



REPUBLIC OF ZAMBIA  
MINISTRY OF FINANCE AND  
NATIONAL PLANNING

*BUT WHO CAN PARTICIPATE IN CAPITAL MARKETS?*

*ANY PERSON OR ENTITY AS  
WELL AS INSTITUTIONS SUCH AS GOVERNMENT,  
PUBLIC COMPANIES AND THE GENERAL PUBLIC.*

**SIMPLIFIED CAPITAL MARKETS  
MASTER PLAN 2022**





REPUBLIC OF ZAMBIA  
**MINISTRY OF FINANCE AND  
NATIONAL PLANNING**



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# GLOSSARY

CMMP	Capital Markets Master Plan
CSD	Central Securities Depository
DvP	Delivery versus Payment
FSDA	Financial Sector Deepening Zambia
MoFNP	Ministry of Finance and National Planning
NAPSA	National Pension Scheme Authority
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprises
ETFs	Exchange - Traded Funds
REITs	Real - Estate Investment Trusts
CIS	Collective Investment Scheme

# FOREWORD



The Government of the Republic of Zambia (“Government”) is determined 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 policies that promote the actualisation of Vision 2030, primarily through our National Development Plans and others that support growth and sustainable economic development.

The Government is cognisant of the 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 is huge and requires a variety of financing options to be considered. 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 relevant to transform our capital markets and as such, specific interventions will be planned to ensure the achievement of the proposed outcomes. In light of this, it is envisioned 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.

  
Dr. Sifumbeko 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 Financial Sector Deepening Africa (FSDA) and Financial Sector Deepening Zambia (FSDZ), 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.

Last 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.

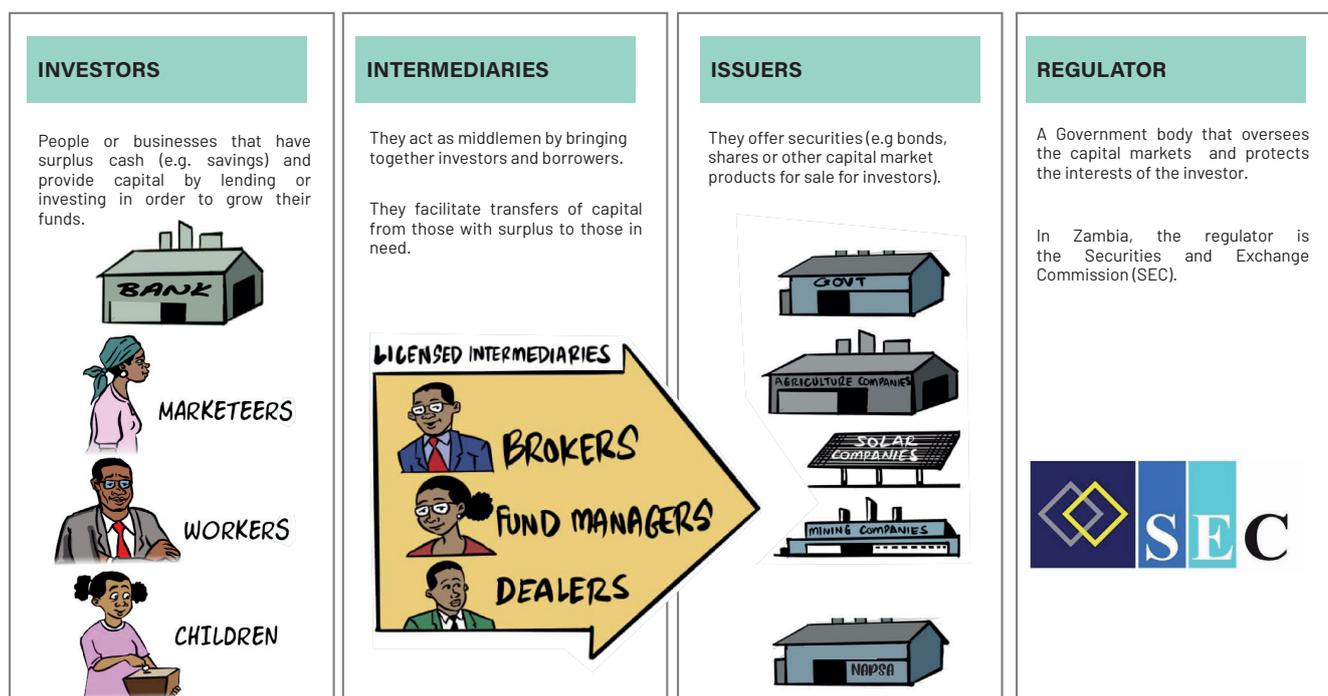
Mrs. Ruth Mugala  
**COMMISSION BOARD CHAIRPERSON**

# INTRODUCTION

## CAPITAL MARKETS UNIVERSE

Welcome to the exciting world of capital markets! This is a place where investors and businesses come together. Investors provide money, and businesses offer ownership or promise to pay back with interest. In the middle, there are experts called intermediaries who help make everything work smoothly. Let's explore how these parts connect and create opportunities for growth and success for individuals and the economy at large.

### THE PLAYERS IN THE CAPITAL MARKETS ARE AS FOLLOWS:



Capital markets are like the fruits and veggies markets, except that in the capital markets people buy and sell products called **"shares"** and **"bonds"**. When you buy a share of a company, you become a part-owner of that company, which means you get to share in its success and failures. If the company does well, the value of your shares can go up, and you might even make some money when you sell them. But if the company doesn't do well, the value of your shares may go down. Capital markets are a market, but here people trade in shares and try to make good decisions about which companies to invest in. This buying and selling is done through middlemen who are called intermediaries. On the other hand, when you buy a bond, you're essentially lending money to a company or the government. They promise to pay you back the amount you lent, called the **"principal,"** along with some extra money called **"interest"** over a specific period of time.

