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Zambia Country Report

For the SADC-DFRC 3P



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1 Overall evaluation of Zambia’s readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six (‘6’) broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three (‘3’) countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

On the country visit we met with Zambia’s PPP unit (Director Dr Stephen Gumboh on 21 June and 11 July), one bank (Stanbic 21 June) and the KPMG local office representatives (ongoing).

Each sub-category was rated either one (‘1’), two (‘2’), three (‘3’) or four (‘4’) based on the indicators from various reputable sources. Where one (‘1’) and two (‘2’) refers to “Developing towards PPP readiness” and three (‘3’) and four (‘4’) indicates a “Maturing level of PPP readiness”. Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of the member countries

Attractiveness of the member country	Source of information	Information
GDP % growth for last 3 years	World Bank	6.50%
Actual GDP in numbers (size of economy), current USD\$	World Bank	19,206,044,932
Lending Interest rates	World Bank	18.8
Inflation rate	www.tradingeconomics.com/country-list/inflation-rate	7.00%
Credit Rating	Moodies, S&P, Fitch on http://www.tradingeconomics.com/zambia/rating	B1

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Political Stable and Absence of Violence	Governance indicator, World bank	61.8
Macro-Economic Environment	The Global Competitiveness Report 2012-2013, World Economic Forum	4.65

Attractiveness of Zambia, overall result is a three ('3')

Zambia has a GDP of US\$19,206 million and has sustained close to 7% year on year growth over the last three years on the back of much improved political stability and macro-economic climate. The GDP per capita remains low at US\$1,600 and the sovereign credit rating is sub-investment grade at B+ (S&P). This analysis results in an overall value of three ('3'), Zambia is thus considered "maturing" in terms of this category

1.3 Availability of domestic capital and debt funding

Availability of domestic capital and debt funding	Information	Source of information
Number of banks	19	Country visit
Number of equity investment funds	Only micro funds	Country visit
Number of pension funds	50+ company schemes	Country visit
3 year history of bond issuance	Very successful \$750m bond issue in 2012	Country visit
Assessment of available capital (local) for investment	Minimal/no local funds for capital investment, small amounts for working capital/minimal equity investment	Country visit

Availability of domestic capital and debt funding in Zambia, overall result is a three ('3')

Zambia has a limited domestic debt market and although there are some 19 banks in the country they have limited ability to make the substantial and long term loans necessary for infrastructure. The equity market is small and fragmented and although there are a number of institutional investors (primarily pension funds) the local equity investments are also likely to be very limited. This analysis results in an overall value of three ('3'), Zambia is thus considered "maturing" in terms of this category

1.4 Judicial system

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Judicial system that contributes to effective commercial dispute resolution	Information	Source of information
Enforcing Contracts (country ranking from 1 to 185)	89	Doing Business 2013 – The World Bank and IFC
Rule of Law (rating from 1 to 100)	39.4	Governance indicator, World bank

We used the key indicator ‘Enforcing Contracts’ from Doing Business as they focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

Judicial system of Zambia, overall result is a two (‘2’)

Zambia ranks 89th in enforceability of contracts and scored 39.4 out of 100 in application of the Rule of Law. This analysis results in an overall value of two (‘2’), Zambia is thus considered “developing” in terms of this category

1.5 Governance and decision making

Governance and decision making in member country	Information	Source of information
Institutions	4.09	The Global Competitiveness Report 2012-2013, World Economic Forum
Africa’s Governance	59	Ibrahim Index of African Governance
Voice and accountability	42.3	Governance indicator
Government effectiveness	29.9	Governance indicator
Regulatory Quality	36.5	Governance indicator
Control of Corruption	37	Governance indicator

Governance and decision making of Zambia, overall result is a two (‘2’)

Zambia was given a rating of 58 out of 100 for governance by the Ibrahim Index of African Governance and a government effectiveness rating of 29.9. This analysis results in an overall value of two (‘2’), Zambia is thus considered “developing” in terms of this category

