due to a loss of much-needed revenue. In the medium to long term, however, the government stands to benefit from a broader tax base as well as an expanding economy. To that end, the initiative is intended as a medium-term target, with the aim that these adjustments will be made once Zambia is on a more stable footing, thus allowing for benefits to accrue in the long term.

5.5.1. ZRA, MoFNP, ZDA and SEC to identify strategically important sectors (e.g. based on contribution to GDP or diversification of the economy)

This ought to be done through a ZRA, MoFNP, ZDA and SEC-led review of strategic sectors (such as agriculture, energy or tourism), based on a combination of contribution of GDP and diversification into other viable sectors. The measure and KPI of this action activity will be whether or not strategically important sectors have been identified.

5.5.2. ZRA, MoFNP, ZDA and SEC to develop tax incentives for identified sectors

The sectors identified via the previous action activity should be incentivised through the development of ZRA, MoFNP, ZDA and SEC-driven tax incentives that will make participation in these sectors more attractive. The development of these tax incentives represent the measure and KPI of this action activity.

5.5.3. MoFNP, ZRA, ZDA and SEC to update regulation to extend existing tax breaks in order to increase incoming capital flows

Driven by the MoFNP, ZRA, ZDA and SEC, regulations should subsequently be updated in order to implement these tax incentives. The measure of the success of this action activity will be whether or not regulations have been updated and implemented in order to formalise the tax incentives.

The result of this initiative will be an updated set of tax incentives for strategically important sectors. The target state will be an increased inflow of local and foreign investment e.g.equalling 5% of GDP.

5.6. Review and develop DTAs with key trading partners and opportunities for regional

integration

In order to ensure that it attracts substantial foreign inflows, it will be necessary for Zambia to review the DTAs that it currently has in force with external partners. The aim of this would be to ensure that Zambia makes it as attractive as possible for businesses from its key trading partners to establish a presence in the Zambian market.

5.6.1. ZDA, MoFNP and ZRA to review existing DTA agreements

The ZDA, MoFNP and ZRA should review the current DTAs that Zambia has in force against a list of the country's most crucial trading partners. The measure of success for this action activity will be whether or not this review has been completed, with a completed review and the identification of expansion opportunities being the KPI.

5.6.2. ZDA, MoFNP and ZRA to identify gaps in current DTA agreements, giving precedence to developing DTA agreements with key trade partners

The ZDA, MoFNP and ZRA should drive the development of additional DTAs where they are currently lacking. It is intended that the additional DTAs that the country develops will ultimately result in Zambia having DTAs with all of its major trading partners. The number of DTAs that Zambia has with its major trading partners is the measure of success for this action activity, with the KPI being the development of DTAs with all major trading partners.

The result of this strategic initiative will be more favourable taxation relationships with Zambia's key trading partners, with the target state being that these relationships will extend across all major partners.

5.7. Develop guidelines to help companies seeking long-term financing prepare audited accounts

Stakeholder consultations revealed that many Zambian businesses do not perceive there to be substantial benefits involved with listing on the LuSE. This is particularly true in light of the additional reporting standards that listed companies are required to satisfy, including production of audited financial statements. In order to address this, it would be useful to develop guidelines to help companies seeking long-term financing to produce audited financial statements which will aid them in complying with long-term financing requirements.

5.7.1. SEC, MoFNP and the Zambia Institute of Chartered Accountants (ZICA) to provide guidelines on preparing audited financial statements to assist potential issuers

The SEC, MoFNP and ZICA should review international best practice in this regard in order to identify relevant criteria for which potential issuers are required to prepare audited financial statements. The measure for this action activity will be whether or not the study has been completed, with the KPI being completion of the study and development of guidelines.

5.7.2. SEC, MoFNP and ZICA to host workshops to inform companies and their auditors about new framework/guidelines

It would be helpful for the SEC, MoFNP and ZICA to host a workshop in order to educate and inform companies about the new guidelines. The measure of this action activity will be the state of implementation of the new guidelines, with the KPI being the completion and roll-out of workshops.