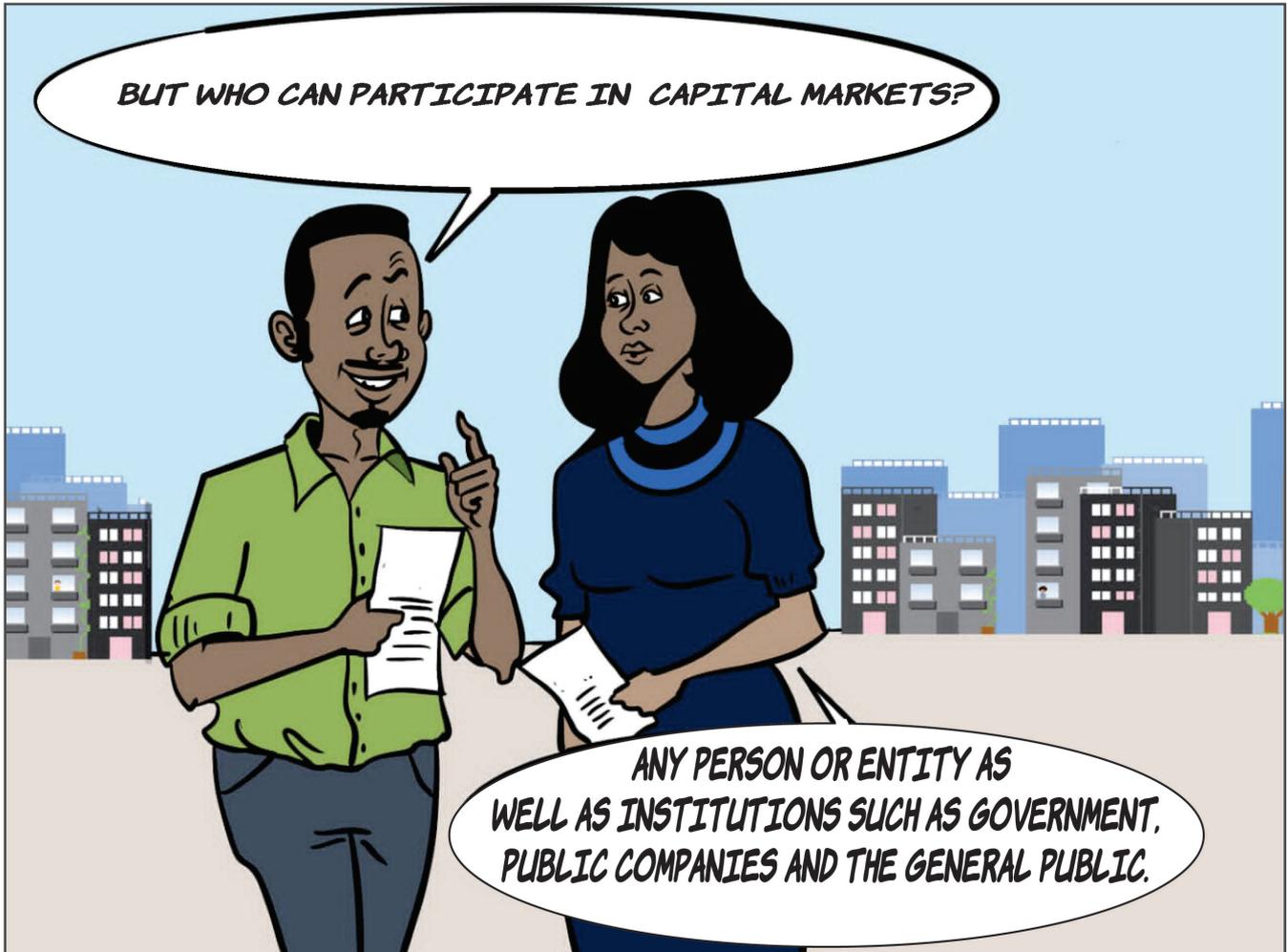
### DID YOU KNOW?

- Capital markets play a role in developing and diversifying the economy while contributing to human and social development, as stated in the 8NDP (and successor plans) and Vision 2030

## DID YOU KNOW?

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- A share is a small piece of ownership in a company. When you buy a share, you are buying a small piece of the company. For example, if you buy 1 share of a company that has issued 100 shares, you own 1/100 of the company.
  - Shares are bought and sold on stock exchanges. A stock exchange is a place where people can buy and sell shares of companies.
  - The price of a share is determined by supply and demand. If more people want to buy a share than sell it, the price of the share will go up. If more people want to sell a share than buy it, the price of the share will go down.
  - You can make money by buying and selling shares. If you buy a share and the price of the share goes up, you can sell it for a profit. If you buy a share and the price of the share goes down, you will lose money if you sell it.
  - You can also make money by receiving dividends. Dividends are profit sharing payments that companies make to their shareholders. The amount of the dividend is usually paid out quarterly or semi-annually.
  - Shares can be a risky investment. The price of shares can go up and down, and you could lose money if you sell the shares for less than you paid for them. However, shares can also be a very rewarding investment. If you invest wisely, you could make a lot of money.
  - Here is an analogy that might help you understand shares better. Imagine that you and your friends want to start a lemonade stand. You all agree to split the profits evenly. Each of you would then own a share of the lemonade stand. The more shares you own, the more profit you would make.
  - Shares work in a similar way. The more shares you own, the more of the company you own, and the more profit you will make if the company does well.