1.6 Ease of doing business in the member country

Ease of doing business in the member country	134	Source of information
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¹ Doing Business 2013, the World Bank and IFC

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Starting a business	74	Doing Business 2013 – The World Bank and IFC
Dealing with Construction permits	151	Doing Business 2013 – The World Bank and IFC
Getting electricity	151	Doing Business 2013 – The World Bank and IFC
Register property	96	Doing Business 2013 – The World Bank and IFC
Getting credit	12	Doing Business 2013 – The World Bank and IFC
Protecting investors	82	Doing Business 2013 – The World Bank and IFC
Paying taxes	47	Doing Business 2013 – The World Bank and IFC
Trading across borders	156	Doing Business 2013 – The World Bank and IFC
Resolving insolvency	99	Doing Business 2013 – The World Bank and IFC

Ease of doing business in Zambia, overall score is a two ('2')

Zambia is 74th out of 185 countries in the world in terms of ease with which to start a business and is ranked 82nd for protecting investors. It is 12th in terms of access to credit and 151st for the ease of dealing with construction permits.

This analysis results in an overall value of two ('2'), Zambia is thus considered “developing” in terms of this category

1.7 PPP environment in the member country

Enabling environment in the member country for PPPs		Source of information
Legal system enabling PPPs in the member country		Country visit
- Is there a presence/development of enabling legislation ie PPP Law/regulations etc?	There is a PPP Act (2009) and Policy. Also an Operational /Procurement Manual was drafted but needs updated.	Country visit
- Does a policy for private participation in the member country exist?	Yes see above.	Country visit
Public Sector appetite/capacity and experience relating to PPPs in the member country		Country visit
- Is there Political support for PPPs?	The previous administration was supportive, the impression is the current one is less so.	Country visit
- Is there a PPP focal point/ Unit in the member country?	There has been a PPP Unit for some years, under the MoF, though there are plans to move it to the Zambia Development Agency. Most Ministries in theory have a contact point too.	Country visit

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- Does an existing PPP track record in the member country exist?	A number of PPP projects (definition in a broad sense, and building on the privatisation programme in the 90's) were launched but all have been cancelled. eg. The concession of the national railways. Lessons learnt including poor structuring and then administration of contract performance.	Country visit
Private sector capacity, capability and appetite		Country visit
- Are multiple firms active in the PPP market?	Considerable interest to tenders, but dominated by international firms	Country visit
- Does capacity exist in the private sector?	Very little, local firms will support international ones when bidding.	Country visit

PPP environment in the Zambia, overall score is a three ('3')

There is a PPP Act (2009) and a PPP Unit within the Mistry of Finance, although this may be relocated to the Zambia Development Agency. The history of PPP-type projects implemented to date is not good with a number of cancelled contracts including the Zambian national rail concession. This analysis results in an overall value of three ('3'), Zambia is thus considered "maturing" in terms of this category

1.8 Observations

Our results are based on the most recent verifiable information available at time of the report

Reputable external sources were used where appropriate and fact based observations were made.

Representative of the member countries PPP units did not recognised the projects identified in the RIDMP and STAP

1.9 Conclusion

The macro-environment for PPP's in Zambia is very positive with many of the fundamentals in place, for example a stable political environment and broad regulatory and legal environment, the necessary specific PPP laws and policy, and a pipeline of projects. Furthermore there have been many years of effort and capacity building both in the central PPP unit (a good number of certified PPP practitioners), but also in the individual ministries, many of which have a PPP contact or desk which is meant to link to the PPP unit in the delivery of the projects.

The impression is that the current political administration does not place the PPP model as their top priority as they seek to deliver a raft of infrastructure projects and programmes. The impression is that some of the positive aspects of the PPP model are not very well understood at the political level, and there are some negative perceptions eg. Complexity of deals, loss of control to the private sector, and long and expensive procurement processes. However the PPP model is seen to have a place and projects have been identified.

Overall Zambia is thus considered "maturing" in terms of this assessment.

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