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FLEXIBILITY IN THE FACE OF CHANGE

Cecilia Zimba
ZICA PRESIDENT

> The Institute values your support and will continue to involve members in matters of public interest for the betterment of our key stakeholders.

IT IS MY pleasure to address you professional accountants as we embark on the New Year, 2022, with fresh resolutions and aspirations to improve the profession and the environment in which we operate.

I take this opportunity to thank all our members and stakeholders for the continued support to the institute and its programmes.

The end of one year and the start of another inspire us to reflect naturally on many things we have done, those we could not do, what we could have done better, the lessons learnt over the period and so forth. The end of the year typically is filled with wrapping up projects while wrapping presents, planning strategic initiatives for the coming year. Without stating the obvious, 2021 has been a challenging year marked by historical events and unforeseen changes to work and home lives; it was also a year of learning for all of us, either as a team or at individual level.

In looking ahead, it is imperative that we reflect on the year that turned out much different than anyone could have imagined. While it was certainly challenging in many ways, it also showed how strong and resilient we are as individuals and the Institute at large even under the toughest of times.

It was not an easy managing both the safety of our employees and the increased use of our networks and platforms, all the while continuing to provide uninterrupted customer experience and great content through virtual accountant's forums and various stakeholder engagements. We have learnt that the Virtual life can be successful and productive. However, there is an acknowledgement that personal interaction is important and this pandemic has pushed well-being and mental health higher up the agenda. The reliability of the service we provide and the quality of the content we offer defines us and we rose to the challenge and our networks and platforms passed the test. And as an organisation, we proved to be both robust and extremely flexible in the face of change.

I wish to take this opportunity to thank members for responding to the call from the Institute for the 2022 national budget submissions and for the collaborative efforts in championing amendments to the ZICA constitution. The Institute values your support and will continue to involve members in matters of public interest for the betterment of all our key stakeholders. I also want to thank all the members that have responded to our call for Curriculum Vitae for possible placement on various boards and it is my pleasure to congratulate those members that have successfully been appointed to various boards on recommendation from the Institute.

The accountancy profession continues to be a pillar of strength and support to businesses and provides the opportunity to further cement their role outside the purely financial environment. The agility and flexibility with the profession worked during the pandemic, while maintaining effectiveness, demonstrates that we can change and adapt when required.

In 2022, the Institute will continue to prioritise initiatives to strengthen regulation and development for the benefit of our members and stakeholders and to support sustainable nation building. The Institute through its members has reached highpoints, not without reason but through connecting with various stakeholders. The future of the profession lies in your hard work and ethical conduct that can take you to success and help the profession to grow. The Institute and its members need to work in tandem to achieve and deliver to the needs of business, society and the nation.

I wish to inform you that the Institute concluded the recruitment of the new Secretary and Chief Executive. Mr. Anthony Bwembya takes up the mantle from Mr Bonna Kashinga on 1st January 2022. I implore all members to give him full support as he leads ZICA into the future.

I implore all our stakeholders to continue adhering to the five golden rules of the fight against the COVID-19 pandemic. With optimism, it is as important as ever that we as individuals and a body corporate follow safety precautions to stop the spread of this deadly virus that has claimed millions of lives worldwide and hundreds here at home. The effects of the pandemic are far-reaching and the devastation in companies, economies is evident. Therefore, we must all take responsibility to halt the spread of this pandemic even as the world works to find a lasting solution.

Let us work collaboratively to take the profession to new heights in 2022. I wish you all a happy and prosperous year ahead. ■

CECILIA ZIMBA
ZICA President

GOVT MUST DRIVE A NATIONWIDE CAMPAIGN FOR A GREEN ECONOMY

CLIMATE Change and Green Economy are two concepts that have gained prominence in recent times. Climatic changes have varying effects on economies of countries, including Zambia.

The inescapable realities of climate change manifest in changed rainfall patterns and other climatic conditions and rising temperatures. Zambia has not been spared by the global conditions.

The country has been experiencing adverse impacts of climate change, including an increase in frequency and severity of droughts, dry spells, increased temperatures, floods and changes in the growing season, largely attributable to activities by man that have devastating effects on the environment.

According to the Climate Knowledge Portal, Zambia's economy is predominantly dependent on exploitation of its natural resources, particularly through mining and forestry.

"Zambia's climate is highly variable and over the last few decades has experienced a series of climatic extremes, e.g. droughts, seasonal floods and flash floods, extreme temperatures and dry spells, many of these with increased frequency, intensity and magnitude. Their impacts on the country are evident in climate-induced changes to physical and biological systems, which increasingly exert considerable stress on the country's vulnerable sectors, especially agriculture. As such, rainfall variability remains a key structural risk to Zambia's sustainable growth, affecting key sectors like agriculture and electricity, and highlights the need to incorporate climate-smart solutions in Zambia's long-term growth strategy *(https://climateknowledgeportal.worldbank.org/country/zambia)*.

And the Zambia Climate Action Report 2016 by Irish Aid indicates that Climate-induced changes to physical and biological systems are already exerting considerable stress on the country's vulnerable sectors.

It indicates that agriculture and food security, wildlife, forestry, water and energy, health and infrastructure have been adversely impacted, thereby affecting the economic, social, and environmental dimensions of sustainable development efforts. "The Notre Dame Global Adaptation Initiative (ND-GAIN) Index ranks Zambia as the 34th most vulnerable and 69th least ready to adapt to climate change, of the countries it covered for 2015," according to the report, which further states that climate variability undermines attempts to reduce poverty and food insecurity, since most of Zambia's poor population consists of rural small-scale farmers who rely on agricultural incomes (and even some urban areas rely on agriculture as the main source of livelihood).

The report warns that impacts of climate change, if not well addressed in the short and long term, will affect agricultural productivity and economic development.

"Policies and programmes on climate change are largely in place together with relevant governance and institutional structures, but the challenges of integration of climate change across all sectors, as well as implementation of policies, remain," reads the report *(https://www.irishaid.ie/media/irishaid/allwebsitemedia/30whatwedo/climatechange/Zambia-Country-Climate-Action-Report-2016.pdf)*.

Patricia Hantumba
ACTING SECRETARY AND CHIEF EXECUTIVE

We are elated that the new Zambian government is alive to the realities of climate change and has made pragmatic decisions to prioritise issues of climate change and the environment through establishment of the Ministry of Green Economy and Environment. The challenges are real and enormous, requiring concerted national and global efforts to resolve.

We are looking forward and we call for urgent policies and laws that will make citizens more aware of the effects of climate change and support initiatives aimed at preserving and promoting a green economy.

It is the small changes that we make in our lifestyles that will make a huge difference. Issues like innovative waste management have a potential to create wealth and employment opportunities. Government must therefore drive a nationwide campaign for a green economy and join the rest of the world in countering the effects of climate change. As an Institute, we are advocating for ESG (Environmental, Social and Governance) Reporting as these non-financial factors are critical in identifying material risk and growth opportunities for investors.

According to a 2011 OECD report, Green Growth means fostering economic growth and development, while ensuring that natural assets continue to provide their sources and environmental services on which our well-being relies.

According to the OECD, we need green growth because risks to development are rising as growth continues to erode natural capital. If left unchecked, this would mean increased water scarcity, worsening resource bottlenecks, greater pollution, climate change, and unrecoverable biodiversity loss" (OECD Secretary-General Angel Gurría in *Towards green growth summary for policy makers May 2011*).

Gurría posits that non-technological changes and innovations such as new business models, work patterns, city planning or transportation arrangements will be instrumental in driving green growth.

"No government has all the technological, scientific, financial and other resources needed to implement green growth alone. The challenges are global, and recently we have seen encouraging international efforts to tackle environmental issues collectively, including the path-breaking Cancun agreements to address climate change."

According to the OECD, efficient resource use and management is a core goal of economic policy and many fiscal and regulatory interventions that are not normally associated with a "green" agenda will be involved in green growth.

It identifies two broad sets of policies essential in any green growth strategy: "The first set consists of broad framework policies that mutually reinforce economic growth and the conservation of natural capital".

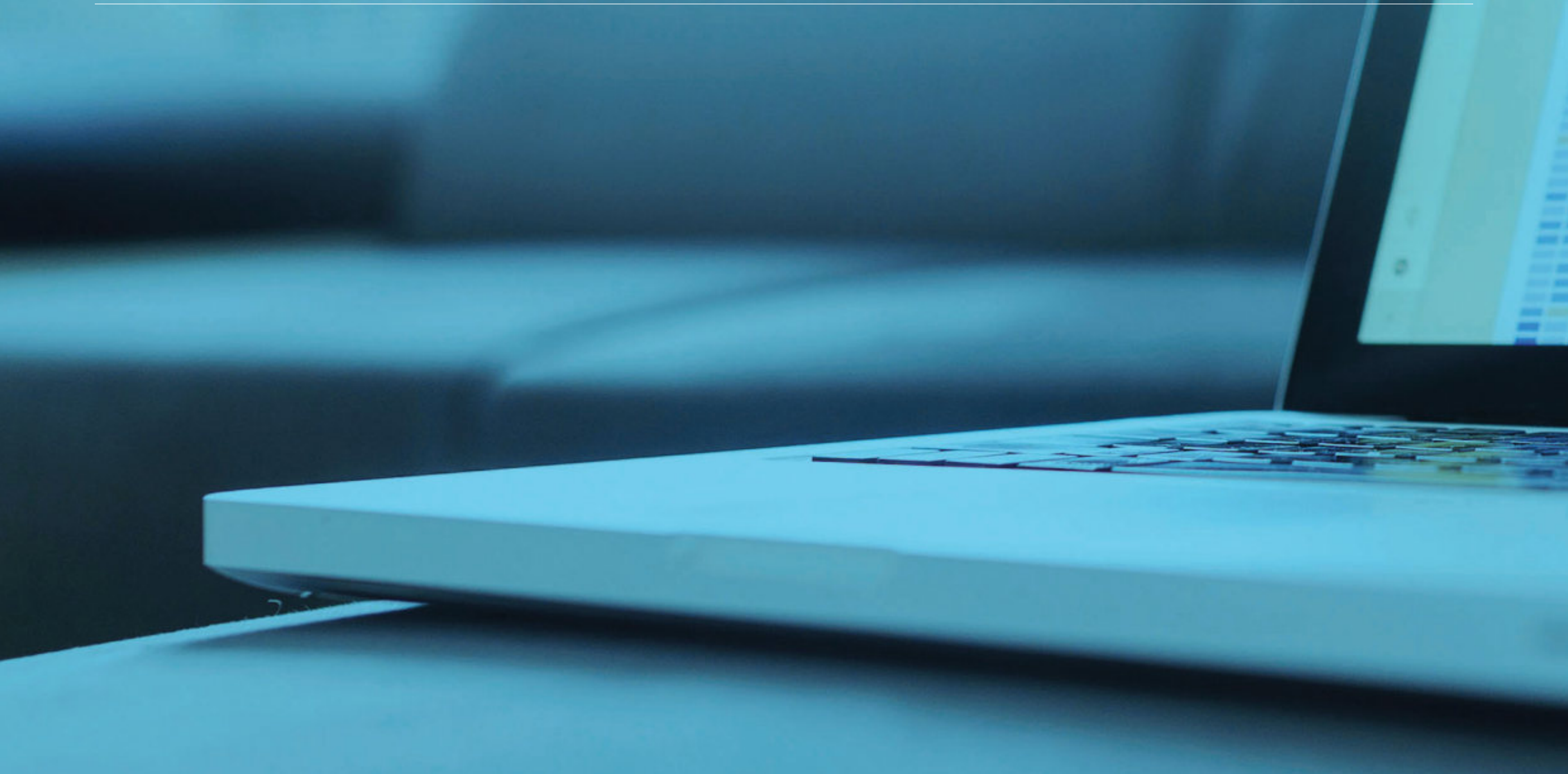
These include core fiscal and regulatory settings such as tax and competition policy, which, if well-designed and executed, maximise the efficient allocation of resources.

The second set, according to the OECD, includes policies providing incentives to use natural resources efficiently and making pollution more expensive.

"These policies include a mix of price-based instruments, for instance environmentally-related taxes, and non-market instruments such as regulations, technology support policies and voluntary approaches. While national circumstances will differ, putting a price on pollution or on the over-exploitation of scarce natural resources – through mechanisms such as taxes or tradable permit systems –should be a central element of the policy mix. Pricing mechanisms tend to minimise the costs of achieving a given objective and provide incentives for further efficiency gains and innovation. Increased use of environmentally related taxes can play an important role in growth-oriented tax reform by helping to shift part of the tax burden away from more distortive corporate and personal income taxes and social contributions. Taxes on energy and CO2 can also be a part of a wider fiscal consolidation package, offering an attractive alternative to higher taxes on labour or business income or cuts in public expenditure."

The OECD posits that the responsiveness of businesses and consumers to price signals can, in many situations, be strengthened through information-based measures that highlight the consequences of environmental damage caused by specific activities and the availability of cleaner alternatives.

"Environmental impacts are also cumulative and sometimes irreversible. Action taken now to insure against unfavourable, irreversible or even catastrophic outcomes can avoid significant economic costs in the future," according to the OECD *(https://www.oecd.org/greengrowth/48012345.pdf)*. ■



TRANSFORMING THE FINANCIAL SERVICES SECTOR INTO A CATALYST FOR REAL SECTOR DEVELOPMENT IN ZAMBIA

BACKGROUND AND INTRODUCTION

THIS article is premised on the proliferation of court cases where various banks have taken their clients to court for failure to pay back loans. This is an endemic problem in Zambia and borrowing money from commercial lenders is the surest way to "kill" a private sector company.

