SECURITIES AND EXCHANGE COMMISSION
Protecting Investors in the Capital Markets

Impact Capital for Development

TERMS OF REFERENCE

UNCDF/SEC Zambia

Developing Zambia's Domestic Capital Market to Spur Local Development

I. Preamble

The following Terms of Reference (ToR) outlines the scope, objectives, responsibilities, and expectations of the Securities and Exchange Commission (SEC) Zambia and the United Nations Capital Development Fund (UNCDF) ("cooperating parties") involved in joint initiatives as outlined herein. The cooperation and proposed joint initiatives are founded on an existing Memorandum of Agreement (MoA) under Article II: Areas of Cooperation whereby "The Parties may, by mutual agreement add more areas of co-operation within the scope of their respective mandates".

This document serves as a guide to ensure clarity and alignment among both collaborating parties. The purpose of this collaboration is to achieve specific objectives through a joint effort, utilizing the expertise of each party. It is the intention of both parties involved to work together in a collaborative and impactful manner to achieve the desired outcomes.

The Terms of Reference will serve as a living document that will be reviewed and updated as necessary throughout the duration of the MoA. By agreeing to these Terms of Reference, all parties acknowledge their commitment to the project and their agreement to work together in good faith towards achieving the desired results.

II. Background

Brief description of the joint initiative

Zambia's New Dawn Government has signalled its commitment to identify workable solutions that will help reduce debt vulnerabilities and economic and climatic shocks. Further, Government's ambition and political will has created significant momentum around decentralization (by devolution) and local governance. This position is reiterated in Zambia's 8th National Development Plan (8NDP) that recognizes decentralization reform as key to the realization of the 8NDP's Strategic Development Areas.

Sub-national Governments (SNGs) play an important role in the delivery of fundamental basic public services and ultimately driving local development. Population growth, rural-urban migration, high rates of urbanisation and unemployment place increased pressure on local service delivery, especially across urban centres in Zambia. Financing local development requires sustainable financing. SNGs are typically funded through the three main sources – taxes, transfers from central government, and official development assistance. Policies and strategies that encourage capital formation and attract investment are important for promoting capital accumulation.

The Financing for Sustainable Development (Addis Ababa Action Agenda) and the Doha Programme of Action for the Least Developed Countries, 2022–2031 both emphasize the importance of mobilizing financial resources, including public and private resources, to finance sustainable development initiatives. This includes promoting domestic resource mobilization, increasing international cooperation, and leveraging innovative financing mechanisms such as public-private partnerships and impact investing. Second, both frameworks recognize the importance of building and strengthening institutions that support sustainable development, including financial institutions at the sub-national level. The Doha Programme specifically calls for the establishment and strengthening of regional development banks and municipal finance authorities, while the Addis Ababa Action Agenda emphasizes the need for robust financial systems and institutions that can support sustainable development financing. Third, both frameworks call for increased support for capacity building and technical assistance to strengthen financial systems and institutions, including those at the sub-national level. This includes efforts to improve governance, enhance transparency and accountability, and promote financial inclusion. Finally, both frameworks emphasize the need to address systemic issues that limit progress in financing sustainable development, including issues related to debt sustainability.

Borrowing on-balance sheet does not offer a sustainable or long-term solution to SNGs financing needs. Domestic capital markets have the potential to provide sustainable long-term financing for local transformative infrastructure.

In Zambia, there is heightened awareness of the challenges surrounding municipal bonds and discussions on special purpose vehicles (SPVs), which have been ongoing since the early 1990s but have achieved limited success. However, the resurfacing of these discussions, bolstered by international and national development agendas to find alternative sources of financing.

It is important to capitalize on the momentum created by the new government to sensitise, raise awareness, and build understanding around alternative mechanisms for financing local development in Zambia. The Ministry of Finance and National Planning working together with the apex regulator for Zambian capital markets – the SEC, recently launched i its Capital Markets Master Plan (CMMP). The CMMP provides a useful entry point for further engagement with partners and stakeholders, including the government.

During official UNCDF missions to Lusaka in October 2022 and March 2023, UNCDF and SEC held discussions and it is within the above outlined context that both institutions identified synergies and areas of potential cooperation that could help strengthen Zambia’s domestic capital markets.

About the collaborating organizations

UNCDF

UNCDF has been present in Zambia since 1987, establishing a local presence in 2015 working closely with both public and private sector players to drive financial inclusion, promoting accessible digital economies, and more recently, supporting Zambia's decentralisation agenda with a focus on sub-national financing.

UNCDF works to invest and catalyse capital to support LDCs in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development, the Financing for Sustainable Development (Addis Ababa Action Agenda), and the Doha programme of action for the least developed countries, 2022–2031.

