

# Policy Reform for Investment: The case of Zambia

By

Chola Abel MWITWA

Director-Aftercare & Business Development Services

**ZAMBIA INVESTMENT CENTRE**

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# Introduction

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- The PFI is new technique that has been developed by OECD to assess the business environment. It is being used to assess Zambia's progress in policy reform against 17 action points (8 dealing with investment policy and 9 dealing with investment promotion and facilitation) of the PFI.
- Zambia's reform agenda started in 1991 with policy shift from command to market based economy. The market based policy reform agenda was supported by enactment of laws that support and protect private enterprise.
- Zambia's policy framework for investment was conceived and developed outside the PFI. However the PFI is broad and all-embracing than Zambia's investment policy reform agenda.

# Rationale

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- It has been recognised that right policies are important in order to accelerate economic development, forestall dereliction and reduce poverty. There is therefore need to articulate appropriate policies, legislation and regulation that support investment (i.e. rules of the game).
- Government's overall economic policy framework of liberalisation was and still is seen to be in line with the PFI. It is based on the fact that government's roles in business is to provide an enabling environment for all businesses, from SME to large businesses.
  - Available literature now show that appropriate regulatory and institutional environment is the single most important component to the country's economic growth strategy.
  - The 2005 Doing Business Report stated that measures of easing in doing business are associated with growth in annual economic growth by as much as 2.2 per cent. Mainly in three areas property rights, commercial justice and deregulation.

# Investment Policy as a tool for assessing the investment climate.

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- Investment policy reform in Zambia started in 1991.
  - Enactment of pro-business legislation and amendment of existing laws to support the liberalised economic environment.
    - income Tax Act of 1991
    - Investment Act of 1991
    - Companies Act of 1995
    - Export Development Act of 1994
    - Privatisation Act of 1993
    - Lands Act 1995
    - Securities and Exchange Act. 1994
    - The Zambia Revenue Act 1994
    - Banking and Financial Services Act 1994
    - The Zambia Development Agency Act of 2006
- However, there are still laws that need to be harmonised such as the Investment Act and the Immigration and Deportation Act.



# Investment Policy as a tool for assessing the investment climate (Cont'd)

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- Major legal and institutional reforms that have taken place;
  - The Government established intermediary organisations.
  - The Zambia Investment Centre (ZIC),
  - the Zambia Privatisation Agency (ZPA),
  - the Export Board of Zambia (EBZ),
  - the Small Enterprise Development Board, (SEDB)
  - the Zambia Competition Commission (ZCC),
  - the Energy Regulation Board (ERB),
  - the Communication Authority of Zambia CAZ),
  - the Securities Exchange Act (SEC),
  - the Patents and Companies Registration Office (PACRO) and so on.



# Investment Policy as a tool for assessing the investment climate (Cont'd)

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- Progressive establishment of timely, secure and effective methods of ownership registration for land and other forms of property.
  - The Lands Act provides for property ownership by both foreign and domestic investors. Foreigners holding Investment Certificates or in which 75% shares is owned by locals can own property.
  - The land delivery system is being reviewed to shorten the process. The concept of land Bank is being operationalised.
- Laws and regulations for the protection of intellectual Property Rights and effective enforcement.
  - The Companies Act was reviewed in 1994 to make it more business friendly. It provides for registration of businesses and regulations for intellectual property rights and enforcement. However, it is yet to be reviewed to address the liquidation processes. The system of contract enforcement exist. The Commercial Court has been established to deal with such issues.
  - Zambia is always assessed by UNCTAD in terms of IPR.



# Investment Policy as a tool for assessing the investment climate (Cont'd)

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- Adequate and effective compensation for expropriation.
  - Both the Constitution and the Investment Act provides for property rights. Expropriation and nationalisation are outlawed. However should there be need for nationalisation the law provides that two thirds majority of the National Assembly (Parliament) agrees and the investor must be compensated at market value in the currency of his choice.
  - Includes a standard clause in all Bilateral Investment Treaties that Zambia signs.
  - Zambia is signatory to the world Banks MIGA.
- Non-discrimination as a general principal underpinning laws and regulations governing investment
  - As signatory to the WTO, Zambia is committed to the principal non-discrimination. The Investment act does not discriminate.
  - However a new Citizens Economic Empowerment Act provides for an Empowerment Fund which will be accessed only by economically disadvantaged Citizens of Zambia.