Recently, the Development Bank of Zambia has indicated that it will take two clients to court to recover principal and interest amounts owed. In one particular incident, the principal amount was K16 million and the interest accrued was around K87 million. Depending on the length that the loan had been outstanding (say somewhere between 5 – 10 years), the interest rates charged seem to have hovered between 100% and 50% annual compound. The question one will ask is when do we see interest rates fall to affordable single digits in Zambia and at levels that stimulate real sector development?

It has become clearly evident that our laggard status in global developmental efforts look ominously permanent and that indeed we seem intractably trapped in a cycle of poverty as a country.

It should be emphasized from the onset that this article is written from a non-technical point of view and is solely intended to stimulate a robust national dialogue on the substance of the matter herein. This also implies that there wasn't any attempt on the author's part to subject the premise suggested to any rigorous academic inquiry. This is more so in the context of a third world country such as Zambia with an economy with risks that include a high import dependency ratio.

The article is looking at the role the financial services sector, as financial intermediaries, in spurring economic growth in the real sector of our economy. The financial services sector itself has undergone what can be described as nothing short of phenomenal growth. The growth of the real sector, however, is one whose impact will be widespread, with tangible benefits accruing to larger segments of our population.

THE REAL SECTOR OF THE ECONOMY

This very critical sector of the economy that deals in tangible products continues to underperform in Zambia. This includes the mines, manufacturing industry, and most importantly the agricultural value chain. The latter, like every other sector, has ubiquitous low productivity, lack of support infrastructure, ineffective markets, etc. This is one sector, if performing well, will keep rampant inflationary pressures at very low levels. The real sector will also provide the much-needed mass employment.

The growth of this sector (one that is private sector driven) is severely constrained in Zambia largely because of high nominal interest rates and the critical lack of capital. It simply is not true that we are just lazy or we do not like paying back loans. What sort of returns will you have to earn to have the cash inflows to pay back such smothering interest rates?

I believe this is where a well-functioning banking sector as well as its ability to play its role as an effective financial intermediary will make a difference, a huge difference. Our financial system is unfortunately not performing this role.

MONETARY TOOLS

Two articles appeared in the papers early this year that implored the Bank of Zambia (BoZ) to either maintain or reduce the current monetary policy rate (MPR). Various reasons were advanced for those points of view. The BoZ ultimately reduced the MPR by 125 basis points to 8%. But did or will this reduction achieve its intended outcomes?

Just how effective is the MPR in its current form as a monetary tool? The ability of the BoZ to influence the level of interest rates in Zambia is very severely limited. There are basically two (2) scenarios that will undergird this state of affairs:

1. When interest rates are near to or at zero,
2. When commercial bank interest rates are too high and the interest rate spread between the MPR and commercial banks lending rates is very wide.

The monetary tools available to the Bank of Zambia to influence liquidity levels in the economy have become increasingly moribund (and maybe they have always been ineffective) and it is a matter of grave concern that this matter is not given the due attention it deserves. The Bank of Zambia's current strategic plan

combines strategic objectives (the strategic plan is obtainable from their website) for the BoZ as an institution as well as those that need to be achieved in the financial services sector as a whole. The latter are critical national strategic objectives that require a broader national input in their development and therefore should not be restricted to BoZ as an institution.

WHAT IS THE WAY FORWARD?

Structural rigidities in the financial services sector that continue to stifle real sector growth in Zambia include:

1. Endemic high interest rates in commercial lending,

2. Endemic large interest rate spread between savings and lending rates,

3. The large interest rate spread between monetary policy rate (MPR) and commercial bank lending rates

4. Commercial banks' huge appetite for GRZ securities (easier and safer),

5. The opposing influences of the need to provide liquidity to the economy and its perceived adverse impact on the exchange rate of the Kwacha as well as the resulting inflationary risks.

Item number five (5) above is solely responsible for the seemingly benign and conservative attitude that our central bank exhibits in the financial services sector. But this is not the time for inaction or business-as -usual measures but for state-of-the-art methodologies and boldness. The implementation of such bold measures will ultimately lead to fiscal space for the government that we all so desperately pray for.

Enter targeted quantitative easing (QE). The Bank of Zambia needs to grow its balance sheet in a carefully crafted and managed manner so as not to allow any stagflation risks to set in. A carefully implemented QE as a monetary tool will bypass the underperforming commercial banks by directly infusing liquidity into the economy to so-called quick wins sectors/programmes. These targeted high potential economic sectors have very low import content (but with high export potential) and very high rewards in the shortest possible time. The agricultural value chain is one such sector. It takes only about six (6) months to reap tangible rewards of investments in the agriculture sector. This is true of investments in say, soya beans production.

The QE will result in the following:

1. The reduction to single digits, of lending rates in the economy.

2. The growth in productivity and overall production of the agricultural sector.

3. The BoZ will gain the much-needed ability to influence the level of interest rates in the economy through the operation of the MPR. The MPR and the commercial bank lending rates will converge in much the same way foreign exchange rates have converged between black market, forex bureaux and commercial banks.

4. Wide spreads between savings and lending rates will be reduced. This will encourage savings.

5. And the biggest prize will be the growth of the real sector and employment

The K10 billion BoZ facility will have a neutral effect on the economy largely because it has been channeled through the commercial banks. It is therefore hardly surprising that only a tenth (i.e. K1 billion) or so of the total has been disbursed so far.

The BoZ will have to grow (through QE) its balance sheet by doing the following:

1. Buying of GRZ securities. The commercial banks will be eased out of the market and they will have to find innovative ways of making money.

2. Buying of corporate bonds in targeted quick wins sectors such as the agricultural value chain players.

3. Other direct interventions such as disbursing the K10 billion directly and not through commercial banks.

Exchange rate and inflationary risks will be there but these will reverse once the anticipated quick wins outcomes are achieved in the targeted sectors. ■

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ACCELERATING AFRICAN DEVELOPMENT: A ZAMBIAN PERSPECTIVE

By Safwali M. Wanchinga (AZICA)

ABSTRACT

This article attempts to suggest ways in which Africa can catch up with the developed world. It bases its discussion on Zambia, which is a fairly typical African country. The article is in two parts. The first is a discussion on the mindset required for accelerated development and growth. The second focuses on specific suggestions within the education sector on how the education process can be speeded up as a tool towards development. This article is the first in a series of three articles, the second focuses on key sectors of the economy such as agriculture and commerce while the third focuses on cross-cutting polices that may accelerate development across the economy.

KEY WORDS

Africa, Zambia, economic development, accelerated growth

INTRODUCTION

When we look across the African continent, we see abundant mineral resources, land and water resources, a young and vibrant population, all the ingredients of a continent capable of looking after itself and the rest of the world. However, a closer look at the continent reveals that Africa is lagging behind in development. This article attempts to answer why Africa is underdeveloped and more importantly, what it can do in order to accelerate its economic development.

UNDERSTANDING THE DEVELOPMENTAL MINDSET: DUALISTIC THEORY

Professor J. H. Boeke, in his dualistic theory of economies, explains that developing countries are charaterised by two distinct cultures, one which is relatively urban and reminiscent of the colonial era, the other which is rural, underdeveloped. He argues that modern development theory only applies to the modern part of such economies but does not apply to the rural setting because the goals and aspirations of rural life are different from those of urban life e.g. farming for prestige rather than economic gain (Vidya-mitra, 2018). Therefore, the biggest factor that must be changed in order to develop in a modern sense is to change traditional attitudes. Underdeveloped countries that are able to change their attitudes eventually develop, such as South Korea, whereas countries that do not change their attitudes do not develop, despite having abundant resources such as Zambia. Professor Boeke compares Zambia to South Korea and argues that the two countries were at the same point but after 30 years, South Korea far excelled over Zambia due to its change in cultural practices, despite Zambia having more natural resources (Mbah, 2020). This is the reason mineral rich countries such as the Democratic Republic of Congo remain underdeveloped and countries with few natural resources but with suitable cultures such as Indonesia continue to develop.

Therefore, if Africa is to accelerate its economic growth, it must think outside the box of its current cultural practices, both in the urban and rural societies. Careful thought must be placed on which cultural practices add value and which ones do not. A value mindset will help Africa make fundamental, innovative and revolutionary decisions that can accelerate economic development rather than hold on to past precedence which may not have material benefits for society. For example, should African countries only work eight hours a day as per colonial heritage? Should adult education be only delivered to "literate" adults? What value to society do the blonde wigs worn by judges have? Africa should not replicate its past practices without evaluating the true benefits to society.

If Africa is to catch up with the developed countries, it must grow at a pace faster than the developed countries. When western development models are implemented in their original form, the rate of growth will be gradual as explained by western development models such as Rostow's Theory of Economic Growth. Africa therefore needs to re-engineer western development models in order to grow three to four times as fast and catch up. To illustrate this; if developed countries work eight hours a day, African countries should work 10, 12 or 24 hours a day in order to increase economic output by simply increasing the number of productive hours in a day. Like an athlete who must run twice as fast as the leaders of the race in order to catch up, so Africa needs to work twice as hard as the developed world.

Increasing hours of work also increases the rate of employment as some jobs shall be required to be conducted through shifts. New York, a city that never sleeps, operates on a 24 hours basis. How will Africa catch up when New York is working 24 hours a day and Africa is working for only eight hours? African local authorities should not restrict business operating hours but should instead protect and promote business activity. For instance, Zambia buses should not be stopped from moving at night due to road accidents but should instead be fitted with protective mechanisms such as GPS trackers which can monitor the speed of the bus 24hours a day. The regulatory authority simply receives a message once a particular bus exceeds a specified limit such as 60 or 80 kms per hour during the night. Regulations should encourage, protect and manage business activity rather than restrict it because restricting business activity slows down economic growth and development. Likewise, selected business areas can be allowed to work on 24 hours basis provided adequate security measures are put in place.

HOW TO USE THE EDUCATION SECTOR TO ACCELERATE DEVELOPMENT

The education sector is among the key sectors of any economy. Africa understands the need to invest in education and has been doing so. However, in order to produce the intended results, the education system needs to be contextualised to the African circumstances. Generally, education models in Africa are inherited from colonial practices. And whilst it is useful to benchmark with western style education, implementing western education systems in their original form will not be relevant to all African contexts. As such western developed education systems may not apply in all African circumstances and need to be tailored to suit the African scenario, particularly in the rural areas.

The following are some of the areas in which education system can be modified in order to produce the intended results of accelerated development.

1. Mainstreaming of Community Schools

Many African countries have community schools within their education systems. A community school is an educational establishment created by the community through volunteers, both in terms of teaching and construction of the school itself. In some districts in Zambia, community schools account for 40% of the schools. This means that 40% of the pupils in such districts are in community schools.

However, these community schools are poorly regulated and do not receive as much support from government as the gazetted schools. Gazetted schools are supported through providing them with infrastructure, teachers and teaching materials, whereas community schools often have no qualified teachers, no infrastructure as they may be built using poles and mud and grass for roofing. They often have no chairs, no desks, no stationary including paper and chalk. Pupils sit on tree stumps for chairs, use their laps as desks/tables and with an old overused black board.

Mainstreaming of community schools through re-allocation of available resources can significantly improve the learning environment in community schools. The cost of upgrading community schools from mud and pole structures (with grass roof) to semi-permanent structures (burnt brick with iron sheets) is not significant and can be easily accommodated within the budget to construct standard classroom blocks. We need to understand that standardising classroom blocks throughout the country is a long term and costly exercise, and as such an interim solution of semi-permanent schools is more practical. From the western eye, a classroom is the standard classroom block made from brick and mortar. However, most African countries do not have adequate resources to construct all needed classroom blocks at once and as such a transition phase classroom should be used. The learners who are in mud and pole community schools now would certainly gain from an improved learning environment if they learnt in a semi-permanent structure.

2. Syllabus

The rate of school dropouts in African countries is quite significant particularly in the rural districts. In Zambia, the primary school net attendance ratio (NAR) for the population age 7-13 is 79%. The secondary school NAR drops drastically to 40%. This means that approximately only half the pupils in primary school proceed to secondary school (Zambia Statistics Agency, 2020).

The high rate of dropouts must be factored into the type of syllabus that is suitable for the African context. The reality of the African rural districts is that pupils drop out of school from every grade, for various reasons which include pregnancies, lack of interest, discouragement from parents, preference to work in agriculture, etc. Therefore, life skills in the African education system should be taught in all grades because a pupil may drop out at any point.

These life skills include entrepreneurship, agriculture, health and other practical skills such that at any point that a pupil drops out, they would have acquired practical skills that are relevant and usable within their environment. The pathways in the Zambian education syllabus attempt to address the challenge between those pupils that progress to college and those that do not. This is implemented at secondary level. However, not all pupils reach secondary school as a significant portion drop out between grade 1 and grade 7. Therefore, entrepreneurship, agriculture and other practical subjects must be taught throughout all grades such that at whatever grade a pupil drops out from, they would have acquired practical skills that are usable, applicable and beneficial within their immediate environment.

3. Adult Education

Africa has a significant number of rural adults that either dropped out of school at an early age or never attended school. The Zambia Statistics Agency indicates that 60% of females and 54% of males above the age of sixty years have no or minimal education (Zambia Statistics Agency, 2020). Such adults are often illiterate but form part of the country's workforce, especially in the agriculture sector. Increasing the capacity of such adults by providing them with education and knowledge in areas such as civic education, health, entrepreneurship, agriculture etc. may have positive impacts on their own economic activities and of their communities. Such adults may be past the age of attending conventional school and are in any case illiterate. As such, an intervention to provide oral education that can bridge the knowledge gap is required.

A direct means of delivering education and knowledge to illiterate adults is through oral dissemination. A syllabus can be developed which covers topics such as health, entrepreneurship, civic education, agriculture and also selected topics in home economics. The syllabus can also include how to search for work, conduct while at work and other relevant topics that add value to the adult learner. All the material should be delivered orally through presentations, group discussions and sharing without the need for reading and writing. Classes may be held from existing government schools during the school holidays for about two weeks for a few hours a day and delivered by existing teachers employed by government. Teachers in government schools are on payroll during school holidays and as such, there is no additional cost to government in terms of infrastructure and manpower. The only cost is the development and distribution of a short adult education module. A certificate of attendance may be issued by DEBS office, which the participant may use to seek employment on farms or domestic work etc.