## WHO CAN PARTICIPATE IN CAPITAL MARKETS?



### PARTICIPANTS IN CAPITAL MARKETS



Government



Public companies



Small and Medium Enterprises (SME)



General Public (individuals)



**Contribution of capital markets to economic development**

- They facilitate the flow of funds from those who hold savings to those who require long-term capital. Thus, well-functioning capital markets are useful for helping both public and private sectors (small and big firms) access capital and create more jobs.

 <p>Helping both Public and Private Sectors</p>	 <p>Access Capital</p>	 <p>Create more Jobs</p>
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- Liquid capital markets help to provide benchmarks for interest rates that can be used across the economy.
- Capital markets also help to improve business performance, enhance corporate governance (management) practices and provide access to long-term and cheaper finance.

 <p>Business performance.</p>	 <p>Enhance corporate governance.</p>	 <p>Provide access to long term and cheaper finance.</p>
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## NOW THAT WE KNOW WHAT CAPITAL MARKETS ARE AND THEIR RELEVANCE, WHAT IS THE CAPITAL MARKETS MASTER PLAN (CMMP)?



### Vision

"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

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

# TOWARDS REALISING THE VISION



## Capital market development will aid in the following:

- Developing an economy that takes into account the financial needs of its citizens.
- Reducing gaps between the rich and poor, men and women, abled and persons with disabilities by
  - Ensuring that long-term finance flows efficiently to the areas of the economy and individuals who need the capital.

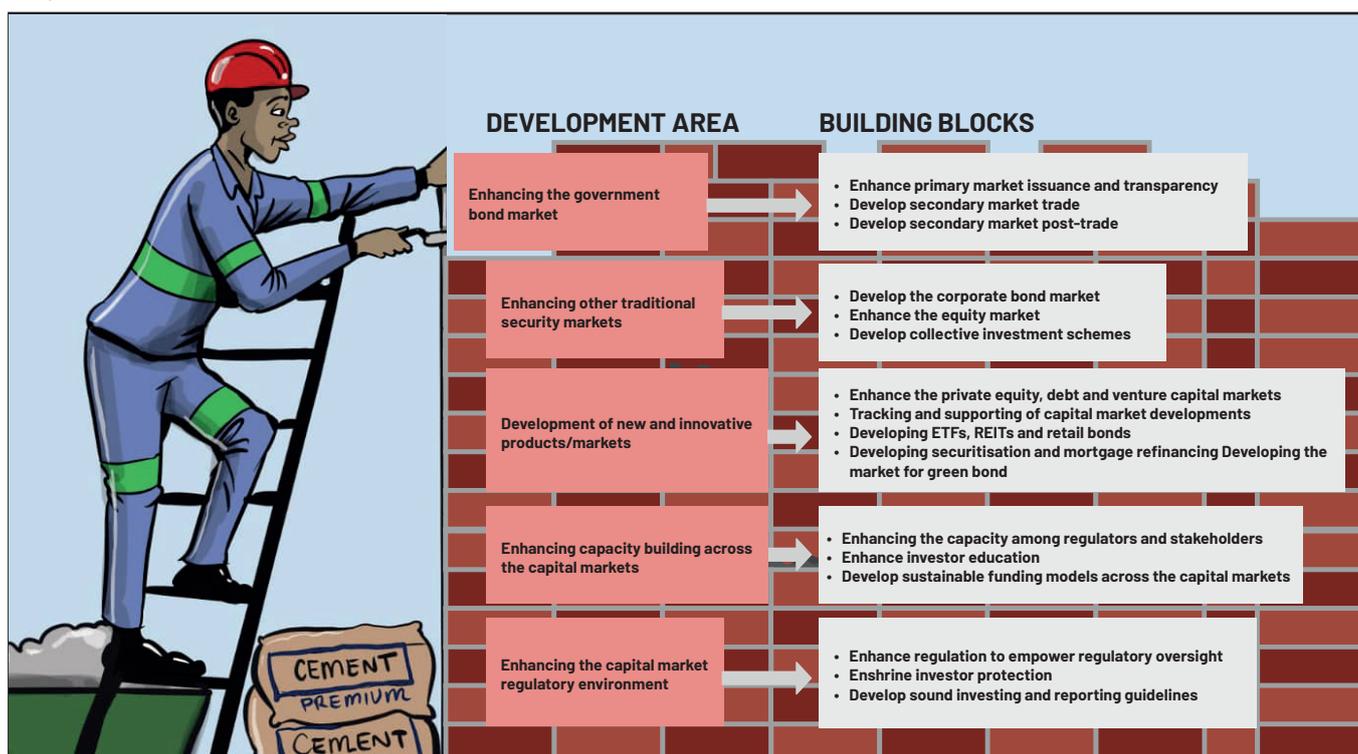
## Zambia's objectives for capital market development:

- To make Zambia an attractive investment destination for both local and international investors.
- To create an enabling and favorable environment for local and international issuers and investors by 2030
- To ensure Zambian capital markets play a greater role in financing critical sectors of the economy such as mining, infrastructure (roads, bridges, housing etc.) and wholesale trade while also building capacity in the financial sector to develop innovative products and services that cater to the market's needs.
- To enhance the liquidity of the capital markets by strengthening financial market systems.
- To ensure the country benefits from the implementation of capacity-building programmes, which will strengthen several stakeholders, including regulators and market participants, and broaden the domestic investor base.
- Ultimately, to support the achievement of the 8NDP (and successor plans) and Vision 2030 by making it easier to attract finance for vital infrastructure projects.



## DEVELOPMENT AREAS AND IMPLEMENTATION PLAN

The Capital Markets Master Plan is anchored on five key development areas. These development areas have been identified as important to develop our capital markets. From them, specific interventions/activities will be planned to ensure the achievement of the envisioned outcomes.