# Investment Policy as a tool for assessing the investment climate (Cont'd)

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- Investment Policy Authorities working with their counterparts in other economies to expand international treaties on the promotion and protection of investment.
  - The Ministry of Commerce, Trade and Industry spear heads Zambia's investment treaties negotiations with other countries.
  - Currently Zambia has signed investment treaties with 21 countries.
  - The treaties are not constantly reviewed.
- Ratification and implementation of binding international arbitration instruments for settlement of investment disputes.
  - Not very sure whether we are fully paid member of UNCITRAL.



# Investment Promotion and Facilitation (Cont'd)

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- Strategy for developing a sound broad based business environment and within that strategy.
  - The Zambia Investment Centre has corporate strategy which articulates how it would collaborate with other organisations to advocate for removal of economic irrationalities in the investment environment
  - Moved to publicise its client charter
  - The Zambia Investment Centre is represented on the Chamber of Commerce where it receives feed back for policy advocacy.
  - The Zambia Investment Centre sits on most Government policy formulation Committees where it influences policy.
- Existence of an Investment Promotion agency and to what extent has its structure, mission and legal status been informed by and benchmarked by international best practice
  - The Zambia Investment centre was established by an Act of Parliament in 1992. It is broadly mandated to promote and facilitate investment by focusing on attracting investment and helping investors navigate the approval and business establishment processes and lobbying for improvements in the investment climate.

# Investment Promotion and Facilitation (Cont'd)

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- The structure and operational procedures were established with the help of IDI of Ireland.
- The Board of Directors is appointed by the Minister of Commerce, Trade and Industry from both the public and the private sector. The chairperson and vice are elected from among the private sector representatives.
- Funding of the Centre and Performance indicators include new projects registered, investment commitment values in US Dollar and employment
  - Year                      No. of Projects                      Pledged Amount                      Employment
  - 2004                      123                      123,500,000                      7,800
  - 2005                      133                      267,000,000                      6,300
  - 2006(Nov)                      131                      682,000,000                      5,000
- The Zambia Investment Center's sources of finance are Central Government, donors and own income generated from fee-based services. Government grant is highly inadequate.

# Investment Promotion and Facilitation (Cont'd)

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- Streamlining administrative procedures to quicken and reduce the cost of establishing a new investment.
  - Since 1992 a number of initiatives, including the following measures aimed at supporting the development of the Private Sector are being implemented.
    1. The Private Sector Development (PSD) Reform Programme.
    2. The Triangle of Hope.
    3. The Millennium Challenge Account Thresh hold.
    4. The Blue Book for Zambia.
- The Private Sector Development Reform (PSD) Programme is Action Plan and the implementation Framework agreed upon by both the Government and the Private Sector. It aims at addressing the remaining economic irrationalities in the country.

# Investment Promotion and Facilitation (Cont'd)

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- Mechanism for evaluation of costs and benefits of investment incentives, their appropriate duration, their transparency, and their impact on the economic interests of other countries.
  - Not developed. This may be at core Zambia's inability to structure an investment incentive programme
- Steps to promote linkages between foreign affiliates and local enterprises. Measures to address specific investment obstacles faced by SMEs.
  - The Zambia Investment Centre began promoting joint venture partnerships. Has created a database of project profiles. The size of the local SMEs poses a challenge in promoting linkages active.
  - Government through the Triangle of Hope initiative is addressing the peculiar problem of SME.

# Investment Promotion and Facilitation (Cont'd)

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- International and regional initiatives aimed at building investment promotion expertise.
  - Zambia is a member of a number of regional and international organisation dealing with investment issues such as UNCTAD, WAIPA, SADC, COMESA, MIGA and so on.
  - Under UNCTAD, we benefit through such ways as Investment Policy Review mechanism.
  - Under SADC, the Zambia Investment Centre, in collaboration with ANAPI of Congo DR and UNIDO-ITPO Paris, has sourced resources for capacity building in joint venture structuring, analysis and negotiations for intermediary organisations.
  - The World Bank financed the administrative barriers study and made valuable recommendations.
- International Exchange Networks for investment promotion

# Other Investment Promotion and Facilitation initiatives

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- The Private Sector Development (PSD) Reform Programme.
  - This is a Public-Private Sector Collaborative effort meant to address the following 6 core areas;
    - policy environment and institutions,
    - regulations and laws,
    - infrastructure,
    - business facilitation and economic diversification,
    - trade expansion and
    - local empowerment.
  - Of particular relevancy to this round table is the reform area of business facilitation. It entails review, rationalisation and simplification of all licensing procedures. It also proposed the establishment of the Zambia Development Agency to facilitate investment by providing a first stop shop for investment in the country.