This article continues in the next publication. ■

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BUSINESS MANAGEMENT

(BUSINESS LIFE CYCLE)

By Mercy Moba, AZICA

A BUSINESS is an entity (organisations, groupad of individuals or companies) that exists with a primary objective of making a profit by selling goods or services. Like living creatures, a business has a Life Cycle.

Business success begins by cultivating a strong foundation of the business and its first stage is commonly known as the seed stage. This phase begins with either an interest or desire on the part of an entrepreneur to start a business, or an idea for a business, and it ends with the emergence/birth of an organisation with an economic offering (ie a product or a service) ready to be sold to a potential client and generate revenue.

During this founding or embryonic period, the groundwork necessary for a successful launch is laid. The crucial activities or substages that are typically performed during this period include; contemplating on the idea of starting or owning a business, searching for an idea and exploring various business possibilities, assessing the risk, testing the reality and feasibility of the concept, and developing an economic and effective strategy of the business.

After passing this stage, the business will have demonstrated itself as a workable entity, has its products or services, key customers have been identified and it has the capital to operate. From the first stage of small business, the problem evolves from merely 'existing' to finding answers to these four questions; what is the relationship between revenues and expenses? Can you generate enough cash to break even? Do you have the cash to cover the costs of repair or replacement of your main capital assets if they wear out? Can you generate the cash flow to stay in business in the future by financing growth to earn a sufficient return? Most companies die at this stage because of poor working Capital and Cashflow management.

Working Capital represents the amount of money tied up in current assets and current liabilities. You need to invest in working capital, in the same way you make investment in equipment. Maintaining adequate working capital is not just important in the short term. Adequate liquidity is needed to ensure the survival of the business in the long term. Even a profitable company may fail without adequate cash flow to meet its liabilities.

It is common that many people confuse the terms "cash" and "profit", using them as if they were interchangeable. The terms are not synonymous and cannot be used interchangeably. It is, in fact, possible to make an accounting profit and have no surplus cash.

A business can remain at survival for a long time or it's entire life depending on how well it manages its resources. However, if it passes the survival stage, it will now enter the growth or success phase. At this stage, the business is generating a stable income and regularly taking on new customers (Neil Petch 2016). The business will be required to do a lot of planning and be more strategic. "Failing to plan is planning to fail" -Benjamin Franklin.

The biggest challenge for entrepreneurs in this stage is dividing time between a whole new range of demands requiring your attention – managing increasing levels of revenue, attending to customers, dealing with the competition, accommodating an expanding workforce, etc.

Hiring smart people with complementary skillsets is necessary to make the most of your company's potential during this phase, and so any good founder will be spending a lot of time directly involved in the recruitment process. It is essential that you start to come into your role as head of the company in this stage. While you will still be on the frontlines often enough, you need to be aware of how your expanding and highly qualified team is going to be taking over a great deal of the responsibilities that were previously tightly under your control. The business will also need to create a strong internal control environment by embracing effective risk management in order to sustain growth.

Risk Management is the process of identifying and assessing potential risks facing the organisation. It involves taking measures to avoid or mitigate or control the risk. Risk management also involves establishment of a system of internal controls. Many risks are controlled through a system of internal controls.

Risk refers to the possibility that something unexpected or not planned for will happen. In a business, a risk could either be downward or upward. Downward risk is a risk that actual events will turn out worse than expected. Downside risk can be measured in terms of the amount by which profits could be worse than expected while an upward risk is the risk that actual events will turn out better than expected and will provide unexpected profits. Some risks such as a change in foreign exchange rates, or a change in consumer buying patterns could be "two-way" with both upside and downside potential.

Other business growth strategies that an entity can pursue include;

1. **Market penetration**: This involves considering how much market share the business owns.
2. **Market Segmentation Expansion**: An exploration into market segmentation is, simply put, finding new ways to grow as a company.
3. **New Product Development**: product line extension, or a product reformulation/retooling are few ways you can consider to expand your offerings and thus grow your sales.
4. **Diversification**: If you have too much of your overall business sales with one or two customers or with one industry, it might be time to find other companies or industries to tap, even if they are doing well and growing.
5. **Mergers or Acquisitions**: What vendor, competitor, or other company can you merge with or acquire? Look for weaker companies to approach about merging or acquiring them. If you are living in a sea of strong industry competition, perhaps it might be best to see if one of them is willing to buy you out. Just know that in the latter scenario, you will likely have little negotiating power.

It is at this stage that it is necessary for the business to establish corporate governance systems and ethical principles. It takes some combination of people, rules, processes and procedures to manage the business of a company (Nicholas J. Price 2018). Corporate governance forms the basis for corporations to make decisions that consider many environments, including economic, social, regulatory and the market environment. Corporate governance lies at the very heart of the way the business is run often defined as "the way businesses are controlled and directed (Julia Casson 2013). 'Governance' refers to the way in which something is governed and to the function of governing. The governance of a country, for example, refers to the powers and actions of the legislative assembly, the executive government and the judiciary.

Corporate governance refers to the way in which companies are governed. It is concerned with practices and procedures for trying to ensure that a company is run in such a way that it achieves its objectives. This could be to maximise the wealth of its owners (the shareholders), subject to various guidelines and constraints and with regard to other groups with an interest in what the company does. Guidelines and constraints include ethical behaviour and compliance with laws and regulations. Other groups with interest in how the company acts include employees, customers and the general public. Whilst management processes have been widely explored, relatively little attention has been paid to the processes by which companies are governed. If management is about running businesses, governance is about seeing that it is run properly. All companies need governing as well as managing' (Professor Bob Tricker, 1984). Corporate governance is concerned with the work of the board as the body which bears ultimate responsibility.

Having established the system of ruling and directing the company, an ethical system is inevitable to ensure a smooth workflow of an organisation. Ethics refer to a set of rules that define right and wrong conduct and that help individuals distinguish between fact and belief, decide how such issues are defined and what moral principles apply to the situation (Hellriegel, Slocum & Woodman, 1992:146). Corporate governance gets its roots in ethical behaviour and business principles, with the goal of creating long-term value and sustainability for all stakeholders.

According to David Hagen Buch, ethical principles are necessary in an organisational setup in order to ensure transparency, integrity, accountability and fairness.

In order to increase its customer share, an organisation must consider implementing corporate social responsibility (CSR) aspects. Corporate social responsibility is the social practice by businesses or entities in the environment in which they operate. "Corporate social responsibility has been defined as a self-regulating business model that helps a company to be socially accountable to itself, its stakeholders, and the public" (Fernando.J, 2020). "Companies practicing CSR also known as corporate citizenship, may be aware of the effect they have on all aspects of society, including economic, social, and environment. Engaging in CSR for a business means that a company is operating in ways that enhance society and the environment, as opposed to contributing negatively to them" (Fernando J, 2020).

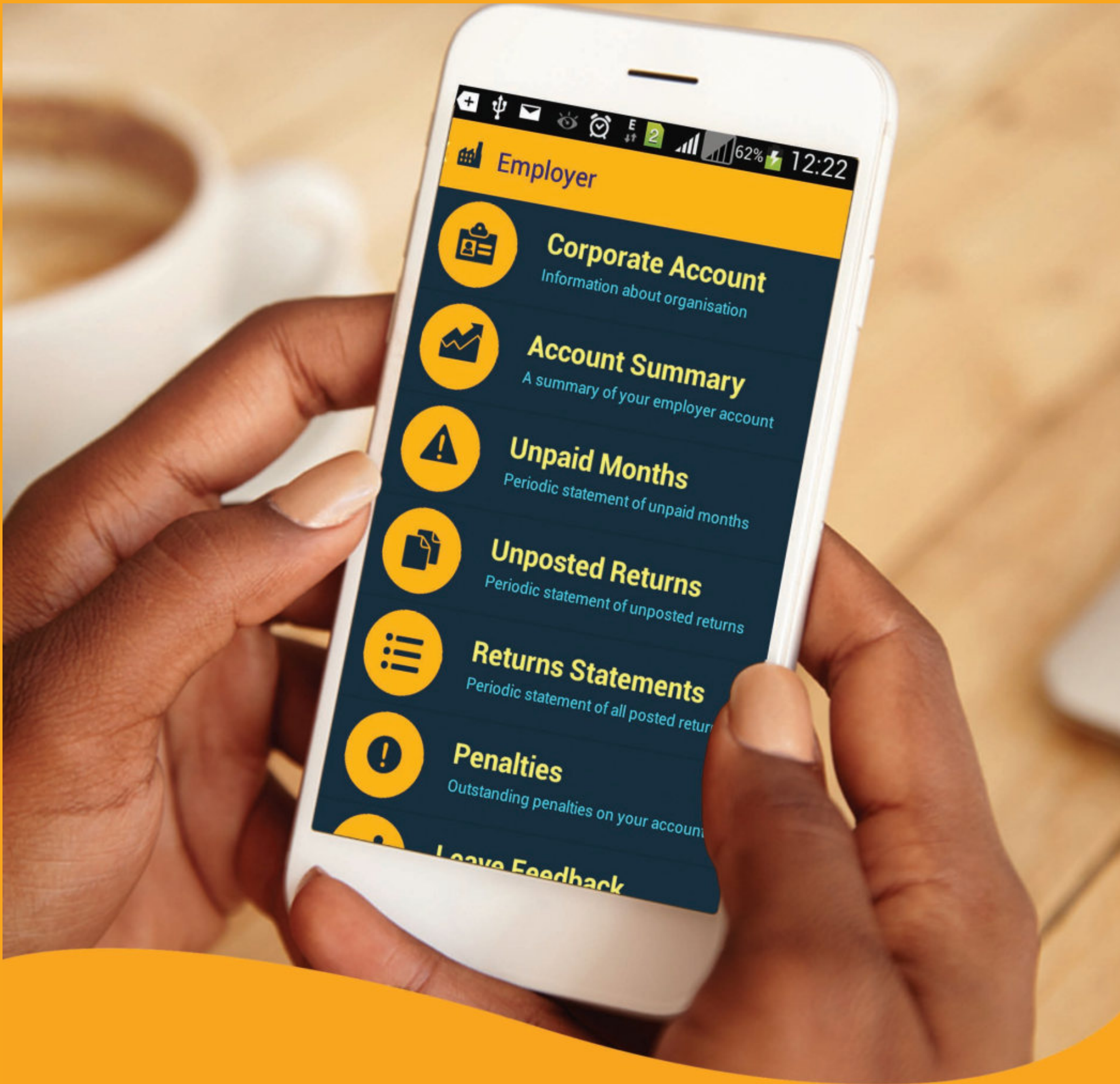
CSR is an important aspect to be performed by profit making organisations as this will enable them to contribute to the wellbeing of society. CSR has evolved largely in the early 21st century from basic standards of business ethics. It has taken simple concepts of honesty and transparency and added other expectations for companies to act in ways that benefit the environment and society. Some examples of CSR in practice include a technology company choosing to use sustainable materials to make its packaging and a bank that allows its workers to volunteer a day a month at a local charity while being paid their usual wages. To provide good financial results while also considering CSR, it is important for companies to balance the interests of customers, communities, business partners and employees with those of shareholders, to meet public requirements for CSR compliance.

When the business matures, sales begin to slowly decrease. Profit margins get thinner, while cash flow stays relatively stagnant. As firms approach maturity, major capital spending is largely behind the business, and therefore cash generation is higher than the profit on the income statement. However, it's important to note that many businesses extend their business life cycle during this phase by reinventing themselves and investing in new technologies and emerging markets. This allows for companies to reposition themselves in their dynamic industries, and hence refresh their growth in the marketplace.

In the final stage of the business life cycle, sales, profit, and cash flow all decline. During this phase, companies accept their failure to extend their business life cycle by adapting to the changing business environment. Firms lose their competitive advantage and finally exit the market.

ABOUT THE AUTHOR

Mercy Moba is a Chartered Accountant, Associate Member of Zambia Institute of Chartered Accountants and has eight years of work experience in accounting and credit/financial analysis. She is currently working as Business Connexion (Z) Ltd accountant and is founder of Financial Literacy Programme, an entrepreneurship programme. ■



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ZICA CAUTIONS GOVT ON INCREASING COST OF BORROWING AS A TOOL TO ARREST INFLATION

ZICA President Mrs Cecilia Zimba

By the Accountant Writer

On 2nd December 2021, In Public Interest, the Zambia Institute of Chartered Accountants (ZICA) President Mrs Cecilia Zimba held the last quarter of 2021 briefing on matters that affect the accountancy profession and the nation at large.

This was in line with the Accountants Act of 2008, which gives the Institute a statutory mandate to advise the Government of Zambia on matters relating to the economic development of the country.

Principally, Mrs Zimba made reflections on key matters vis-à-vis the 2022 Budget - commentaries on selected specific Economic Sector Proposals; Tax Measures; Measures to Revamp Multi Facility Economic Zones; African Continental Free Trade Area; Inflation, Exchange Rates and Debt; and training of professional accountants.

This piece therefore highlights some of the areas she covered as others are captured in the Technical Update section.

COMMENTS ON THE 2022 BUDGET

Mrs **Zimba** congratulated the Minister of Finance and National Planning Dr Situmbeko Musokotwane for announcing a well balanced 2022 budget taking into account the challenges the country is facing and taking stakeholder engagements on board in coming up with economic policies.

COMMENTARY ON SELECTED SPECIFIC ECONOMIC SECTOR PROPOSALS

MINING

Mrs Zimba noted that the Minister announced plans to boost copper production to over 3 million metric tonnes in a decade. Measures proposed include reintroducing deductibility of Mineral Royalty Tax and to promote the growth of small-scale mining.