The result of this strategic objective will be new guidelines assisting companies with long-term financing compliance, with a target state of more businesses publicly reporting their financial accounts.

Table 7: Enhancing the capital market regulatory environment – strategic initiatives

S#	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
5.1	Streamline mandates of capital market regulators and communicate to market	5.1.1	MoFNP, BoZ, SEC and PIA to review existing regulatory mandates of the major regulatory stakeholders, including BoZ, SEC and MoFNP, and compare regulatory mandate to peer group	Review of regulatory mandates	Review of regulatory mandates completed	**Result:** Alignment and consolidation of regulatory powers **Target state:** Greater capacity for capital market oversight from regulators

		5.1.2	MoFNP, BoZ, SEC and PIA to coordinate and consolidate regulatory mandate to ensure alignment, with possible implementation of the twin peaks model of regulation (stability and conduct)	Review of regulatory mandates	Review of regulatory mandates completed	**Result:** Alignment and consolidation of regulatory powers **Target state:** Greater capacity for capital market oversight from regulators
5.2	Establish and update investment guidelines for NAPSA	5.2.1	MoFNP, MoLSC, NAPSA and SEC to review which products are most appropriate for outsourcing in order to guide updated guidelines and opportunities for outsourcing fund management to private sector	Review and identification of appropriate products	Review completed, appropriate products identified	**Result:** Updated Appropriate legislation updated and updated guidelines implemented **Target state:** Expanded range of assets available for NAPSA fund investment
		5.2.2	MoFNP, MoLSC, NAPSA and SEC to aid in developing new investment guidelines based on study findings and update regulations in order to implement new guidelines	Development of new investment guidelines	New investment guidelines developed	
		5.2.3	MoFNP, MoLSC, NAPSA and SEC to implement framework for outsourcing fund management to private sector	Development of new legislative guidelines for NAPSA to outsource to the private sector	Legislative guidelines updated, private sector outsourcing implemented	
5.3	Strengthen regulatory protections afforded to minority shareholders	5.3.1	SEC to adjust regulations as necessary – such as mandating appointment of independent directors to company boards, strengthening requirements around conflict of interest and allowing a group of minority shareholders to put items on the meeting agenda	Completion of regulatory adjustments in order to mandate the required changes	Regulations updated and implemented	**Result:** Shareholder protection regulations updated **Target state:** Minority shareholder protection in line with international best practice
		5.3.2	SEC to communicate changes to market with timeframe for implementation	Shareholder protection level as measured by World Bank Ease of Doing Business report	75%	
5.4	Make protection of foreign investments explicit	5.4.1	MoFNP and ZDA to develop broad-based foreign investment policy based on international best practices	Completion of policy	Foreign investment policy developed and implemented	**Result:** Updated regulations that make foreign investment protection explicit

		5.4.2	MoFNP and ZDA to drive updated regulation to remove potential for nationalisation, e.g. through stronger property rights	World Economic Forum Competitiveness Rating for property rights	5 out 7	**Target state**: Protection of foreign investment and strong property rights
5.5	Adjust tax regime with potential incentives for businesses and investors in strategically important sectors	5.5.1	ZRA, MoFNP, ZDA and SEC to identify strategically important sectors (e.g. based on contribution to GDP or diversification of the economy), such as agriculture, energy and tourism	Identification of strategically important sectors	Strategically important sectors identified	**Result:** Updated tax incentives for strategically important sectors **Target state**: Increased inflow of local and foreign investors, equalling 5% of GDP
		5.5.2	ZRA to develop tax incentives for identified sectors	Development of tax incentives to incentivise key sectors	Tax incentives developed	
		5.5.3	MoFNP, ZRA, ZDA and SEC to update regulation to extend existing tax breaks in order to increase incoming capital flows	Implementation of tax incentives	Tax incentives updated and implemented	
5.6	Review and develop DTAs with key trading partners and opportunities for regional integration	5.6.1	ZDA, MoFNP and ZRA to review existing DTA agreements	Review of DTA agreements	DTA agreements reviewed and opportunities for expansion identified	**Result:** More favourable tax incentives with key trading partners **Target state:** DTA agreements with all major trading partners
		5.6.2	MoFNP, ZRA and ZDA to identify gaps in current DTA agreements, giving precedence to developing DTA agreements with key trade partners	Number of DTAs with trading partners	DTAs established with all major trading partners	
5.7	Develop guidelines to help companies seeking long-term financing prepare audited accounts	5.7.1	SEC, MoFNP and ZICA to provide guidelines on preparing audited accounts to assist limited liability companies with long-term financing compliance needs	Completion of guidelines	Guidelines completed, best practices identified	**Result:** Completed guidelines to help companies seeking long-term financing prepare audited accounts **Target state**: Increased number of firms preparing audited accounts
		5.7.2	SEC, MoFNP and ZICA to host workshops to inform companies and their auditors about new framework/guidelines	Implementation of guidelines	Guidelines complete and implemented	