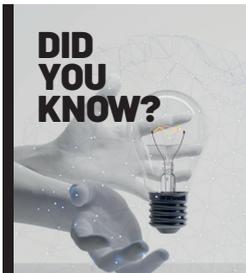
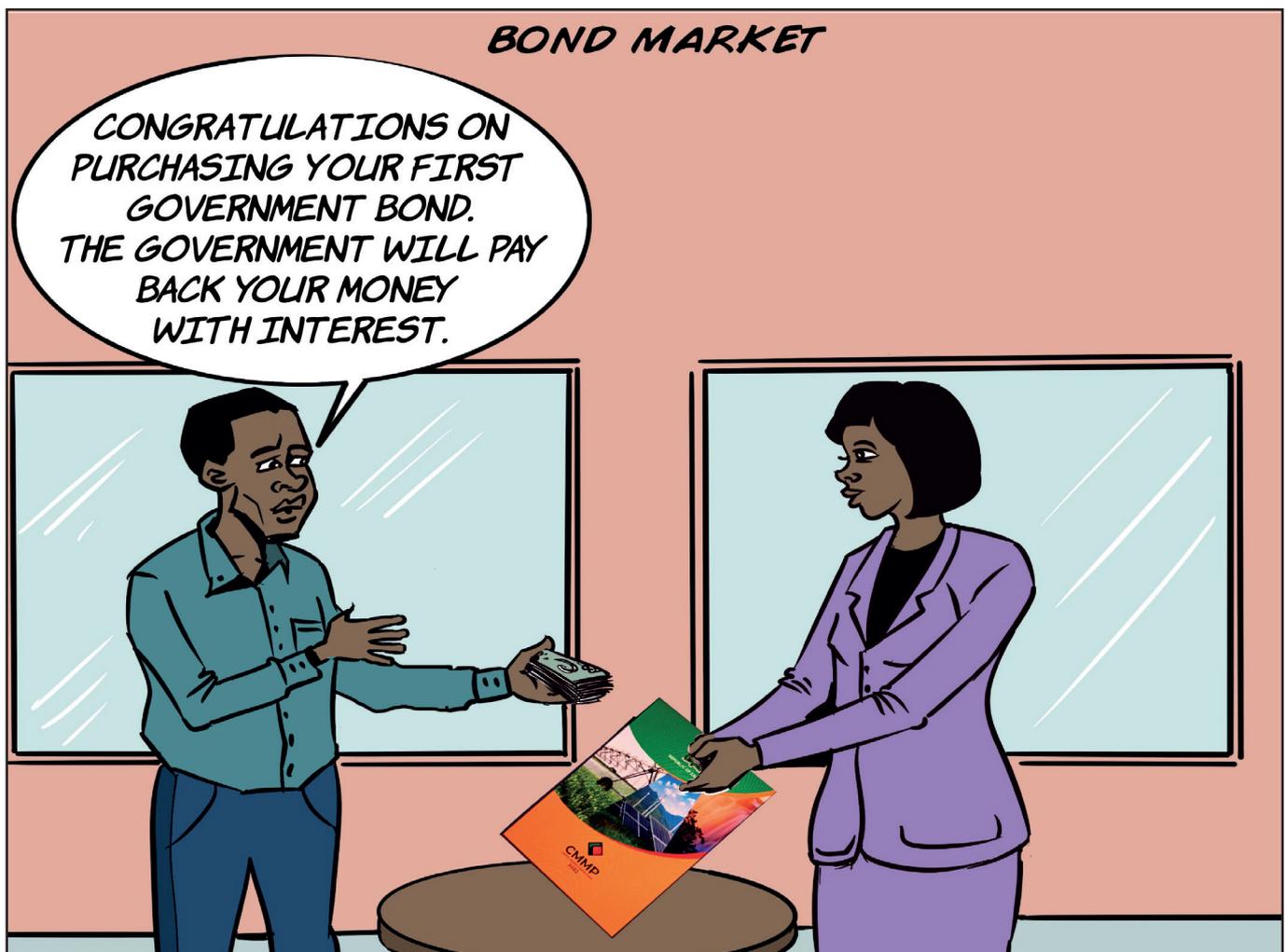


## DEVELOPMENT AREA 1: Enhancement of the Government Bond Market

Establishing a strong government bond market is the first step towards the development of efficient capital markets. Therefore, establishing basic principles for government bonds develops the platform for further capital market instruments, which will broaden the investor base for the benefit of the general Zambian population.

The enhancement of the Government bond market can be achieved through the following actions:

- Enhance primary market issuance and transparency.
- Enhance secondary market trading.
- Develop a secondary market post-trade.



### DID YOU KNOW?

A bond is a way for you to lend money to a company or the government. When you buy a bond, the company or government promises to give you back your money with some extra amount called interest on a specific date in the future. They also give you regular interest payments, usually two times a year. Bonds are long-term investments and usually have a minimum period of two years.

## Primary Market Issuance



The primary market is where companies and Governments raise money by issuing shares or bonds to the public.



Issuing Government bonds in an efficient and transparent manner is an important means of enhancing the Government bond market. Greater efficiency in how bonds are issued will ultimately result in more confidence in the market.