"The Institute commends these measures and further urges Government to resolve other challenges besetting the sector that include delayed VAT refunds, double taxation on the transfer of mining rights through shares sales (Property Transfer Tax on shares as well as interests in mining rights). The double taxation is a significant impediment for specialised exploration companies to exit their projects," she stated.

"The Institute would also urge Government to consider making the mining licenses affordable to local investors."

ENERGY

In order to ensure an effective energy sector, she noted that reforms would be undertaken in the electricity and petroleum sub – sector. In the electricity sub – sector, Mrs Zimba noted that the Government will implement a Renewable Energy Investment Plan that will improve the energy mix and review the operations and efficiency of Zesco.

She noted that Power Purchase Agreements were being re-negotiated as part of the strategy to sustain the company. "Government has stated that it will implement cost – reflective tariffs in the electricity sub – sector and scale up the programme of rural electrification through the extension of the grid network as well as deployment of the off – grid electrification solutions," Mrs. Zimba noted.

"We commend these measures given the significant amount of debt that the power utility has contributed to the country's overall debt burden. We also note that consistent energy supply is key to economic growth given the negative impact that prolonged load management has on both large and small businesses. In the petroleum sub sector, we congratulate one of our Senior Members, Mr Vickson Ncube, for having been appointed Chairperson of Zesco. We have no doubt that he will make positive contribution to the utility and urge Government to allow Zesco operations to flow without political interference. We are happy with the Government pronouncement to restructure the fuel supply chain and achieve least cost pricing while ensuring stable supply of petroleum products. We expect pricing of petroleum products to be a significant challenge that the Minister needs to address in detail. Currently, petroleum products are being subsidised through actual cash subsidies and tax concessions (zero rating for VAT purposes and customs duty exemption). This is not sustainable in the long run and calls for a comprehensive overhaul of the fuel procurement system."

SOCIAL PROTECTION PROGRAMMES

In 2022, Mrs Zimba noted, the Government plans to dismantle all outstanding pension benefit arrears for retired public service workers which currently stands at K1.9 billion.

She indicated that the Institute supports the Minister's proposals as they enhance the social protection of the most vulnerable in society. She said the Institute also supports the quick resolution of pension arrears as they have contributed to increase household vulnerability. The Institute applauded the Minister's stated intention to clear the arrears in full.

"We look forward to logical conclusion of this matter to avoid destitution of men and women who served the country with diligence and certainly deserve better treatment and care," Mrs Zimba stated.

On Green Economy and Climate Change, Mrs Zimba commended the setting up of the Ministry of Green Economy and Environment.

"We are looking forward and call for urgent policies and laws that will make citizens more aware of effects of climate change and support initiatives aimed at persevering and promoting a green economy. It is the small changes that we make in our lifestyles that will make a huge difference," she stated. "For instance innovative waste management has a potential to create wealth and employment opportunities. Government must drive a nationwide campaign for a green economy and join the rest of the world in ensuring effects of climate change are countered. As an Institute we are advocating for ESG (Environmental, Social and Governance) Reporting as these non-financial factors are critical in identifying material risk and growth opportunities for investors."

Science And Technology

Mrs Zimba expressed the Institute's happiness with the priority the government has given to science and technology with an envisaged focus on innovation.

"Among other things, with the knowledge that the 4th Industrial Revolution is here, an efficient service delivery is cardinal for economic development. The integration of Smart Zambia and Government Service Bus will ensure efficient and effective service delivery," Mrs Zimba noted. "There is need for the country to redefine its inclination to artificial intelligence to better understand how service delivery can be enhanced to the citizenry."

EDUCATION AND SKILLS DEVELOPMENT

Mrs Zimba stated that education is the key to a nation's prosperity and to reduce the backlog of unemployed teachers and improve the quality of education by reducing the Pupil – Teacher ratio, the Government would recruit 30,000 teachers in 2022. She also noted that grants to primary schools will be increased three-fold in 2022 to improve the quality of education through the provision of teaching and learning materials. Mrs Zimba urged the Government to ensure timely disbursements.

She noted that the Government will construct additional 120 secondary schools to further increase access to education, [and] to avoid disruption of grants to the learning process, tuition, Parent Teachers Association, and examination fees that learners pay in public schools would be abolished.

"We commend Government for free education and also urge the schools to ensure adequate financial management systems are put in place. The Minister has also proposed a bursary scheme to cover boarding fees for the vulnerable learners. Government also intends to expand the support to the girl child through the keeping girls in school programme from the current 28,964 in 2021 to 43,520 girls in 2022," Mrs Zimba stated. "This is indeed a welcome move that needs to be commended, as this will lead to significantly improved education outcomes in the long term. Education is key to income mobility and the proposals will help reduce income inequality in the long term. Equitable treatment of learners before an education system is commended."

HEALTH

In 2022 the Government proposed to recruit and equitably deploy 11,200 health personnel to strengthen the health care system in the country. Procurement of medicines and medical supplies will be undertaken by the Zambia Medicines and Medical Suppliers Agency in accordance with the Zambia Medicines and Medical Supply Agency Act No. 9 of 2019. And to ensure that healthcare is affordable, Government will reform the National Health Insurance Scheme to benefit all.

Mrs Zimba commended the Government for these proposals as the health sector is critical to the wellbeing of the nation and economic growth.

"We urge Government to ensure that the additional health care workers include public health care specialists as well as environmental health workers to help manage pandemics. We also urge Government to accelerate the rollout of technology solutions to manage the medicine supply chain as the disconnect between the supply of drugs and their availability to patients in health centers remains a big challenge," Mrs Zimba stated.

"On the recruitment of Teachers and Health personnel, we would like more clarity on how this will be done. We are cognizant of the fact that in most parts of the country where these personnel are needed do not have adequate infrastructure such as houses to accommodate them. Has consideration been made in this year's budget to enhance infrastructure that will support service delivery in the Education and Health sector? Other considerations mainly in the Education sector is investment in Information Technology that will enable delivery of lessons through digital channels in the event that schools are closed as was the case in 2020 due to the Covid pandemic. The number of new recruits is quite high and we urge Government to put in place enhanced controls to avoid the risk of having Ghost workers on payroll."

On governance, the Institute urged the Government to uphold tenets of Good Corporate Governance to ensure Zero tolerance to Corruption and promote accountability and transparency.

"It is good practice for example for all SOEs (State Owned Enterprises) to always have Board of Directors with a diversity of skills derived from various relevant professional bodies. The appointing authority must ensure that Boards are at any given time fully capacitated as this will ensure timely delivery of Government work plan to ensure the much-needed economic development," Mrs Zimba said. "Further, we urge the government to ensure that all boards have functional audit committees with Accountants and other relevant professionals to provide the necessary oversight on issues of financial and operations management among others."

On the increased CDF allocation, from K1.6 million to K25.7 million per constituency, the Institute noted that the resources would include funds for development interventions for underserved communities, secondary school, and skills development bursaries to be administered at Constituency level.

Mrs Zimba noted that the proposed spending measures were expansionary and whilst SDR funding might be available in the immediate term, it would be important to ensure that the proposed spending on infrastructure and capacity yield sustainable returns and spur economic growth.

She stated that the long-term sustainability of the expansionary measures depend on significant economic growth failing which Government will have to rely on increased borrowing.

"It is also clear that if the funding gap in the budget remains substantial, it poses a challenge to fiscal consolidation. However, government needs to urgently consider partnering with the Institute to ensure capacity is built in local authorities to manage CDF funds. This will ensure the much needed accountability and transparency towards the management of CDF. We are ready as an Institute to work with the Government to ensure financial literacy and management is imparted to CDF handlers and decision makers," Mrs Zimba stated.

TAX MEASURES

The Institute commended the Government for implementing various tax measures expected to help revamp the economy and help put more money in people's pockets. Some of the tax measures the Institute is happy with include the following;

PAY AS YOU EARN

The increase in the tax free amount to K4500 is well noted. We however submit to Government to consider further adjustment to the tax bands to give relief to tax payers on account of the high inflation.

Monthly		
Current PAYE Bands -2021	**Proposed PAYE Bands - 2022**	**Tax Rates**
0- 4,000	0 - 4,500	0%
4,001 - 4,800	4,501 - 4,800	25%
4,801 - 6,900	4,801 - 6,900	30%
Above 6,900	Above 6,900	37.5%

Make mineral royalty deductible for Corporate Income Tax assessment purposes

Reduce the standard Corporate Income Tax rate to 30 percent from 35 percent

Extend the 15 percent Corporate Income Tax rate on income earned by hotels and lodges on accommodation and food services to 31st December, 2022 from 31st December, 2021.

Suspension of corporate income tax for manufacturers of ceramic products for the charge years 2022 and 2023

Increase the period to carry forward the non-deductible interest

Extend Property Transfer Tax on transfers of mineral processing and other mine related licenses at the applicable rate of 10 percent.

Amend the Zero-rating Order to provide for zero-rating of the following agricultural Equipment and accessories: Manure Spreaders, Balers, Combine Harvesters, Commercial Sprinkler Irrigation Systems, Animal Feed Grinder-Mixer, Pelleting Machines, and Sprayer, Trailers of a specific HS code and Dryers for agricultural products of a specific HS code.

Amend the Zero-rating Order to include solar street lights and solar charge control units.

Standard rate the supply of property and non-life insurance, and abolish the current Applicable insurance premium levy.

Standard rate the supply of booklets and newspapers.

Reduce Customs Duty to zero percent from 15 percent and 25 percent on solar street lights and solar charge control units, respectively.

Extend the waiver of customs duty on safari game viewing vehicles, tourist buses and coaches to 31st December, 2023.

Extend to 31st December 2022 suspension of customs duty on importation of refrigerated trucks for agro-processing, processors of milk and manufacturers of medicaments.

Increase the exemption value of goods on which duty is not paid to US$500 from US$50 inclusive of freight and insurance.

Remove 5 percent Customs Duty on filler master batch.

Remove 5 percent Customs Duty on cattle breeding stock.

Suspend the 5 percent customs duty on grandparent and/or parent stock of day old chicks when imported by a breeding company for one- year effective 1st November, 2021.

Remove 10 percent Export Duty on Maize effective 1st November, 2021.

Remove Selected Goods Surtax of 5 percent on bovine semen.

Increase the specific excise duty on opaque beer to 50 ngwee per liter (packaged) and to one Kwacha (unpackaged) from 15 ngwee.

Introduce Selected Goods Surtax at the rate of 5 percent on knitted or crocheted jerseys, pullovers, cardigans, waistcoats and similar articles.

On measures to revamp Multi Facility Economic Zones

The government plans to introduce zero percent tax for a period of 10 years from first year of commencement of works in a Multi Facility Economic Zone or Industrial Park, on dividends declared on profits made on exports by companies operating in these economic zones under the Zambia Development Agency Act No. 11 of 2006. The Institute stated that for years 11 to 13, only 50 percent of profits should be taxed and 75 percent of profits for years 14 and 15; and reduce the threshold to US $50,000 for a Zambian citizen to qualify for incentives provided under the Zambia Development Agency Act No. 11 of 2006

"Having embarked more than a decade ago to drive the industrialisation agenda, this will help more investment to be directed into these established economic zones as investment in these zones has remained dismal for over ten (10) years," Mrs Zimba noted. "We welcome these measures as they will help revamp and remodel the economic zones and as these incentives are more targeted, the proposed measures should enhance Zambia's export competitiveness and industrialisation drive, in the face of the Africa Continental Free Trade Agreement (AfCFTA). "

She commended the Government for taking a bold decision to ratify the African Continental Free Trade Area (ACFTA which will enable the country to have access to a larger market and to harmonise trade instruments across the continent's regional economic communities.

Mrs Zimba stated that this also had the potential to generate a range of benefits through supporting trade creation, structural transformation and job creation, among others, which should lead to economic growth and poverty reduction.

"In order for Zambia to benefit from ACFTA, deliberate efforts must be taken to identify goods and services for which we have relative competitive advantages so that we can support with a view to turn them into export industries. This will require relevant policy interventions coordinated across various sectors but also the active participation of the business sector which needs to invest in innovation and quality manufacturing systems," Mrs Zimba stated.

"We must, as a nation, aspire to build, maintain and support strong national brands which we can export to the rest of Africa. This calls for citizens to take deliberate decisions to supporting local brands of goods and services when faced with daily purchasing decisions. In this regard the 'Buy Zambia' campaign must become a personal motto which defines how, where and on what we spend our hard earned incomes with the knowledge that every Zambian product supported by national demand creates jobs in Zambia."

INFLATION, EXCHANGE RATE DEBT POSITION

INFLATION

The Institute noted that Zambian inflation slowed to an eight-month low in September after food-price growth decelerated from a record high and the currency's two-month world beating streak helped curb import costs. It noted that consumer prices rose 22.1% from a year earlier, compared with 24.4% in August.

Mrs Zimba noted that the slowdown in inflation that had been above the 8% upper limit of the Central Bank's target band for more than two years could ease pressure on the monetary policy committee to tighten and give it room to support the economy's recovery.

She noted that The Central Bank's monetary policy committee (MPC) at its November 22-23, 2021 meeting decided to raise the Monetary Policy Rate by 50 basis points to 9.0 percent to help steer inflation to single digits in 2022 and to within the 6-8 percent target range by mid-2023 as stated in the 2022 Budget Address.

"While we appreciate the intentions of the Monetary Authority, we caution that increasing cost of borrowing as a tool to arrest inflation may not be effective. The assumption that when the cost of borrowing is high, fewer economic players will borrow and therefore reduce purchasing power which then reduce demand and ultimately prices may hold true where credit constitutes a significant portion of the purchasing power of economic players," she stated.

EXCHANGE RATE

The Kwacha traded at K17.3/US$ on 31st October 2021 compared to K22.6/US$ around August 2021, representing an appreciation of over 20 per cent due to improved supply of foreign exchange and expectations of further improvements in supply.