Source: Consortium analysis
Notes: Red = short-term initiative, amber = medium-term initiative, green = long-term initiative

Conclusion

The CMMP and its associated implementation plan are the result of comprehensive market research, a large number of stakeholder interviews and input from across the capital markets. Consequently, the plan presents a credible set of recommendations for the development of Zambia's capital markets over the next decade. These recommendations incorporate clear action activities, a definition of success and the envisaged result of successful implementation. In addition, there are clear timeframes for completion of each activity. In many cases, the recommendations aim to address the market's foundational needs: the development of a clear government bond yield curve (and an associated trading platform), implementation of the required custody and settlement infrastructure and capacity building for regulators and market participants. With these in place, there will be room for further enhancements, such as developing a larger number of products, improving market liquidity and launching investor education programmes.

Over the long term, there will be room for incorporating additional global trends and innovations into the market and for the formation of a strong pipeline of businesses that will graduate to the public markets in time. The responsibility for each development area is clearly set out. Though there is provision for collaboration and consultation with market participants, the ultimate responsibility for the five development areas lies with the lead partners: the MoFNP, BoZ and SEC. These entities have the regulatory power to drive the required developments and the success of the CMMP will rely on them using their regulatory powers decisively and, where necessary, courageously. As they drive the development of the capital markets, these entities will require the support of market participants acting in the best interests of Zambia and its development goals.

The development of the capital markets is one of Zambia's key pillars as it strives to reach the goals set out in its Vision 2030 policy and the 8NDP (and successor plans). Provided that the interventions detailed earlier are implemented in a timely manner, Zambia's capital markets have the potential to play a full role in bolstering the country's economic development in line with its development goals for the current decade. Achieving this will, however, require patience, political and regulatory determination and an unwavering determination to do what must be done in order to benefit Zambia.

Appendix

As discussed in the main body, the short-term strategic initiatives focus on implementing the foundational building blocks that the Zambian capital markets will require in order to develop. This includes substantial changes to the way in which government bonds are issued and traded, as well as enhancements to the market's infrastructure. In addition, there will be enhancements to regulatory capacity, initiatives to attract a larger number of issuers, and the creation of a pipeline of firms for future listing on the LuSE.

The sequencing of these three phases is illustrated in the below table. Each of the strategic initiatives discussed earlier will have to be broken down into shorter-term work plans in order to guide their execution.

Table 8: Illustrative view of CMMP phases

Short term			Medium term			Long term			
2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Establish foundation of capital market by enhancing government bond market and public equity market, and building capacity across the market									
			Expand capital market product offering and continue to implement regulatory interventions in line with Zambian capital market development						
						Consolidation of earlier gains, further market developments, and promoting innovation to build a vibrant Zambian capital market			