Under its Local Transformative Finance practice, UNCDF provides technical assistance, catalytic financing support, and risk mitigation strategies to structure financeable transactions in key sectors such as water, clean energy and clean cooking solutions, agriculture, industries and trade, climate adaptation, small-to medium scale local infrastructure (e.g., markets, bus terminals, fisheries).

SEC Zambia

SEC Zambia is responsible for the supervision and development of the Zambian Capital Markets, as well as licensing, registration and authorization for financial intermediaries, issuers of debt and equity instruments and collective investment schemes.

Following a series of capital markets development initiatives, the SEC Zambia together with other stakeholders held an inaugural Capital Markets Indaba in 2017 under the theme ‘Repositioning the Zambian Capital Markets as an Enabler to Achieving Sustainable and Significant Economic Growth’ with an objective to deliberate factors inhibiting the growth of the capital markets in Zambia and to recommend the necessary steps to address the identified weaknesses. The key outcome of the Indaba was the need for Zambia to develop a comprehensive long strategy for Capital Markets development, as was done other peer nations such as Kenya, Rwanda and Malaysia among others, that had made notable progress in developing their capital markets through such long-term capital markets development strategies.

SEC Zambia, in collaboration with the Ministry of Finance & Planning (MoF&P) embarked on developing the Capital Markets Master Plan ("CMMP"). The CMMP, which was launched in February 2023, contains the objective 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 Eighth National Development Plan ("8NDP") (and successor plans) and Vision 2030. The plan includes activities related to enhancing the capital market regulatory environment which includes development of reporting standards amongst others.

Purpose of the joint cooperation

This joint cooperation aims to leverage the comparative strengths of our institutions towards achieving a common goal: *a strengthened capital market that allows sub-national government authorities and entities, and the private sector to raise public and private financing for local development*.

Non-sovereign bonds can provide an alternative financing source for Zambian sub-national governments and entities that is less dependent on external funding and reduces their exposure to global market volatility and other external risks. By enhancing access to domestic finance through the capital market, local fiscal space can be built, and a more robust financial ecosystem can be established, which promotes sustainable development and reduces poverty. This, in turn, fosters local economic development, attracts investment, and ultimately leads to greater prosperity for the country.

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III. Scope of Work

The table below provides a high-level summary of our joint collaboration. This has been developed in line with UNCDF's strategic mandate as a sub-national financing hub and key components of SEC's capital market master plan (CMMP) – in particular, Strategic Initiative 3.6: Green Bonds.

Impact	Zambia has a strengthened domestic capital market that allows sub-national government authorities and entities, and the private sector to raise public and private financing for local development projects	
Outcomes	1. Sub-national government authorities and entities, private actors, and other capital market ecosystem actors have an increased understanding and awareness of bond instruments, enabling them to effectively leverage bond financing for local development projects.	2. Sub-national government authorities and entities have strengthened institutional capacities to develop and implement bond instruments, fostering their ability to access public and private financing for local development initiatives.
Outputs:	Development of a comprehensive Sub-National Revenue Bond Framework	Issuance of municipal green (revenue) bond
Broad Activities	• UNCDF & SEC will jointly organize a workshop for key stakeholders to sensitise and raise awareness on sub-national municipal revenue bonds. • Establish a National Task Force for Municipal Bonds. • UNCDF & SEC will collaborate with relevant stakeholders to develop a comprehensive framework that outlines the guidelines and procedures for sub-national revenue bond issuance in Zambia.	• SEC and UNCDF will identify eligible green project suitable for financing through municipal green bonds. • UNCDF will provide technical assistance support to issue the bond, which will include project structuring, including SPV and governance structuring for the identified sub-national government or entity's project ensuring it aligns with green bond criteria and attracts investor interest. • UNCDF & SEC will conduct investor roadshow.

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IV. Frequency of communication

UNCDF and SEC will hold bi-weekly touch base meetings that will be used to track activity progress.

Points of contact for each institution are as follows:

SEC

- Dingase Makumba, Manager – Market Development, dmakumba@seczambia.org.zm
- Mubanga Kondolo, Manager – Financial Inclusion, mkondolo@seczambia.org.zm

UNCDF:

- Jennifer Mbarawa, Investment Officer, jennifer.mbarawa@uncdf.org

VII. Approval and Sign-off

UNCDF

Name: Peter Malika

Designation: Senior Technical Advisor for the Local Transformative Finance Programme, Southern Africa

Signature: DocuSigned by:
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Date: 23-Jun-2023

SEC Zambia

Name: Phillip Chitalu

Designation: Managing Director

Signature:

Date: **22.06.2023**