Mrs noted that the supply was associated with the International Monetary Fund (IMF) Special Drawing Rights (SDR) allocation and the improved prospects of a formal Extended Credit Facility (ECF) programme with the IMF, which the new administration had tackled very well, as well as buoyant copper prices on the international market.

“Indeed, the strong recovery in copper prices to the current level of US$9,521 per tonne from a low of US$4,745 in March 2020 has contributed to sustained strong export earnings for our Country. This has resulted in improved foreign exchange flows from the mining sector through tax receipts remitted directly to the Bank of Zambia (BoZ) in US dollars as opposed to previous system of converting payments into Kwacha first. So, the BoZ has been able to provide more foreign exchange liquidity into the market to reduce excess demand experienced in the first and second half of 2021,” Mrs Zimba stated. “Additionally, the foreign exchange inflows from non-resident investors purchasing Government securities have significantly increased. The improvement in the reserve position increases the country’s ability to respond to unexpected external events and the ability to address volatility in the exchange rate.”

Mrs Zimba stressed the need to meticulously balance between exports and imports, stating that the ideal situation would be to minimise the nominal value of imports while maximising the value of exports.

She stated that this could, among other things, help to maintain the value of the Kwacha against the Dollar.

“This is because, while it can be said that it is possible to mechanically fix the level of the international foreign reserves, the foreign exchange rate is a matter for market forces - demand and supply. As you may already know, unlike the foreign exchange rates for some countries which are fixed, Zambia’s is a floating one, meaning it can change either way, from one day to another. Therefore, one of the tasks of the Central Bank in connection with the subject is to ensure that there is some level of stability in the value of the Kwacha vis-à-vis other currencies. This stability is important in planning and budgeting, especially when it involves international trade,” she stated.

DEBT POSITION

During the Budget presentation, the Minister announced that the stock of public external debt amounted to US $14.71 billion as at end of September 2021. Of this amount, Government external debt was US $12.99 billion while guaranteed and non-guaranteed external debt for State Owned Enterprises was US$1.56 billion and US $164.52 million, respectively. Government external debt increased by 2.0 percent to US$12.99 billion as at end of September 2021 from US$12.74 billion as at end of December 2020. This was on account of disbursements from multilateral creditors and few other creditors funding priority projects, particularly in the health sector.

“The Institute commends the Government for taking up various Debt Management Policies such as applying for debt restructuring under the Common Framework for debt treatment beyond the Debt Service Suspension Initiative. The restructuring of debt with creditors is expected to be realised by the first quarter of 2022,” Mrs Zimba stated. “The Institute has also noted the efforts the Government is making by actively engaging the International Monetary Fund (IMF) for a funded programme and expects to reach an agreement with the IMF by the end of November 2021.”

She noted that the Government had indicated it would utilise part of the Special Drawing Rights allocation which is equivalent to USD1.33 billion received from the IMF in August 2021 to support the 2022 budget.

She also noted that to curtail further accumulation of debt, the Government had committed to contract any external non-concessional loans except in instances of refinancing to ensure that the issuance of Government securities is primarily through auctions and that Private issuance of bonds is minimised. Furthermore, the Loans, Grants and Guarantees (Authorisation) Bill will repeal and replace the Loans and Guarantees (Authorisation) Act Cap 366 of 1969. The Bill will, among others; propose to enhance transparency in public debt management including loan contraction, and provide a framework for evaluation, issuance, and monitoring of public guarantees.

“The Institute also commends the Government for coming up with Strategies on dismantling of domestic arrears through the plans to liquidate a substantial amount of domestic arrears over a five-year period. The key measures in the dismantling of arrears strategy include; increased budgetary provisions, Debt and/or cheque swaps, Debt refinancing; and Debt restructuring,” Mrs Zimba noted.

On Training and Regulation of accountants, Mrs Zimba said the Institute continues to make positive strides in its vision of developing finance and business professionals through the education and training of accountants in Zambia. She stated that the Zambia Qualifications Authority (ZAQA) registered and accredited the exit qualifications linked to the Chartered Accountant Zambia programme on 1st March 2021.

“This recognition answers the many requests that came from our stakeholders on the need to have exit certifications at the completion of every level. The Institute remains proud to have conferred the first cohort of graduates under this new dispensation,” she stated.

“I am proud to inform you that nine (9) candidates were conferred with the CA (ZM) Charter Designation at the 15th Graduation Ceremony that was held on the 5th November 2021. With the reform in the CA Zambia Programme coupled with the improvements in the practical training framework, we are confident that the number of Chartered Accountants (CA ZMs) will continue to grow. The Institute churned out 1,380 graduates at the 15th Graduation Ceremony as follows; 19 Certificate In Taxation, 8 Diploma In Taxation, 129 Diploma In Accountancy, 3 Diploma In Public Sector Financial Management, 46 CA Certificate in Accountancy, 20 CA Application Advanced Diploma in Accountancy, 1,146 CA Advisory Professional in Accountancy and 9 candidates were given the Chartered Accountant Zambia Charter Designation. Of these 399 are female while 981 are male translating to 29% female and 71% male.”

Mrs Zimba said the Institute is working on mentorship programmes to keep encouraging the girl child to take up accountancy as a profession and fill the gender divide being witnessed.

REGULATION OF THE ACCOUNTANCY PROFESSION

Mrs Zimba reiterated the mandate of the Institute which includes regulation and education of the accountancy profession. She urged all employers and individuals that according to section 18 and 19 of the Accountants Act of 2008, it is an offence to employ or engage to offer finance related services a person or firm that is not duly registered by the Zambia Institute of Chartered Accountants.

“ZICA will be pursuing the mandate to prosecute people and firms that hold out as accountants when they are not trained in the practice and theory of accountancy. The Act provides for penalties to such and we are forging relationships for such prosecution. We wish to urge all employers and individuals to ask for proof of valid ZICA membership before engaging accountants, auditors and firms in any work. If in doubt, they must contact the Institute,” said Mrs Zimba. “I wish to remind members that subscription fees and annual CPD returns are due on 1st January 2022. Validity of membership is by payment of relevant subscription fees as well as compliance to continuous professional development requirements.”

She appreciated the Government for giving professional Institutions like ZICA opportunity to offer professional advice on economic and national matters.

She said the Institute looks forward to more engagements and cooperation with both the public and private sectors.

“I wish to thank all members and students of ZICA for the support you have continued to render to your Institute. We have achieved many things together in the past two years of the COVID pandemic and with your loyalty, we managed to steer on our profession to even greater performance under very difficult circumstances. As a profession, we are only as strong as we are united. Thank you once again for your profound support before, now and into the years to come. I wish all of you a merry Christmas and a prosperous 2022,” said Mrs Zimba. ■

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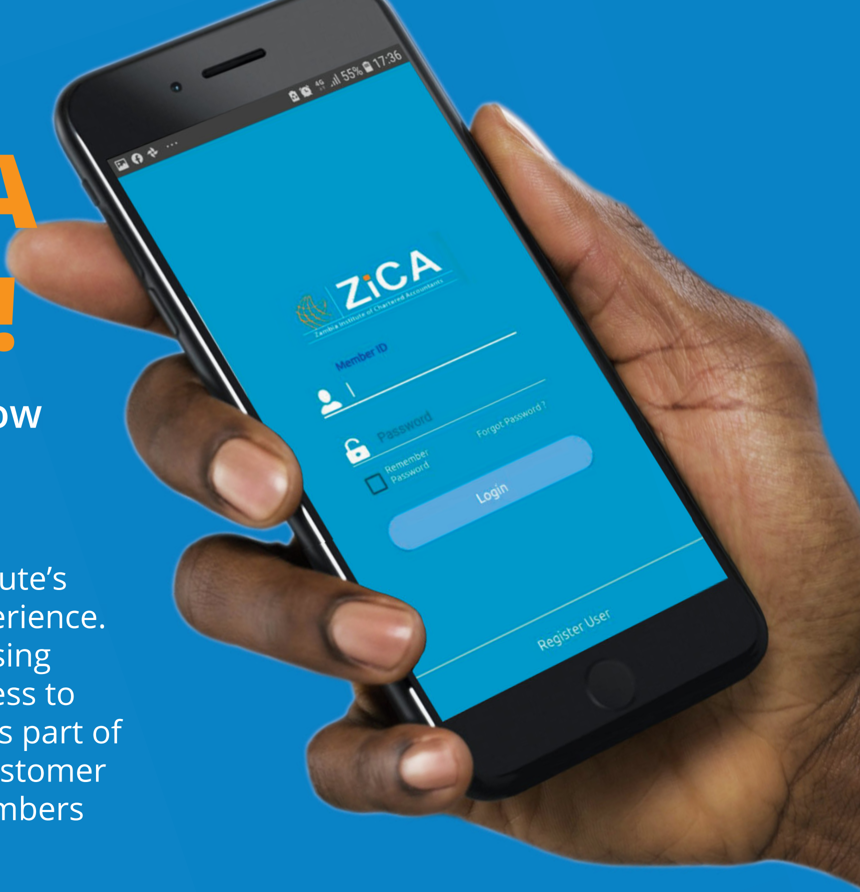

The ZICA mobile application is now available on Google Play Store

The Mobile Application is part of the Institute's strategy to redefine the membership experience. The App aims at responding to the increasing demand for convenience and quicker access to information. The introduction of the App is part of the institute's process to become more customer centric by responding to the needs of members and students.

HOW TO GET THAT APP

STEP 1: Open the Play Store
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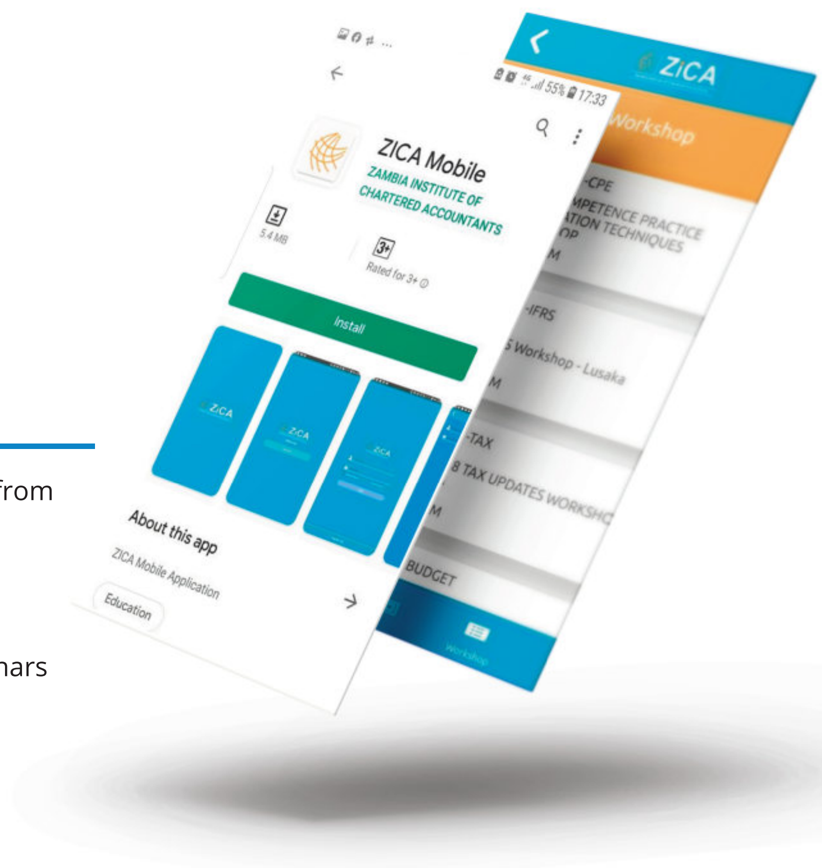
STEP 4: Install the app
STEP 5: Click Lets Start
STEP 6: Register User
STEP 7: Enter your membership No. and email
STEP 8: Enter password
STEP 9: Enter OTP delivered to your email



WHAT CAN YOU DO ON THE ZICA MOBILE APP?

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ZICA HOPEFUL

…Govt economic policies will create a positive environment, boost economic growth

Minister of Finance Dr Situmbeko Musokotwane MP

By Accountant Writer

THE Zambia Institute of Chartered Accountants (ZICA) is hopeful that the New Dawn Government will come up with economic policies that will create a positive environment to boost economic growth and poverty eradication.

This is contained in its submissions to Minister of Finance Dr Situmbeko Musokotwane on Public financial management and other key priorities.

ZICA is a professional membership body whose functions, among others, are to advise the government on matters of national and economic development.

The Institute is also mandated to develop, promote and enforce internationally comparable practice standards in Zambia as well as protect and assist the public in all matters relating to the practice of accountancy.

ZICA expressed hope that this Government will come up with economic policies that will create a positive environment to boost economic growth and poverty eradication.

"Additionally, we are hopeful that the economic policies will create a conducive environment for the private sector to thrive in employment creation and contribute to the growth of our economy," according to the submissions. "We are hopeful that the tax regime will be realigned to ensure equitable contribution and management of tax revenue to support Government operations."

It reiterated its availability to offer advice to the government on matters of national and economic development.

ZICA indicated that it is happy with the creation of new ministries such as the Ministry of Small and Medium Enterprises, which it holds is the engine that would drive the economy because most companies in the country are under the category of Small and Medium Enterprises and they require specific strategic focus.

It stated this would ensure growth of the SME sector, which in turn would widen the tax base and ensuring household food and finance security.

"The Institute was proactive in operationalising the 3 tier accounting framework which encompasses this ministry. Under the three tier financial reporting framework, listed companies, public interest entities and government owned enterprises are required to use International Financial Reporting standards (IFRS). Medium sized entities, which are economically significant companies – companies that are not public companies or quoted on the stock exchange - are required to use IFRS for SMEs," according to the submissions. "Micro and Small Entities as the last tier of the framework are required to use the Zambian Financial Reporting Standard for Micro and Small Entities."