Table 9: Short-term strategic initiatives

S# (WG)	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
1.1 (1)	Effect changes to BoZ auction process to ensure enhanced transparency in line with international best practice	1.1.1	Update bond process regulations to mandate immediate reporting of auction results and winning yields	Bond auction process relative to international best practice	Revised bond auction process and standards implemented	**Result**: Transparent BoZ auction process **Target state:** Fully transparent BoZ auction process, results and yields reported as soon as possible
1.2 (1)	Creation of benchmark bonds	1.2.1	MoFNP to finalise the updating of the issuance policy to align with benchmark bond building	MoFNP policy updated	Establish five benchmark bonds	**Result:** MoFNP Policy updated **Target state:** Benchmark bond established and completion of government bond yield curve
1.3 (1)	Create framework for appointing the banks as primary dealers	1.3.1	MoFNP and BoZ to identify suitable banks to act as market makers	Identification and buy-in of banks	Suitable banks identified and buy-in sought	**Result:** Banks appointed as market makers, no more individual participation in bond auctions **Target state:** Establishment of primary dealership system
		1.3.2	MoFNP and BoZ to update regulations as necessary to appoint selected primary dealers	Appointment of banks as market makers	Regulations updated and banks appointed as market makers	
		1.3.3	MoFNP and BoZ to communicate changes in compliance standards to banks	Communication of changes to banks Identify suitable consultants	Changes communicated, banks compliant	
1.4 (1)	Enhance electronic government bond trading mechanism	1.4.1	MoFNP and BoZ to fully implement the electronic bond trading platform and benchmark against international best practice, i.e. other markets like South Africa	Identify suitable consultants	Suitable consultants appointed	**Result:** Development of electronic trading platform to support market-making operations and (primary dealer) obligations **Target state:** Transparent and efficient bond trading landscape
		1.4.2	MoFNP and BoZ to educate market participants on new platform and implement into market	Implementation of electronic bond trading platform	Electronic bond trading platform implemented	
1.5 (1)	Implementation of safe, efficient CSD including fully functional DvP	1.5.1	Based on MAR findings, BoZ, SEC and LuSE to develop process for CSD enhancements, including DvP settlement	Review CSD enhancements	CSD enhancements reviewed	**Result:** Creation of a reliable record of ownership and removal of risk and inefficiency of settlement process **Target state:** Single, consolidated CSD with real DvP created
		1.5.2	BoZ, SEC and LuSE to appoint consulting team to provide technical assistance on implementation of enhancements with a view to eventual consolidation	Implementation of enhancements	Technical assistance and enhancements implemented	

		1.5.3	MoFNP, BoZ and SEC to increase retail participation in secondary bond markets	Increase retail participation in the secondary markets	Retail participation in the secondary markets increased	
		1.5.4	MoFNP, BoZ and SEC to undertake study for rationalising the LuSE and BoZ CSDs	Study for rationalising the LuSE and BoZ CSDs undertaken	Study for rationalising of the LuSE and BoZ CSDs undertaken and recommendations implemented	
1.6 (1)	Alter post-trade reporting requirements to enhance transparency	1.6.1	SEC, BoZ and LuSE to review current reporting requirements and compare to international best practices on reporting	Review of reporting requirements	Reporting requirements reviewed	**Result:** Updated post-trade reporting requirements and guidelines **Target state:** Better information flow as a result of improved transparency of trading landscape
		1.6.2	SEC and LuSE to identify gaps in current reporting requirements and implement changes in reporting requirements	Implement revised post-trade reporting requirements	Efficient post-trade requirements consistent with international best practice	
2.2 (2)	Making the market more attractive for issuers	2.2.1	ZDA and LuSE to conduct roadshow with strategic sectors across SADC (including Zambia) to gather views and identify potential developments to improve issuing activity	Completion of roadshow	Roadshow completed, views gathered and developments identified	**Result:** A coherent strategy to attract more issuers **Target state:** Implement strategy and grow issuer base
		2.2.2	ZDA and LuSE to develop strategy based on views gathered in roadshow	Launch strategy to increase number of listed firms	Increase number of listed firms to 27	
2.3 (2)	Develop a pipeline of companies with long-term equity and debt financing needs	2.3.1	ZDA, IDC, LuSE and CMAZ to assemble task force in partnership with business associations to identify potential equity and debt listings and private placement opportunities	Assembly of task force	Task force assembled	**Result:** Pipeline launched **Target state:** Develop vibrant pipeline with firms for listing
		2.3.2	ZDA, IDC, LuSE and CMAZ to determine conditions for pipeline inclusion (e.g. revenue, ESG standards, largest taxation payers, etc.) and incentives	Development of conditions for pipeline inclusion	Conditions for pipeline inclusion developed by task force	
		2.3.3	ZDA, IDC, ZACCI and CMAZ to identify and engage initial businesses for inclusion and launch pipeline	Number of firms within pipeline	Five firms in pipeline by end of 2023 with a view to listing by end of 2024	