# Other Investment Promotion and Facilitation initiatives (Cont'd)

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## Triangle of Hope Initiative

- This a strategic initiative for economic development that has been adopted by the Government of the Republic of Zambia with the support of JICA.
  - It is a TICAD Agenda to help Zambia attract investment from the Eastern Asia under the South-South framework. It is modeled on the Malaysian and Far Eastern Development Experience.
  - It focuses on how competitiveness can be engendered by the forces of Political will and integrity, the Civil Service Efficiency and the Private Sector Dynamism. Within 10 years of national unity, political will, civil service efficiency and private sector dynamism, Malaysia became the worlds largest exporter of electronic semiconductors.
  - The initiative is progressing. 11 taskforces were constituted to focus on what needs to be done to move Zambia forward. 7 of these focused on what is needed to make Zambia a centre of excellence for Agriculture and agro based industries, Cotton and cotton based industries, Education, Medical and health,

# Other Investment Promotion and Facilitation initiatives

## (Cont'd)

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- Information, Communication and Technology, Tourism, Banking and Finance, AND the 4 taskforces are focused on improving the environment for investment and help speed implementation of projects. These are SME development, Zambia as a Air Cargo Hub and Inland Port, Multi-facility Economic Zones and Streamlining Government Machinery.
- The Taskforces have already defined what is needed to kick start the processes of growth. A number of their recommendations are either being supported by enabling regulations or laws.
- **The Millennium Challenge Account Threshold Project**
  - This a USAID supported initiative addressing issues of transparency, sound economic governance by reducing barriers to trade and investment.
  - Through this initiative, the Patents and Companies Registration Office has already reduced the time it takes to register a business from 9 days to 1.
  - The areas being addressed by this initiative are Border management and establishment of integrity units in key institutions that facilitate investment such as Department of Immigration.

# Other Investment Promotion and Facilitation initiatives (Cont'd)

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- Crime and Corruption
  - Government has heightened the fight against corruption by strengthening institutions that fight crime and corruption such as the Anti Corruption Commission, the Drug Enforcement Commission and creation of the Taskforce on Corruption.
  - Crime and corruption are elements of an investment climate that directly affect macroeconomics. Money laundering distorts economies because it introduces money that is not backed by production. It introduces excess money which leads to inflation and consequently affects the exchange rate.
  - When money laundering is entrenched in the economy the investment climate is characterised as risky and investors shy away. When the economy is not attracting enough investment to induce growth, then poverty escalates.
- Investment incentives
  - Government has provided for special investment incentives in the Zambia Development Agency Act because it views incentives as one of the ways of reducing the cost of doing business and improving competitiveness in Zambia.

# Other Investment Promotion and Facilitation initiatives (Cont'd)

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- The incentives would be accessed by investors investing in the following 12 priority economic sectors.
  - Floriculture (fresh flowers and dried flowers),
  - Horticulture (fresh and dried vegetables),
  - processed foods (wheat flour and other processed foods),
  - beverages and stimulants (tea and tea products, coffee and coffee products),
  - production and processing of the following products in the textile sector (cotton, cotton yarn, fabric and garments ),
  - Manufacturing of the following engineering products (copper products, iron ore and steel, cobalt, and other engineering products),
  - Beneficiation of phosphates and any related material into fertiliser,
  - Beneficiation of rock material into cement,
  - Production and processing of raw timber into wood products,
  - production and processing of the following products in the leather sector (cattle hides, crust leather, leather products),
  - Building of mini-hydro power stations and education and skills training.

# Conclusion

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- We have a programme to remove all irrationalities in our economy so as to make it easy for investors to establish and operate their businesses though it is not as comprehensive as PFI.
- Governments can influence the investment climate through the impact of their policies and laws. Good policies and laws that improve investment climate and country's growth prospects.
- Our experience has shown that with a little bit of reform in regulatory reform, investors show interest. The Zambia Investment centre has recorded an increase in both the number of projects and value of investment commitment for the last three years.
- This roundtable should help suggest or articulate policy measures that would help place Africa at an advantageous position. Africa is not attracting enough investment to induce such rates of growth to attach poverty head on..