It noted that the Government aspires to bring the informal sector into the formal sector and ultimately increase its tax base that contributes to the fiscus.

The Institute expressed willingness to partner with the Government to engage in financial literacy programmes on the belief that youth empowerment would only be a reality if they are financially literate and are able to make business decisions.

The Institute wished for the Government to come up with economic policies that would create a positive environment to boost economic growth and eradicate poverty.

"Additionally, we are hopeful that the economic policies will create a conducive environment for the private sector to thrive in employment creation and contribute to the growth of our economy," read the submissions.

On debt management, the Institute requested the government to operationalise a sinking fund to enable it meet its debt obligations when they fall due.

"In an effort to eliminate revenue leakages and harness Government resources, we further request Government to employ gatekeepers at provincial and district levels who are schooled in the theory and practice of Accountancy. The Institute has enough registered members ready to serve as gatekeepers for Government," according to the Institute.

The Institute indicated pleased to learn of the tax reforms being undertaken by the economic team the President constituted and requested an opportunity to contribute to the reforms being undertaken.

It indicated it has a reservoir of tax experts on its tax committee and general membership.

"In view of the foregoing, the Institute is writing a paper on the Tax Laws in Zambia in order to review the role of the tax system in the promotion of inclusive economic diversification and job creation, reducing of poverty and vulnerability, reducing of development inequalities, enhancement of human development and a conducive policy environment for economic diversification. The research paper will take into account recent domestic and international developments," according to ZICA.

It indicated that it is working on Tax Policy concept paper aimed at coming up with a tax framework to support achievement of the government's vision.

"We would be happy to work with this Government on this project," ICA stated.

ZICA also made submission to the 2022 national budget, proposing the removal of Withholding Tax ("WHT") on domestic rent and replacing it with turnover tax on rental income; introduction of annual inflation adjusted tax bands under Pay As You Earn ("PAYE"); taxation of the digitised economy; the need for a unified Tax Administration Act; and the Income Tax Act (ITA) CAP 323.

Other proposals related to taxation of Informal sector, stabilisation of the mining sector tax regime; and commodity royalty

The institute stated that the above measures would help broaden the tax base thereby creating a low interest rate environment and private sector led development, improved sovereign credit rating for the country, giving itself a chance to roll over the $750 million Euro bond maturing in 2022 at the same coupon rate of +- 4.6%.

"Additionally, the measures will result in enhancing the country`s competitiveness in attracting new investments in the copper mining industry," according to ZICA.

"We would also want to carry out induction or training programmes to Parliamentarians and Permanent Secretaries on tax matters and issues of Public Finance Management to help enforce your call for transparency and accountability."

On the International Public Sector Accounting Standards (IPSAS), ZICA noted government plans to move to accrual based IPSAS by the year 2024.

It stated that accrual based IPSAS was the logical step to promote a culture of accountability and transparency in the management of government resources.

It told the Minister that it has taken a position to promote the implementation of accrual IPSAS in Zambia.

"This implies that all accountants in public sector institutions must be fully conversant with the IPSAS Reporting Framework. IPSAS helps to improve accountability by providing a complete and accurate view of entities operations and performance. Further, IPSAS improve overall management and planning by application of more precise estimates of income and expenditure and effective usage of assets and liabilities," ZICA submitted.

"IPSAS help to achieve greater transparency by use of primary resources and resulting liabilities. We request government to show political will in adopting the accrual based IPSAS with no further extension on adoption date. The Institute is ready to collaborate with the ministry in the training of public service workers and the implementation of accrual based IPSAS."

And the Institute noted that the State Audit Commission which was established in 2016 has not been operationalised, as this requires the amendment of the constitution clause dealing with the establishment of various service commissions.

The Institute welcomed the establishment of the State Audit Commission, as it would provide the oversight and regulatory oversight over the office of the Auditor General.

"Currently, the office of the Auditor General is not answerable to any independent body on any matter of ethical conduct and matters arising on disputed audit findings. This will also encourage proper transparency and accountability on application of Government funds," reads the submissions.

On the Accountants Bills, the Institute lobbied for government support to enable Parliament enact the bill of 2018 into law.

The Institute has been in the process of amending the Accountants Act of 2008, which is now outdated, for the past five (5) years.

"The Accountants Act is an important part of the framework within which Accountants operate. It is important to continuously review the Act to consider the dynamics of business and modern economic reforms. The Act is being refined to remove the overlap of responsibility to make it more contemporary and relevant to Accountants and other stakeholders. It is therefore important that the Act is amended to capture the thinking of key interest groups," the Institute stated.

The Institute also offered to train members of parliament without finance background who sit on the Parliamentary Public Accounts Committee in order for them to effectively carry out their mandate.

It noted that the PAC helps Parliament to hold the government accountable over its use of public funds and resources by examining the audited public accounts.

The Institute stated that a strong Parliamentary Accounts Committee is an essential part of combating corruption and promoting good governance.

The institute also informed the Minister about ZICA Investment Projects – the Shungu Namutitima in Livingstone and the Accountants Park in Lusaka.

In order to diversify its income base and add more value to its members in particular and the nation at large, the Institute procured 107 hectares of land situated on Lots No. 19992/M and Stand Number F/9012/A, on Mukuni road, Livingstone where it intends to develop the Shuungu Namutitima International Convention Centre.

"In addition to the International Convention Centre, the Institute intends to develop a Five (5) Star Hotel, a Three (3) Star Hotel, 10 presidential villas and an 18 Hole Championship Golf Course. The Convention Centre, will comprise 12 meeting rooms for breakaway sessions, 2 Boardrooms and a detachable auditorium, with a total capacity to host 5,000 guests. In addition, it will also have an art exhibition centre, a cultural centre, an observation wheel (Livingstone Eye) offering viewers with a spectacular experience of the city of Livingstone and ultimately the Victoria Falls, the mighty Zambezi River including other tourist attractions in Livingstone and Victoria Falls Town. The project cost is estimated at US$150 to $200 million," it stated.

The institute appealed for Government support to actualise "this project of national importance as it will significantly contribute to employment creation and tourism".

The Institute also informed the Minister about the education and training of accountants including Public Financial Management and Taxation officers.

The Institute offers a Chartered Accountant Certificate in Accountancy, Chartered Accountant Application Advanced Diploma in Accountancy (degree) and a Chartered Accountant Advisory Professional in Accountancy (Masters Degree).

It informed the government that the Chartered Accountant (CA) Zambia programme has been registered and accredited by the Zambia Qualifications Authority (ZAQA).

"The qualification is not currently considered for scholarships and loans by the Higher Education Loans and Scholarships Board (HELSB). We wish to request that a consideration be made so that equal opportunity is facilitated so that we have a considerable cadre of qualified officers in government who can ensure improved transparency and accountability in the management of public resources. We also wish to ensure that the qualification is fully recognised for employment by the Public Service Management Division," the Institute stated.

It informed the Minister that a candidate is not conferred a Chartered Accountant Zambia qualification until they have undertaken three years practical training under the tutelage of a Chartered Accountant.

It stated that the practical training ensures work ready graduates who are competent in both the technical and non-technical skills needed to help an organisation thrive.

"To improve the efficiency of public financial management and promote institutional realignment and a performance management culture in the government in accordance with the 7th National Development Plan," it stated. "We are therefore recommending that we sign a MoU on Practical Training with the government to ensure that mentorship is carried out in a structured manner as approved by ZICA. ZICA currently signs MoUs with all employers of trainee Accountants to facilitate mentorship."

The Institute informed the Minister that it is a member of the Africa Professionalisation Initiative (API) - partnership between Accountant generals, the accountancy profession, supreme audit institutions and accountancy academics in Africa.

ZICA state that the API is contributing to the strengthening of Public Value Management systems in order to achieve value creation, fiscal discipline, effective resource allocation and effective service delivery to citizens.

"ZICA therefore launched the Diploma in Public Sector Financial Management in 2017. The office of the Accountant General has advised ZICA that government will increase sponsorship of officers who shall pursue this Diploma. In addition, government has informed us that priority for recruitment in government shall be given to holders of the Public Sector Financial Management so we look forward to this happening through the Public Sector Management Division and the Management Development Division (MDD)," it stated.

ZICA also informed the Minister that it offers a specialised training programme in Taxation to increase technical capacity that matches the growth in the Zambian economy.

"The programme complements the achievement of fiscal reforms according to the 7th National Development Plan which can assist in maintaining fairness and consistency in the tax system for improved equity and buoyancy. The Institute would therefore encourage Government to train as many officers as possible using this qualification to strengthen tax administration," it stated.

The Institute indicated that it is elated by the Government's key focus on creating a conducive business environment, which ultimately will lead to job creation and economic growth.

It encouraged the Government to implement this plan as it will enable citizens to run businesses and have jobs that will provide sustainable incomes, ultimately reducing the number of people receiving support through the social protection programmes.

It also advised the Government not to abandon the social cash transfer programme. ■

Tuition providers and sponsors with ZICA President Mrs Cecilia Zimba, Director Finance and Investments Mr. Charles Mutale, Council members Mr Malama Milambo and Ms Thulile Tuvimba and Business Development Manager Mr Moses Chitoshi Jr (blue gown) during the 15th ZICA graduation ceremony.

Vice President of the Republic of Zambia W.K Mutale Nalumango delivering her key-note speech during the Forum for Zambia Women Accountants Symposium and AGM at Mulungushi International Conference Centre in Lusaka on 18th November 2021

CA Zambia Ambassadors during the Budget Night Dinner which was held at Mulungushi International Conference Centre on 29th October 2021.

ZICA President Mrs Cecilia Zimba presenting a token of appreciation to the ZRA Commissioner general Mr. Dingani Banda. Looking on is the former ZICA CEO Mr. Bonna Kashinga.

Minister of Finance and National Planning Hon Dr. Situmbeko Musokotwane MP during a courtesy call meeting held at his office with the ZICA Council members led by the ZICA President Mrs Cecilia Zimba.

ZICA Taxation Committee members let by Council member Ms Thulile Kavimba after presenting ZICA proposals to the 2022 national budget at parliament buildings.

Corporate leader and public speaker Mr. Chibamba Kanyama speaking at the Pre-AGM workshop which was held in Livingstone on 8th October 2021.

CA Zambia Ambassadors Mr. Mwale Tembo and Mr. Essau Chabaya posing for a photo after presenting the CA Zambia qualification to pupils at Grandview Academy in Kafue.

TIPS ON HOW TO CREATE MONTHLY INCOME WHEN OUT OF EMPLOYMENT

INVESTING IN GOVERNMENT SECURITIES

Excited about reaching your retirement age and receiving your last money called terminal benefits? Worried about how you are going to manage your terminal benefits which you have just been paid?

To get started, let's understand what a terminal benefit is. A terminal benefit is a lump sum paid to an employee upon reaching retirement age. In Zambia, an employee can opt to retire after attaining the age of 60 or 65 years and this is in line with the employment ACT. Remember your terminal benefit is the last money which you are supposed to survive on following your retirement. How then can one create another stream of monthly income using the terminal benefits paid to him?

Let's take a hypothetical example. For argument's sake, assume that you want to keep your funds in government securities after so much consultations with the experts. Remember, there two types of securities offered by the Government of Zambia. Treasury bills and bonds. Treasury bills are in buckets of 91days, 183, 273 and 364 days respectively. Note that discount or capital gain on treasury bills is paid only once and on maturity hence one cannot create a monthly income using this government paper.

To the contrary, Government bonds are in buckets of 2,3,5,7,10 and 15years respectively, hence have longer economic life compared to the treasury bills. Further, bonds give the investor twofold benefits as opposed to the treasury bills. The first benefit is a discount which is the difference between the face or nominal value and the cost. To illustrate, if say, you invest K100 and the government discount the K100 downwards to K80 at an applicable yield rate, the difference between K100 and K80 is what is termed as discount, which is a gain that will immediately accrue to you. It should be noted that note that the government of Zambia through the Bank of Zambia will debit your account with K80 which in essence is equal to K100. The K100 will only be paid to you on maturity. The second benefit is the interest or coupon which is worked on the face value and paid to the investor half yearly. For example, if 11% coupon is paid on a five (5)-year bond of face value K100, the investor will receive K4.62 every six months (K100 X 11% less 16% tax) and K9.24 annually. Depending on how one systematically invests in the bonds, it is possible to continue receiving interest on a monthly basis regardless of the tenor in which funds are placed. One school of thought correctly said that since government bonds pay coupon twice per year on a 6 months basis, one needs to purchase bonds every month for six months in order to get coupon payments on a monthly basis.

Imagine if your terminal benefits are paid to you before month-end of October and there is a bond auction on the 29th. Should you decide to invest a portion of your terminal benefit in this auction, your first interest will be received in May 2022 for normal bond issue and in March 2022 for reissued bonds. If you participate in the bond auction due in November 2021, your first interest will come through in May 2022, and also interest for the December 2021 auction, will come through in June 2022 and so on and so forth.

Benefits of creating additional monthly income through investing in bonds

- Easier to meet monthly obligations such as DSTV expenses, electricity, water bills etc.
- Cash is readily available to settle school/college or university fees as and when they fall due.
- Excessing cash from bond interest can still be rolled over and reinvested.
- Excess funds available for outings with your family and quality of family life is also improved.
- Bond interest received on a monthly basis can be invested in other lucrative projects.
- Financial stress will be avoided and one will concentrate on his job.
- Increased disposable income.
- One can avoid the trap of borrowing
- Investing in securities can a source of guaranteed financial security to the family.

If well placed in government securities, terminal benefits can create perpetual monthly income stream on which the investor and his families can survive. Always remember that knowledge is power and if properly applied can turn out to be a financial shield.