3.6 (3)	Develop framework for issuance of securities to finance green bonds	3.6.1	MoFNP, SEC, CMAZ and LuSE to develop conditions and incentives for these securities in line with international body standards and ESG and ICMA principles	Development of appropriate conditions and incentives	Conditions and incentives for green bonds developed	**Result:** Green framework developed **Target state:** Launch green bonds
		3.6.2	SEC to update regulations to provide a comprehensive framework for these instruments	Implementation of framework	Regulations updated and framework formally implemented	
		3.6.3	SEC and CMAZ to conduct roadshow and/or workshops with stakeholders to introduce these instruments to the market	Launch of green bond	Zambia to launch first green bond by end of 2022	
		3.6.4	CMAZ to develop a database for green investable projects	Database of green investable projects developed	Green investable projects identified	
4.1 (4)	Develop ongoing capacity building for regulators based on international best practice	4.1.1	MoFNP, BoZ and SEC to leverage on existing reports and assessments that identify capacity gaps across regulators and put in place measures to effect necessary changes	Identification and consolidation of precise gaps	Gaps identified and consolidated	**Result:** Greater capacity at regulatory level **Target state:** More effective regulatory oversight
		4.1.2	MoFNP, BoZ and SEC to schedule and execute skills development programmes to ensure capacity building programmes are in line with international standards	Successful execution of skills development	Skills development programmes completed and capacity built to international standards	
		4.1.3	MoFNP, BoZ and SEC to ensure built capacity is maintained through annual review and continued skills updates	Regulator skills capacity overview	Regulator capacity maintained at international levels	
4.2 (4)	Strengthening the Securities and Exchange Commission	4.2.1	MoFNP and SEC to review current SEC funding policy/model against its needs to identify shortfalls/shortcomings , and undertake a benchmark study with other regulators	Review of SEC funding policy/model	Size of shortfall quantified and shortcomings addressed	**Result:** Alternative funding model for SEC developed **Target state**: SEC has sustainable funding operations
		4.2.2	MoFNP and SEC to engage government and market players to develop updated SEC funding mechanism and implement taking into consideration findings under 4.2.1	Changes to SEC funding policy	Sustainable SEC funding in place	
		4.3.1	CMAZ and LuSE to identify current shortcomings in funding models for various key market players such as exchanges, CSDs, brokerage firms, etc.	Identification of shortcomings	Shortcomings identified, including quantifying size of any shortfall	

4.3 (4)	Develop new funding model for LuSE Adjust regulatory provision for private equity	4.3.2	CMAZ and LuSE to determine scope for additional value addition services as revenue generators, e.g. publishing market research, information dissemination	Identification of value addition services	New value addition services identified	**Result:** Alternative funding model for LuSE developed **Target state**: LuSE has sustainable funding operation
		4.3.3	CMAZ and LuSE to implement additional value addition services and revise transaction fees (e.g. listing fees, trade commissions, annual fees)	Development of capacity	New capacity developed within LuSE	
		4.3.4	LuSE/CMAZ /ALL implement additional value addition services and revise listing and annual fees	Changes to market players' (e.g. exchanges, CSDs, brokers, fund managers) transaction fees (e.g. initial listing fees, trade commissions and annual fees), addition of value addition services	Sustainable funding policies and models in place with lower market transaction costs	
4.4 (4)	Develop broad-based capacity building initiatives	4.4.1	SEC and CMAZ to commission study on best practice for capacity building	Completion of study	Study completed, best practices identified	**Result:** Capacity gaps addressed, capacity built and maintained **Target state:** Competency in line with international standards
		4.4.2	SEC and CMAZ to identify gaps with existing capital market practitioners (including auditors, advocates, accountants, brokers, bankers, corporate financiers, financial journalists, etc.) through surveys and workshops	Identification of capital market practitioner capacity gaps	Surveys/workshops conducted, capacity gaps identified	
		4.4.3	SEC and CMAZ to identify skills development programmes to bridge knowledge gap and partner with education provider to design curriculum	Identification of development programmes	Appropriate skills development programmes identified, education partner found	
		4.4.4	SEC and CMAZ to develop and execute schedule for participating in bridging knowledge gap	Development of capacity-building schedule	Capacity- building scheduling developed and executed, capacity built	
		4.4.5	SEC and CMAZ to schedule and execute capacity building maintenance in order to update skills as required	Broad-based competency in line with international standards throughout capital markets	Ongoing scheduling and development of skills programme	