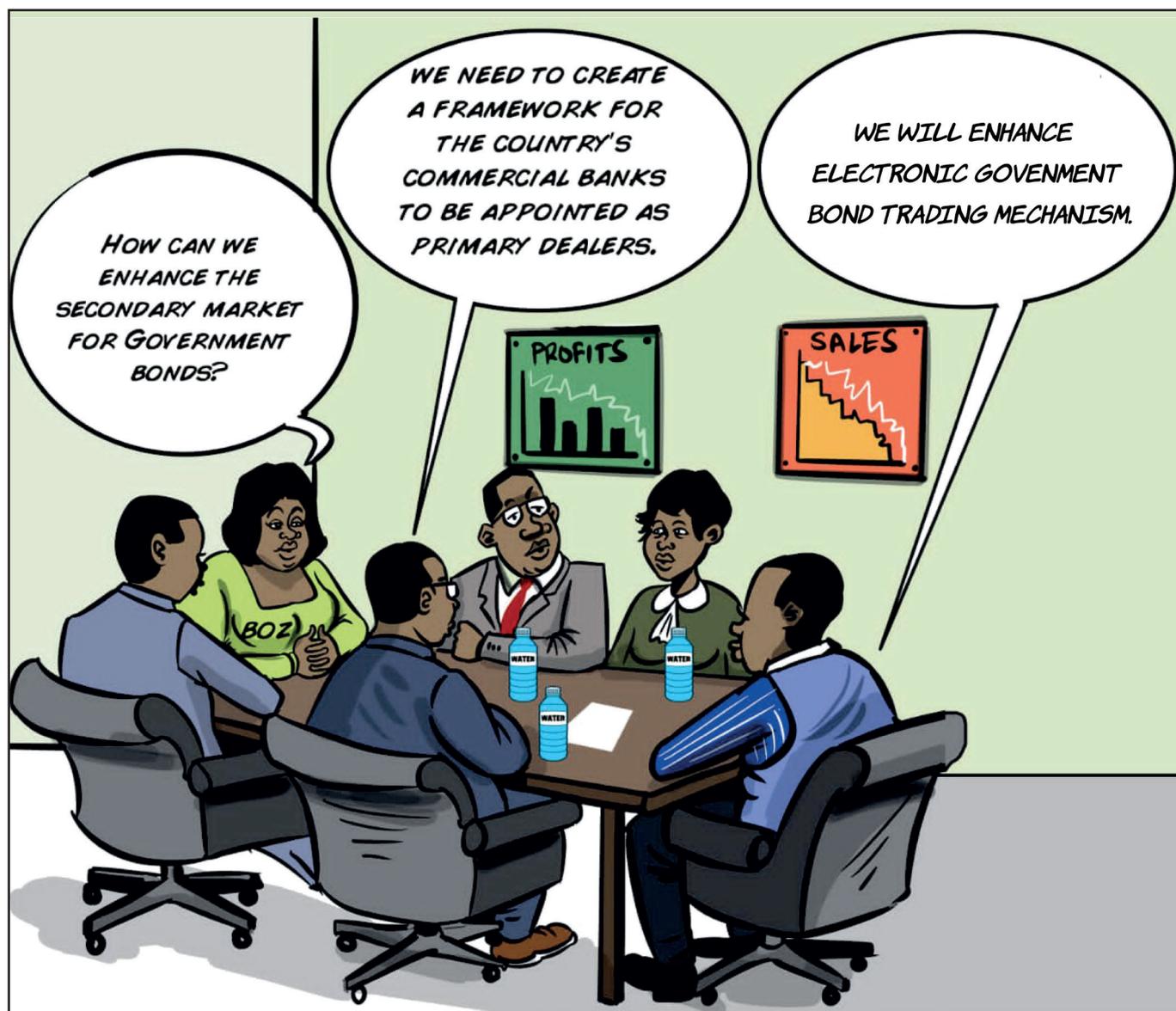
## Secondary Market Trade



**DID YOU KNOW?**

The secondary markets are where existing stocks and bonds previously issued in the primary market are sold and bought among investors. This allows people to buy stocks.

Once Government bonds have been issued into the market, it is important that well organised systems are in place for them to be bought and sold among all types of investors. This will encourage the market to have a big group of people who are interested in bonds, making it easier and more convenient for buyers and sellers to find each other.



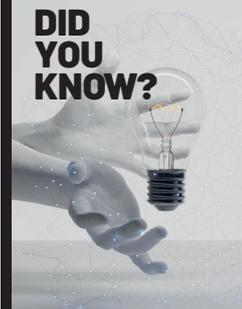
Specific actions to be taken include:

- Identifying suitable banks to act as market makers in accordance with a transparent framework.
- Updating regulations as necessary to appoint selected primary dealers.
- Communicating changes in compliance standards to banks.
- Enhance the electronic government bond trading platform.
- Educating market participants on a new platform and implement to market.

## 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 through the implementation of a Central Securities Depository (CSD) system with a fully functional Delivery versus Payment (DvP) settlement mechanism.

### DID YOU KNOW?



Any transaction in securities (e.g Government bonds) must be followed by a post-trade flow of processes. These processes lead to the settlement of the trade, which means the delivery of securities to the buyer against the delivery of cash to the seller. CSDs allow the registration and safekeeping of securities; will enable the settlement of securities in exchange for cash; track how many securities have been issued and by whom; and track each change in the ownership of these securities.



## DEVELOPMENT AREA 2: Enhancing Other Traditional Securities Markets

In addition to developing the Government bond market, it will be necessary to enhance other markets for traditional securities: equities and corporate bonds.



### DID YOU KNOW?

The development of traditional security markets (equities and bonds) is intended to strengthen Zambia's private sector. It is also in line with the stated goals of the 8NDP, which is to ensure diversified economic growth and reduce development inequalities.

Other than the Government bond market, other traditional markets that exist in the Zambian Capital Markets include the following:



Corporate Bond Market.



Equity Market.



Collective Investment Schemes/Unit Trusts.

#### Corporate Bond Market:

A corporate bond market is a marketplace where companies can raise capital by issuing bonds and investors can buy and sell these bonds.