The Author is a Senior Manager Finance at Indo Zambia Bank and a lecturer of Mulungushi University.

ANTI-MONEY LAUNDERING IN ACCOUNTING AND AUDIT FIRMS

IN THIS article we will address the frequently asked questions on the Anti-Money Laundering/Countering Terrorism and Proliferation Financing (AML/CTPF) regime in Zambia.

WHAT IS MONEY LAUNDERING, TERRORIST FINANCING AND PROLIFERATION FINANCING?

Money laundering refers to the process of concealing the true origin and ownership of proceeds of crime. Terrorism financing refers to an act by which a person, directly or indirectly funds a terrorist act. Proliferation financing refers to an act by which a person, directly or indirectly funds the proliferation of any weapon that can cause mass destruction.

WHAT IS THE FINANCIAL ACTION TASK FORCE?

Financial Action Task Force (FATF) is an independent inter-governmental body established in 1989 that develops and promotes policies to protect the global financial system against ML/TF/PF. Furthermore, the FATF sets standards on AML/CTPF that countries should domesticate and implement (FATF, 2021).

WHY HAS ZAMBIA IMPLEMENTED AN ANTI-MONEY LAUNDERING/ COUNTERING TERRORISM AND PROLIFERATION FINANCING (AML/ CTPF) REGIME?

Zambia has ratified and domesticated a number of United Nations (UN) conventions that include provisions related to combating ML/TF/PF. Further, Zambia is a founder member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF styled regional body. Zambia as a member of both the UN and ESAAMLG is required to comply with the UN conventions and FATF standards.

WHAT IS THE AML/CTPF LEGAL FRAMEWORK IN ZAMBIA?

The AML/CTPF legal framework in Zambia includes the laws listed below:

i. Financial Intelligence Centre Act No. 46 of 2010 (as amended) (The FIC Act)

ii. Prohibition and Prevention of Money Laundering Act No. 14 of 2001

iii. Anti-Terrorism and Non-Proliferation Act No. 6 of 2018

iv. Forfeiture of Proceeds of Crime Act No. 19 of 2010

WHAT IS THE FINANCIAL INTELLIGENCE CENTRE?

The Financial Intelligence Centre is a statutory body created by an Act of Parliament. The core function of the Financial Intelligence Centre is the receipt, request, analysis and dissemination of suspicious transaction report bordering on suspected money laundering, terrorism and proliferation financing to law enforcement and designated foreign authority. Further, the FIC is mandated to facilitate effective AML/CTPF risk based supervision of regulated institutions in Zambia.

Which sectors in Zambia are subject to AML/CTPF regulation?

Sectors regulated by the supervisory authorities listed below:

1. Bank of Zambia
2. Pension and Insurance Authority
3. Securities and Exchange Commission
4. Licensing Committee established under the Tourism and Hospitality Act, 2015
5. Registrar of Estate Agents
6. Law Association of Zambia
7. Zambia Institute of Chartered Accountants
8. Chief Registrar of Lands
9. Ministry of Mines.

In this context, institutions subject to AML/CTPF regulation in Zambia include financial service providers, designated non-financial business or profession and virtual asset service providers.

WHAT ARE DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS?

The FIC Act defines designated non-financial businesses and professions (DNFBPs) to include:

1. Casino, gaming or gambling operator;
2. Trust or company service providers;
3. Legal practitioners, notary, other independent legal professional
4. Accountants
5. Estate agents
6. Dealers in precious metals and stones.

DNFBPs are required under the FIC Act to develop and implement measures to prevent and detect suspected money laundering, terrorism or proliferation financing.

WHY REGULATE THE ACCOUNTING AND AUDIT SECTOR FOR AML/CTPF?

Various typologies undertaken on the accounting and audit sector have found that some of the services provided by the sector are attractive to money launderers and have been used to launder proceeds of crime. Further, accounting and audit firms are viewed as "gatekeeper" given the unique role they play in business/commerce. In this regard, the sector is crucial in preventing and detecting money laundering, terrorism or proliferation financing.

WHAT ARE THE AML/CTPF REQUIREMENTS FOR THE ACCOUNTING AND AUDIT FIRMS?

Firms are required by the FIC Act to develop and implement measures to prevent and detect suspected ML/TF/PF. These measures includes:-

1. AML/CTPF Internal policies and procedures
2. ML/TF/PF risk assessment
3. Designate an AML/CTPF compliance officer
4. AML/CTPF training for staff
5. Independent testing/audit

These five (5) components make up the AML/CTPF compliance programme.

WHAT SERVICES ARE VULNERABLE TO ABUSE BY CRIMINALS IN THE ACCOUNTING AND AUDIT SECTOR?

Accounting and audit firms offer a variety of services that are susceptible to abuse by criminals, including financial and tax advice, company and trust formation, buying and selling of property, performing financial transactions, audit and assurance, book keeping and preparation of accounts and gaining introduction to financial institutions

WHAT ARE AML/CTPF INTERNAL CONTROLS AND PROCEDURES?

Accounting and audit firms are required by the law to formulate and implement internal procedures and other controls that will deter criminals from using their services for ML/TF/PF.

The AML/CTPF internal controls and procedures should include:

i. AML/CTPF Policy: The policy should outline the firm's commitment to combating ML/TF/PF. Further, it should provide the framework within which the firm's AML/CTPF controls and procedures are nested. The policy document should be approved by senior management of the firm. The FIC has developed guidelines to assist firms develop their AML/CTPF policy. These guidelines can be accessed on this link: https://www.fic.gov.zm/reporting

ii. Know Your Customer/Customer Due Diligence Procedures: Firms should implement KYC/CDD procedures that will enable them identify and verify their customer's identity. These procedures should be at onboarding stage and in the course of an established business relationship. The procedures should include Enhance Due Diligence procedures for high risk customers.

iii. ML/TF/PF Risk Assessment Procedures: Firms should implement procedures for undertaking an ML/TF/PF risk assessment of their services with associated delivery channels, customers, and geographical location. The risk assessment procedures should enable the firm identify, assess and understand its ML/TF/PF risk exposure.

iv. Transaction monitoring procedures: Transaction monitoring procedures enable firms to scrutinise transactions involving their customers. These procedures assist firms identify transactions that are inconsistent with their customer's business profile. Transaction monitoring procedures can be automated or manual depending on the size and complexity of a firm's business.

v. Sanction screening procedures: Firms should implement procedures whether manual or automated to scan all prospective and existing customers against international sanctions lists such as the Office of Foreign Assets Control OFAC, the United Nations (UN) and European Union (EU) sanctions lists as well as other watch lists. Sanction screening procedures should include measures for reporting positive matches to the National Anti-Terrorism Centre.

vi. Record keeping procedures: Firms should implement procedures to maintain records on customer transactions and CDD information. Firms are required to keep records for not less than 10 years after the business relationship has ended or from the date of the transaction.

WHAT IS AN ML/TF/PF RISK ASSESSMENT?

Firms are required to identify, assess and understand their ML/TF/PF risk exposure (FATF, 2019). The ML/TF/PF risk assessment will include an assessment of the firm's services with associated delivery channels, customers and geographical location.

i. Services with associated delivery channel: a firm should identify, assess and understand the ML/TF/PF risk posed by the services offered to customers. The firm should be able to identify services that are most susceptible to abuse by money launderers and put in place controls commensurate to the identified risk. Further, when assessing a service, the firm should consider the channel used in delivering that service. And the extent to which a service's delivery channel contributes to the overall risk of the service. The risk assessment should be done when a firm is introducing a new service and on a periodic basis for existing services. In undertaking a service risk assessment, the firm should ask the questions: "Do any of our products or services have attributes known to be used by money launderers? Does the nature and type of the engagements the business provides advice on have an inherently higher risk of money laundering?" (IFAC, 2020)

ii. Customers: a firm should identify, assess and understand the ML/TF/PF risk associated with each of its customers. The risk assessment should be done at onboarding stage and throughout the business relationship. Changes to the customer's business profile may impact their risk rating. A firm may consider various factors when assessing their customers including industry, geographical location/jurisdiction of operation, legal form and any other publicly available information. In undertaking a customer risk assessment, a firm should ask the question: "Does the client or its beneficial owners have attributes known to be frequently used by money launderers?"(IFAC, 2020)

iii. Geographical location: a firm should identify, assess and understand the ML/TF/PF risk associated with the jurisdiction in which it operates and that of its customers. In this assessment, the firm is getting an undertaking of the risk of money laundering, terrorism or proliferation financing posed by jurisdiction. In this context, the firm will consider publicly available information on the jurisdiction's "perceived level of corruption, criminal activities and the effectiveness of the money laundering regime" (IFAC, 2020). In understanding the risk posed by a jurisdiction, the firm will be asking the question: "Are our clients established in countries that are known to be used by money launderers?" (IFAC, 2020).

The FIC has issued a guideline on ML/TF/PF risk assessment that can be found on this link: *https://www.fic.gov.zm/reporting*

WHO CAN BE DESIGNATED AS AN AML/CTPF COMPLIANCE OFFICER?

The FIC Act requires that a firm designate a compliance officer for purposes of AML/CTPF compliance. The compliance officer should be responsible for implementing the firm's compliance programme and ensuring compliance with the FIC Act. The role of compliance officer can be assigned to an employee who has another substantive position in the firm e.g. managing partner. As regards a firm that is a "one man show", that single individual can designate themselves as a compliance officer. The designated compliance officer should be submitted to the FIC for vetting and approval. The procedure for submitting an officer for vetting and approval can be found on this link: https://www.fic.gov.zm/reporting

WHAT IS AML/CTPF TRAINING?

The FIC Act requires firms to provide AML/CTPF training to their employees. The objective of the training is to ensure that employees are aware of AML/CTPF laws and regulations, able to detect and report suspected ML/TF/PF. The frequency and intensity of the training will depend on the firm-wide risk assessment. AML/CPTF training can be undertaken by the designated compliance officer or an external party. Furthermore, the FIC provides free awareness training on AML/CTPF requirements.

WHAT IS INDEPENDENT TESTING?

The FIC Act requires firms to subject their internal AML/CTPF measures to independent audit. The objective of the audit is to review and verify the effectiveness of the measures implemented in accordance with the law. The independent audit should be undertaken by someone not responsible for the implementation of the compliance programme. In this regard, the firm's designated compliance officer should not undertake the audit of the compliance programme. Independent auditors can be sourced internally or externally as long as they possess the requisite knowledge, skill and are independent from the daily management of the compliance programme. The frequency, scope and intensity of the independent audit will vary based on the risk profile, changes to the business and findings from previous audits.

The FIC has issued guidelines on independent audit that can be found on this link: *https://www.fic.gov.zm/reporting*

WHAT IS SUSPICIOUS TRANSACTION REPORTING?

A firm is required to submit a report to the FIC were it has reason to believe or suspect that a transaction is linked to ML/TF/PF. The report is referred to as a suspicious transaction report (STR). An STR should be submitted with the FIC within 3 working days after forming the suspicion. The STR should be submitted to the FIC by the designated compliance officer electronically through the FIC's STR portal. The FIC has issued a prescribed STR form that a compliance officer should use to report STRs. The STR form can be downloaded from this link: *https://www.fic.gov.zm/reporting.* ■

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PROCEDURES IN STATUTORY AUDIT ENGAGEMENTS

AN ASSURANCE engagement is a relationship where one party - the practitioner (the auditor) - gives assurance to interested parties (the shareholders and other stakeholders) on the subject matter (financial statements) prepared by the responsible party (management).

A statutory audit of financial statements of a client company is an example of a reasonable assurance engagement. The objective of carrying out a statutory audit is for the practitioner to form an opinion with a view to increase confidence on the financial statements.

In order for the practitioner to give the required level of assurance, he needs to obtain sufficient, appropriate audit evidence. The practitioner gathers sufficient, appropriate audit evidence by performing audit procedures on all material items in the financial statements.

In this article, we will address the performing of audit procedures by the auditor. This is an important topic which has significant examination relevance and it is likely to be examined at every auditing and assurance examination.

It is important to state from the outset that management is responsible for the preparation of financial statements in accordance with the relevant financial reporting framework and the International Financial Reporting Standards (IFRSs). If this is the case and audit evidence obtained suggests that the financial statements have been prepared in accordance with the relevant framework, the auditor concludes that the financial statements show a true and fair view, and will issue an unmodified opinion. If on the other hand the auditor has a material matter of concern with regards the financial statements, he will issue a modified opinion based on the evidence obtained from the audit procedures performed.

AUDIT PROCEDURES

The bulk of the work that the statutory auditor does is that of performing audit procedures for all material amounts contained in the financial statements. Before the introduction of auditing standards, audit firms designed their own audit programmes to use in performing audit procedures. The introduction of International Standards on Auditing (ISAs) made the designing of audit procedures easy in that the standards give guidance on the objectives of the auditors in the areas concerned and suggest suitable audit procedures that should be performed. In answering examination questions, candidates are required to do so in accordance with the provisions of the relevant auditing standards.

Audit procedures are performed at all the three levels of auditing namely the planning stage, the substantive audit stage and the review stage. Candidates should distinguish methods used to obtain evidence from audit procedures that should be performed. The methods generally used to obtain evidence include inspection, recalculation, observation etc. Explaining these methods when asked to suggest audit procedures will not attract marks. These should be used to describe the procedures that should be performed.

In this article we describe audit procedures performed during the substantive stage of auditing whose objective is to test for any material misstatements that may exist in the financial statements.

FINANCIAL STATEMENT ASSERTIONS AND AUDIT PROCEDURES

Financial statement assertions are matters that are implied or claims made by management concerning the figures contained in the financial statements. These claims relate to compliance in the preparation of the financial statements to the relevant financial reporting framework such as the Company's Act 1994, the International Financial Reporting Standards (IFRSs) and listing requirements for listed companies. Generally, it can be concluded that if the financial statements are prepared in accordance with the above authorities then they show a true and fair view. If that is not the case then the conclusion is that the financial statements do not show a true and fair view.