5.1 (5)	Streamline mandates of capital market regulators and communicate to market	5.1.1	MoFNP, BoZ, SEC and PIA to review existing regulatory mandates of the major regulatory stakeholders, including BoZ, SEC and MoFNP, and compare regulatory mandate to peer group	Review of regulatory mandates	Review of regulatory mandates completed	**Result:** Alignment and consolidation of regulatory powers **Target state:** Greater capacity for capital market oversight from regulators
		5.1.2	MoFNP, BoZ, SEC and PIA to coordinate and consolidate regulatory mandate to ensure alignment, with possible implementation of the twin peaks model of regulation (stability and conduct)	Alignment of regulatory mandate	Revised mandates implemented across regulators	
5.2 (5)	Establish and update investment guidelines for NAPSA	5.2.1	MoFNP to review which products are most appropriate for outsourcing in order to guide updated guidelines and opportunities for outsourcing fund management to private sector	Review and identification of appropriate products	Review completed, appropriate products identified	**Result:** Updated Appropriate legislation updated and updated guidelines implemented **Target state:** Expanded range of assets available for NAPSA fund investment
		5.2.2	MoFNP to aid in developing new investment guidelines based on study findings and update regulations in order to implement new guidelines	Development of new investment guidelines	New investment guidelines developed	
		5.2.3	MoFNP to implement framework for outsourcing fund management to private sector	Development of new legislative guidelines for NAPSA to outsource to the private sector	Legislative guidelines updated, private sector outsourcing implemented	

Source: Consortium analysis

Table 10: Medium-term strategic initiatives

S# (WG)	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
2.4 (2)	Adjust LuSE listing requirements	2.4.1	LuSE to review current listing requirements compared to peer markets (e.g. profitability, years in business, ESG requirements, etc.) to identify gaps	Review of current listing requirements	Current listing requirements reviewed, gaps identified and revised listing requirements effected	**Result:** Updated listing requirements **Target state**: Larger number of issuers on LuSE
		2.4.2	Develop adjustments and update regulations as necessary to implement new listing requirements in order to attract more listings	Number of firms listed on LuSE	33 firms listed on LuSE	
		2.4.3.	SEC to review and adjust SEC requirements for registration of securities and introduce new requirements for SMEs	Completion of the review of the SEC registration requirements	SEC registration requirements reviewed and adjustments to necessary SIs made	