#### How to grow it?

- Develop and implement a study on corporate bonds to get a better understanding of the financing needs of the Zambian business environment and how corporate bond activity can be encouraged to help meet those needs

#### Equity Market:

An equity market is a market in which the shares of companies are issued and traded

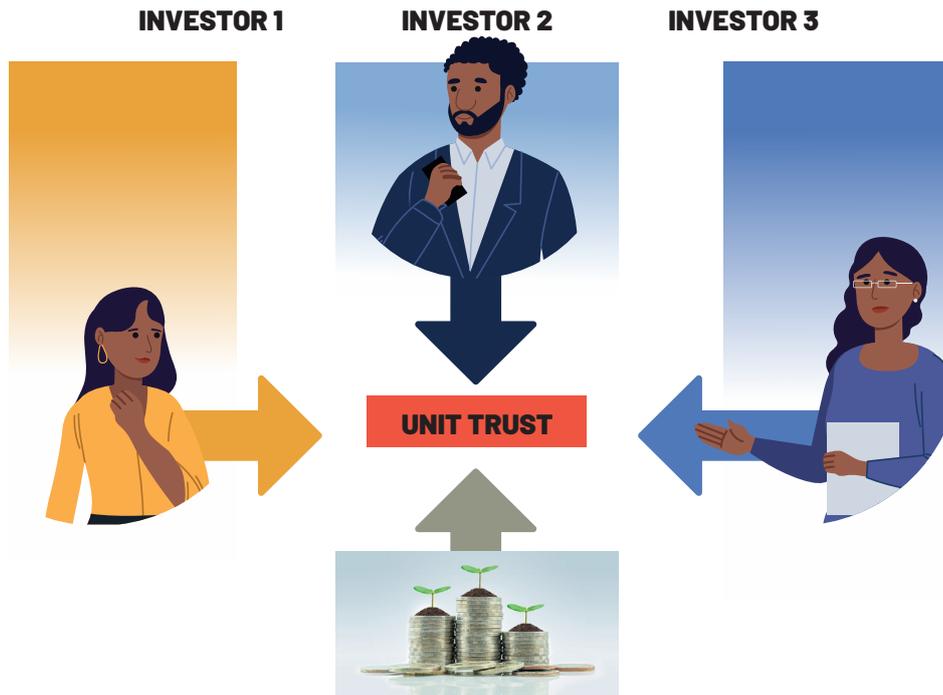
#### How to grow it?

- Make the market more attractive by hosting local and international roadshows in order to understand developments that are likely to attract greater interest from relevant participants
- Establish a consistent flow of businesses for nurturing, with the ultimate aim of eventually listing them on LuSE
- Adjust the requirements to list on LuSE such as the years that a business has been in operation or its level of profitability

**Collective Investment Schemes (CIS):** are based on the idea of pooling investor funds and investing these funds in a collection of assets, ranging across bonds, equities, real estate and money markets (e.g. treasury bills).

Enhance investor awareness of collective investment schemes to bolster uptake

- Conduct demand assessment to determine additional demand for CISs from investor base
- Conduct roadshow in order to promote uptake for CIS from pools of investor base where demand was gauged to be the strongest
- Consider formulation of a government-backed CIS
- Enhance regulatory and supervisory oversight over the CIS industry, including corporate governance structures, CIS Rules and Regulations and codes



## DEVELOPMENT AREA 3:

### Development of New and Innovative Products/Markets

A major aspiration in the CMMP is the development of new and innovative products and markets. The aim is to design customer centric products and market places that are suitable for Zambia’s business environment.



Enhancing Private Equity, Debt and Venture Capital.



Tracking and supporting of Capital Market Developments.



ETFs, REITs and Retail Bonds.



Securitization and Mortgage Refinancing.



Green Bonds.



#### What are Green Bonds?

Green Bonds are long-term debt instruments with funds earmarked explicitly for climate-friendly investments.



#### Why are the Green Bond important?

Given Zambia’s endowment, in terms of its rich biodiversity, the country is repositioning itself to become a global green investments hub. Doing so will allow for raising additional financing, specifically to fight the effects of climate change, which were raised as a crucial challenge for Zambia to address in Vision 2030.



Zambia can implement the following strategies to stay up-to-date with capital market innovations.



Adjust regulatory provisions for private equity and debt.



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



Create a committee to track capital market developments.



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

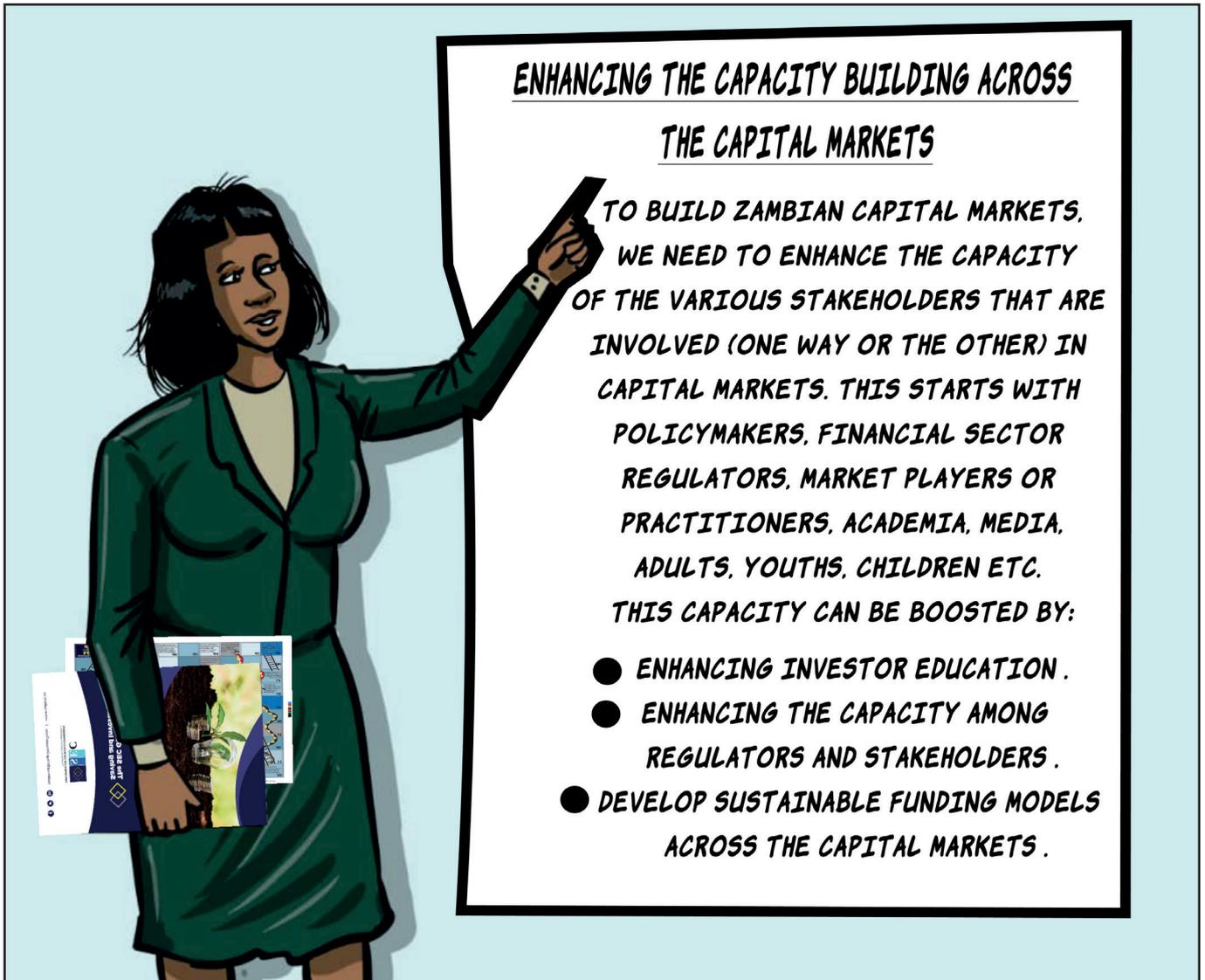


Develop framework for securitization and mortgage refinancing to improve liquidity.



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

## DEVELOPMENT AREA 4: Enhancing Capacity Building Across the Capital Markets



To enhance Zambian capital markets, we need to enhance the capacity of the various stakeholders that are involved (one way or other) in capital markets. This starts with policymakers, financial sector regulators, market players or practitioners, academia, media, adults, youths, children, etc. This capacity can be boosted by:



Enhancing the capacity among regulators and stakeholders.



Enhance investor education.



Develop sustainable funding models across the capital markets.

## DEVELOPMENT AREA 5: Enhancing the Capital Market Regulatory Environment

A sound regulatory environment is essential to:



Predict investment outcomes.



Increase investor confidence.



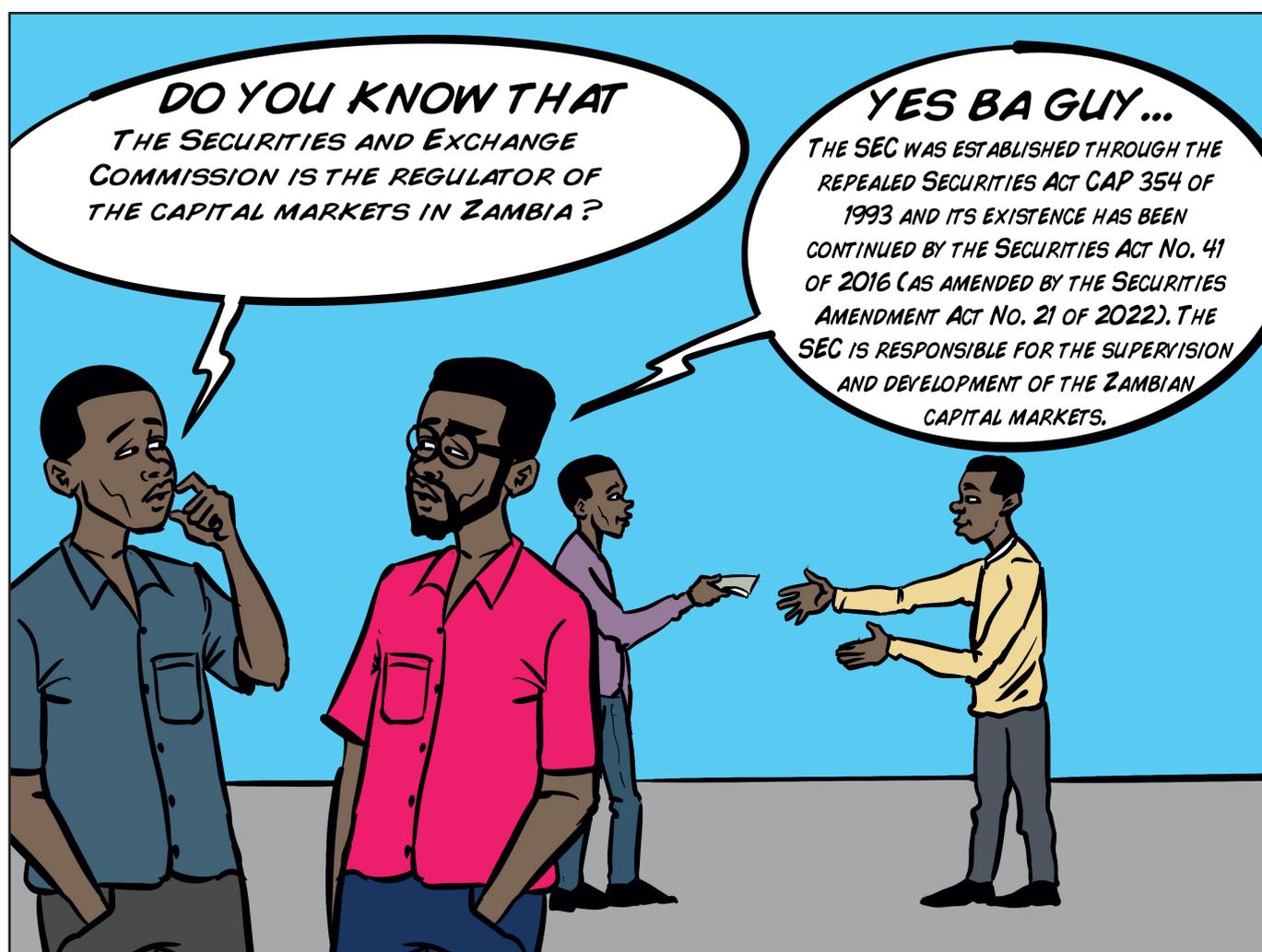
Improve supply and demand for capital.