2.5 (2)	Enhance investor awareness of collective investment schemes to bolster uptake	2.5.1	CMAZ to conduct demand assessment to determine additional demand for CISs from investor base	Completion of demand assessment	Demand assessment completed	**Result:** Greater promotion of CISs across investor base **Target state:** Increase in size of mutual fund industry to USD 100 million by end of 2023
		2.5.2	CMAZ to conduct roadshow in order to promote uptake of CISs from pools of investor base where demand was gauged to be the strongest	Completion of CIS promotion roadshow	CIS promotion roadshow completed	
		2.5.3	MoFNP and SEC to formulate a government-backed CIS	Successful formulation of a government-backed CIS	Targeted funds efficiently mobilised into the CIS	
		2.5.4	SEC to enhance current regulatory and corporate governance structures/codes for the CIS industry	Creation of an adequately resourced CIS Unit within the SEC	Enhanced regulatory oversight of the CIS industry implemented	
3.1 (3)	Adjust regulatory provision for private equity	3.1.1	MoFNP and PIA to adjust current regulation on private equity to set an appropriate minimum and maximum for private equity investment for both public and private sector pension funds	Annual size of PE/VC activity	PE/VC activity of USD 80 million per year, up from current value of USD 46 million per year	**Result:** Updated private equity regulation **Target state:** Greater number of firms with PE/VC investment that ultimately exit into public markets
3.4 (3)	Expand market product offering to expand number of assets available for investments	3.4.1	SEC, PIA, MoFNP and ZRA to assess demand for expanded number of asset classes in the market via surveys of both retail and institutional investors (e.g. introducing REITs, ETFs, retail bonds, derivatives)	Assessment of demand for expanded asset classes	Completed survey in order to gauge demand	**Result:** Revised product landscape **Target state**: Improved product landscape
		3.4.2	SEC to assess adequacy of current guidelines in allowing for these asset classes	Review of current provisions and identification of required changes	Completed assessment of current guidelines and identified areas for adjustment	
		3.4.3	SEC to expand product landscape and required guidelines based on demand and in line with MAR findings	Number of new products introduced into market	Updated guidelines and expanded number of products including ETFs and REITs	
3.5 (3)	Develop framework for securitisation and mortgage refinancing to improve liquidity	3.5.1	SEC and MoFNP to conduct market assessment to gauge demand for securitisation and mortgage refinancing in private market in line with best practice	Completion of assessment	Assessment completed	

		3.5.2	SEC and MoFNP to develop framework and requisite capabilities for securitisation and mortgage refinancing	Development of framework	Framework completed	**Result:** Completed market assessment and implemented framework around securitisation and mortgage refinancing **Target state:** Raise the profile of securitisation and mortgage refinancing to expand financing landscape
		3.5.3	SEC and MoFNP to conduct market sensitisation to raise profile and usage of securitisation and mortgage refinancing and implementation	Completion of market sensitisation and framework implementation	Market sensitisation and framework completed and implemented	
4.5 (4)	Develop and implement targeted investor education programme	4.5.1	SEC and CMAZ to conduct study on public literacy and capital market views to identify gaps in knowledge and develop educational material	Completion of study on public capital market literacy and development of educational material	Study completed, gaps identified and educational material developed	**Result:** Investor education programme developed **Target state:** Improved knowledge of capital markets
		4.5.2	SEC and CMAZ to schedule and execute public programmes to deliver educational material	Execution of workshop and appropriate education programmes	Executed workshop and education programmes and conducted periodic investor education programmes	
4.6 (4)	Establish an institute to facilitate capital market courses and programmes	4.6.1	SEC and CMAZ to establish an institute to facilitate capital market-specific courses	Feasibility study being undertaken	Pros and cons of establishing an institute ascertained and recommendations developed	**Result:** Revised product landscape **Target state**: Improved product landscape
		4.6.2	SEC and CMAZ to establish a capital market training institute	Establishment of a multi-pronged training institute	Capacity built across the broad spectrum of capital market stakeholders	
5.3 (5)	Strengthen regulatory protections afforded to minority shareholders	5.3.1	SEC to adjust regulations as necessary - such as mandating appointment of independent directors to company boards, strengthening requirements around conflict of interest and allowing a group of minority shareholders to put items on the meeting agenda	Completion of regulatory adjustments in order to mandate the required changes	Regulations updated and implemented	**Result:** Shareholder protection regulations updated **Target state:** Minority shareholder protection in line with international best practice
		5.3.2	SEC to communicate changes to market with timeframe for implementation	Shareholder protection level as measured by World Bank Ease of Doing Business report	75%	

5.4 (5)	Make protection of foreign investments explicit	5.4.1	MoFNP and ZDA to develop broad-based foreign investment policy based on international best practices	Completion of policy	Foreign investment policy developed and implemented	**Result:** Updated regulations that make foreign investment protection explicit **Target state:** Protection of foreign investment and strong property rights
		5.4.2	MoFNP and ZDA to drive updated regulation to remove potential for nationalisation, e.g. through stronger property rights	World Economic Forum Competitiveness Rating for property rights	5 out 7	
5.5 (5)	Adjust tax regime with potential incentives for businesses and investors in strategically important sectors	5.5.1	ZRA, MoFNP, ZDA and SEC to identify strategically important sectors (e.g. based on contribution to GDP or diversification of the economy), such as agriculture, energy and tourism	Identification of strategically important sectors	Strategically important sectors identified	**Result:** Updated tax incentives for strategically important sectors **Target state:** Increased inflow of local and foreign investors, equalling 5% of GDP
		5.5.2	ZRA to develop tax incentives for identified sectors	Development of tax incentives to incentivise key sectors	Tax incentives developed	
		5.5.3	MoFNP, ZRA, ZDA and SEC to update regulation to extend existing tax breaks in order to increase incoming capital flows	Implementation of tax incentives	Tax incentives updated and implemented	
5.6 (5)	Review and develop DTAs with key trading partners and opportunities for regional integration	5.6.1	ZDA, MoFNP and ZRA to review existing DTA agreements	Review of DTA agreements	DTA agreements reviewed and opportunities for expansion identified	**Result:** More favourable tax incentives with key trading partners **Target state:** DTA agreements with all major trading partners
		5.6.2	MoFNP, ZRA and ZDA to identify gaps in current DTA agreements, giving precedence to developing DTA agreements with key trade partners	Number of DTAs with trading partners	DTAs established with all major trading partners	
5.7 (5)	Develop guidelines to help companies seeking long-term financing prepare audited accounts	5.7.1	SEC, MoFNP and ZICA to provide guidelines on preparing audited accounts to assist limited liability companies with long-term financing compliance needs	Completion of guidelines	Guidelines completed, best practices identified	**Result**: Completed guidelines to help companies seeking long-term financing prepare audited accounts **Target state**: Increased number of firms preparing audited accounts
		5.7.2	SEC, MoFNP and ZICA to host workshops to inform companies and their auditors about new framework/guidelines	Implementation of guidelines	Guidelines complete and implemented	

Source: Consortium analysis

Table 11: Long-term strategic initiatives

S# (WG)	Strategic Initiative	A#	Action activities	Measure	KPI	Result/target state
			Corporate bonds			
2.1 (2)	Develop and implement study on corporate bond dealing landscape	2.1.1	SEC and PIA to conduct primary research across cross-sectional sample of businesses on their financing needs and reasons for lack of corporate bond activity	Completion of study	Study completed and recommendations implemented	**Result**: Completed study on corporate bond dealing landscape **Target state:** Publish study and commission task force to implement recommendations
3.2 (3)	Explore the nascent space of establishing SME debt, equity and technical assistance funds	3.2.1	MoFNP, ZDA and CMAZ to establish task force to commit study on feasibility of SME debt, equity and technical assistance	Completion and implementation of task force findings	SME assistance funds operational	**Result:** Operationalisation of SME assistance funds **Target state:** Successful implementation of debt, equity and technical assistance funds
		3.2.2	Establish task force to consider the role of the capital markets in pursuing interventions identified in existing feasibility studies of SME debt/equity lines	Engagement of relevant stakeholders	Recommendations from activity 3.2.1. implemented	
3.3 (3)	Convene committee to track capital market developments (crowdfunding, sandboxing)	3.3.1	SEC to set up committee to review global capital market trends	Committee convened	Committee to meet and report to MoFNP and SEC biannually	**Result:** Trends identified and implemented as appropriate **Target state:** Capital markets up to date with appropriate trends
		3.3.2	SEC to identify appropriate trends and implement them into Zambian market	Identification of trends	Trends identified and implemented	
		3.3.3	CMMP Secretariate / Committee to undertake monitoring and evaluation	Development of the M&E framework	M&E framework implemented	

Source: Consortium analysis

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