Grow the economy through local and international participation.

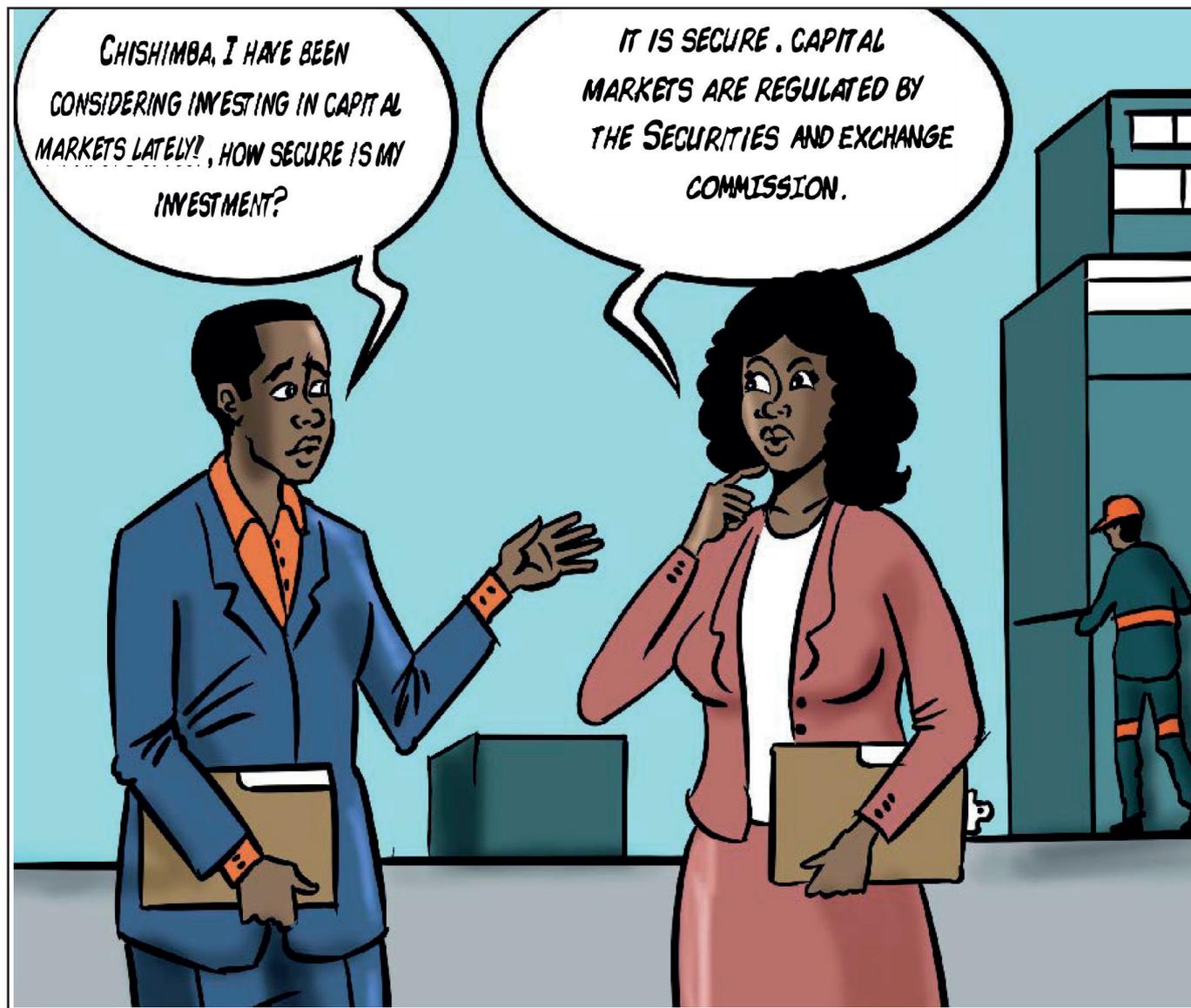


Green Bonds.



### Why are Regulators Important?

The Securities and Exchange Commission plays a key role in capital markets as they supervise and provide oversight to the market and ensure that practitioners conduct themselves at the level of international best practice. They also provide investors with knowledge about the investment opportunities available to them within the capital markets.



## How will the Securities and Exchange Commission be strengthened?

In light of the above, it is important to ensure that relevant regulatory interventions underpin efforts at capital market development. 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, the protection of investments is an important signal to both local and international markets. It should subsequently be strengthened, both at a local level (for minority shareholders) and for foreign investors.





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