Financial statement assertions are in two classes, namely, assertions or claims about classes of transactions and the related disclosures contained in the profit or loss account and assertions about balances and the related disclosures contained in the statement of financial position.

EXAMPLE OF FINANCIAL STATEMENTS ASSERTIONS

An amount of K1.2 million contained in Property, plant and equipment relating to motor vehicles in the draft financial statements of Tree Ltd will have the following assertions:

1. Tree Ltd has the rights to the motor vehicles represented by this figure and the vehicles belong to Tree Ltd. Only vehicles belonging to Tree Ltd should be included in the SFP
2. That the motor vehicles existed at the period end and were used for business of Tree Ltd.
3. That the amount of K1.2 million is the appropriate value for the vehicles represented.

LINK BETWEEN FINANCIAL STATEMENTS AND AUDIT PROCEDURES

The statutory auditor of Tree Ltd will require to obtain sufficient appropriate evidence about whether the financial statement assertions in the draft accounts hold true or not. This will be done by designing appropriate audit procedures relevant to the assertions being tested. Auditors will have to have financial statement assertions in mind before designing audit procedures. For example, using the figure of motor vehicles in Tree Ltd, the following link between assertions and audit procedures should be noted:

Audit procedures in the audit of motor vehicles in Tree Ltd:

1. Inspect the white books for the motor vehicles represented in the figure of K1.2m and confirm that they are in the name of Tree Ltd.

The relevant procedure is the inspection of the white book. This tests the assertion of rights and obligations confirming that the motor vehicles belong to Tree Ltd.

Physical inspection of the motor vehicles is NOT an appropriate test for rights and obligations and will be testing a different assertion as explained in (2) below.

2. Physically inspect all the motor vehicles to confirm that the amount represents vehicles that existed at the period end.

Inspecting the white books and confirming that the vehicles belong to Tree Ltd is not an appropriate audit procedure for testing for existence.

3. For a sample of motor vehicles, inspect the invoices and other documentation and confirm that amount in the financial statements and recalculate the depreciation charge. This procedure aims at testing the assertion of accuracy and valuation.

4. Review the draft financial statements and confirm that the disclosures regarding tangible non-current assets are in accordance with IAS 16 Property, plant and equipment. The

assertion being tested is that of disclosure.

Giving general audit procedures without relating them to assertions is not correct and will not attract maximum marks in answering examination questions. It is imperative, therefore, that in order to suggest appropriate audit procedures, the candidates should know in detail the assertions contained in the figures in the financial statements.

Candidates taking any of the auditing papers are assumed to have full accounting knowledge of the specific accounting issues under respective syllabuses for each auditing paper. Candidates are encouraged to revise the accounting requirements for the relevant elements if their knowledge has diminished over time to enable them perform better in answering questions on audit procedures to score high marks.

ILLUSTRATION:

You are an Audit Senior in your firm of chartered accountants and the audit of the financial statements of Tree Ltd for the year ended 31 December 2020 is in progress.

Contained in the draft statement of financial position is an amount of K770,000.00, described as provisions. You have been provided with an analysis of this figure as follows:

Provision for legal action against the company -K550,000.00

Warranty provisions	120 000.00
General provision	100 000.00
Total	K770 000.00

REQUIRED:

Describe the audit procedures that should be performed for each of the three (3) amounts above. (12 marks)

Presentation of answers in the examination is important in order to earn maximum marks.

SUGGESTED SOLUTION:

Audit procedures in the audit of provisions:

General procedures

1. Cast the schedule of provisions for mathematical accuracy (Accuracy).

2. Confirm that the total amount on the schedule of provisions is the same as the balance in the Provisions account in the general ledger (Completeness).

3. Review previous year's provisions compared to the outcome to assess management's ability to make provisions.

4. Obtain written representations from management to support the provisions made and the basis for such provisions.

Further audit procedures for each of the three elements include the following:

PROVISION AGAINST LEGAL ACTION

K550,000.00

1. Read through the minutes of management meetings and those charged with governance to establish the full details of the legal action against the company.

2. Enquire of the in-house legal counsel, if any, on the details of the case and obtain his views on the likely outcome of the case and review any correspondence with management.

3. Inquire from management the assumptions and basis for making the provision and possibly obtain written representations from management.

4. Recalculate the provision for mathematical accuracy where this is relevant.

5. Ensure that the reasons for recognising a provisions meet the requirements of ISA 37 for example that Tree Ltd has a present obligation as a result of past events and that it is likely that there will be an outflow of resources from Tree Ltd and that it is possible to make a realistic estimate of the provision.

6. Review the draft financial statements and ensure that disclosures regarding provisions have been made in accordance with standards.

7. During the post year period (January 2021 to date of the report) look out for any event that may give evidence on the provision made at the period end. For example, if the case is concluded and the court determines the amount to be paid.

WARRANTY PROVISION

K120 000

1. Inquire from management the basis for creating the warranty provision.

2. Obtain the calculations for the provision and recalculate for mathematical accuracy.

3. Review previous warranty provisions made by management and compare with the actual outcome to assess management's ability to make provisions.

A warranty is an undertaking by the entity that it will make good, in the case of defective goods, or replace the goods purchased by a customer. In that case, the company may have a legal or constructive obligation to do this and does give rise to provisions in the financial statements because it meets the requirements of IAS 37.

GENERAL PROVISION

K100,000

1. Inquire from management the reason for making a general provision.

2. Obtain details of the general provision, if any, and assess if it meet the provisions of IAS 37, if not, request management to reverse the provision.

General provisions are no longer allowed in the financial statements. This is because before the issuing of IAS 37, companies manipulated profits through making and reversing general provisions. IAS 37 requires that only specific provisions meeting the requirements of the standard should be made and can only be used for the specific reasons they were created.

It should be noted that without full knowledge of the accounting for provisions as contained in IAS 37 Provisions, contingent liabilities and contingent assets candidates are unlikely to describe suitable and relevant audit procedures that should be performed.

In the examination, audit procedures could be examined in any of the following ways:

1. Candidates may be asked to explain the financial statement assertions for any transactions or balances in the financial statements without explaining the required audit procedures.

2. Candidates may be asked to explain assertions for any transactions or balances and suggest suitable audit procedures to perform.

3. Candidates may be required to state the assertions being tested by given audit procedures for transactions or balances.

4. Candidates may be required to explain the evidence they expect to find in a review of working papers regarding audit procedures that have been carried out by a junior member of the audit team.

CONCLUSION:

Candidates are required to suggest suitable audit procedures that should be performed on the relevant elements of the financial statements in the various syllabi.

In practice, you will be required to carry out audit procedures in gathering evidence and also to be able to review work performed by juniors, including that on audit procedures that have been carried out.

This topic has significant examination relevance and is likely to be examined in every future auditing examination.

For more useful technical articles on auditing and assurance and public sector auditing like my Facebook page PGM Auditing Made Simple for free weekly technical articles up to the end of April 2021.

PETERSON G. MUMBULUMA
FCCA AZICA

BRIEF PROFILE:

Possesses vast experience in auditing and accounting and general operations of companies with a career spanning a period of more than forty years. Worked as an external auditor and in the private sector in the finance function in the internal audit function to the preparation of financial statements.

Multi-skilled and worked for over ten years in the operations function of a leading international oil company. In the last five years have been involved in managing grants and working with faculty of a leading university in managing finances of three donor aided projects. These projects are in collaboration with international universities. ■

ACHIEVING IMPACTFUL CPD

By Michael Kaminsa

Continuing Professional Development (CPD) is a term used to describe the learning activities professionals engage in to develop and enhance their abilities. This learning is often facilitated through trainings, forums, seminars, webinars, workshops and conferences. CPD aims to ensure that professionals are up-to-date with the technicalities of their fields and maintain proficiency throughout their careers.

Due to its significance, CPD is a focus area for regulators of various professions. The Zambia Institute of Chartered Accountants (ZICA), for example, requires its members to complete at least 40 hours of CPD per year, 21 of which must be verifiable. The ZICA CPD requirements help to ensure that accountants in Zambia stay competent and develop new skills they require to be effective in their jobs and careers.

INTRODUCING CONTINUING PERSONAL DEVELOPMENT

This article introduces an area of development that is not given as much attention as I feel it deserves – Continuing Personal Development (which can also be described by the acronym CPD). Unlike Continuing Professional Development discussed above, Continuing Personal Development aims to develop individuals in their individual capacities, rather than as professionals; it develops them as human beings, rather than as workers.

Personal development can benefit an individual in various aspects. Listed below are some examples of these:

- Time management
- Leadership abilities
- Emotional intelligence
- Financial literacy
- Discipline
- Relationships
- Inner peace
- Etiquette
- Motivation
- Inspiration
- Business acumen
- Negotiation skills

Of course, the list above is not exhaustive. There are many more wame of Continuing Personal Development. The list provided simply demonstrates how widely an individual can develop, other than just professionally.

A NOTE TO EMPLOYEES

As an employee, you must realise that the knowledge and skills you currently possess are not enough to keep you proficient in your career for the foreseeable future. You should take Continuing Professional Development seriously as a way to continuously upskill yourself and stay relevant in your field.

In addition to that, however, you must realise that other than being an employee, you are a human being. Your role as an employee is just part of who you are. Therefore, even as you develop yourself professionally, do not neglect to develop yourself personally. Be modest enough to recognise that you currently do not know everything you need to know to become and stay successful, regardless of what your definition of success may be. You should take Continuing Personal Development seriously as a way to continuously improve your performance in various aspects of your life. In fact, as you embark on your journey of Continuing Personal Development, you will notice remarkable positive effects on your performance as an employee.

HOW, PRACTICALLY, CAN YOU ACHIEVE CPD?

Continuing Professional Development is often structured. Your employer may inform you of programmes (e.g. trainings, seminars, etc.) for you to attend. Such information may also come from other stakeholders in your field, such as regulators. However, it is also important for you to use initiative to seek out opportunities to learn and develop yourself professionally.

Continuing Personal Development, on the other hand, may require a little more personal effort. Fortunately, personal development material is widely available. A common source of this is in books. So take some time out to visit your local bookstore and pick out something that tickles your fancy. Your aim should be to enhance your knowledge, skills and abilities for use in various aspects of life. An alternative to buying books is to search for such materials online, many of which may be available for free download in PDF or audio format. Whichever way you do it, you will be glad you made the effort!

A NOTE TO EMPLOYERS

It is said that, “Employees are a company’s greatest asset.” Certainly, a business is only as good as the people that work in it. It must, therefore, be your priority as an employer to invest in your employees and ensure that they are continuously developing. The following practical suggestions may be of help:

1. Consider the ‘tone at the top’. The management team should be able to demonstrate that they take their own development seriously; both professionally and personally.
2. Arrange for employees to engage in learning activities that develop and enhance their professional skills.
3. Make deliberate efforts to expose employees to content that aids their personal development. For example, you could occasionally gift employees with books or invite various coaches to give lectures to them.
4. Reward demonstrated personal development. As part of the annual performance appraisal, include conversations with employees about the books they have read over the period or the new skills they are learning that may not necessarily be related to their professional work.

Remember, you do not offer your employees jobs for their entire lives. If they ever wish to leave, it should give you satisfaction as an employer to know that they are leaving, not only as better professionals, but also as better human beings than they were when they first started working with you.

CONCLUSION

Clearly, both types of CPD discussed in this article are important. Engaging in Continuing Professional Development ensures that both academic and practical qualifications do not become outdated or obsolete; allowing individuals to continually ‘upskill’ or ‘re-skill’ regardless of occupation, age or educational level. Continuing Personal Development, on the other hand, ensures that individuals are growing in their individual capacities, and in various aspects of their lives.

May we all be determined to keep learning and growing – yes, to keep developing as professionals and, perhaps more importantly, as human beings! ■

Michael Kaminsa is an Audit Manager at GBO Chartered Accountants. Prior to this role, he was an Audit Senior at KPMG in Zambia. He is a holder of the ZICA Professional and CA Advisory Professional in Accountancy qualifications, and is currently pursuing a Master of Business Administration (MBA) in Finance. The views expressed in this article are his own and not necessarily those of the institutions to which he is affiliated.

ADOPTION AND IMPLEMENTATION OF CASH BASIS IPSAS IN ZAMBIA'S PUBLIC SECTOR: AN ANTIDOTE OF FINANCIAL IRREGULARITIES OR DESIRE OF REPRESENTING FACADES

By Louis Kalusa, PhD Candidate, ACMA, CGMA, ZICALIC, MSAF, MBA, BAC, DPSFM, ATD, CIA; Civil Servant, researcher and lecturer
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This paper is based on the third chapter of my Doctor of Philosophy (Ph.D.) Thesis whose overarching question is "Why are developing countries encouraged to adopt and implement Cash Basis IPSAS as a stepping stone towards the question: why are developing countries encouraged to adopt and implement Cash Basis IPSAS as a stepping stone to accrual IPSAS?" Any opinions expressed are those of the author and not those of the Zambia Institute of Chartered Accountants (ZICA).

INTRODUCTION

In the last three decades, many Public Financial Management (PFM) Reforms promoted by New Public Management (NPM) have been undertaken. These reforms have spread to developing countries such as Zambia and include changes in governmental accounting systems, where the implementation of International Public Sector Accounting Standards (IPSAS) has been a stimulus for modernisation. The adoption of public sector accounting standards can take place directly or indirectly (Bergmann, 2009; Chan, 2006). Directly, the legislation of the country refers specifically to the adoption of the original IPSAS text (e.g., Dominican Republic). Indirectly, as in the case of Liberia, Zambia and South Africa, the countries have approved standards in their legislation, based on IPSAS to a greater or lesser extent. These are followed by secondary regulations that put them into force. In both approaches, an accounting manual is the vehicle to promulgate national standards, while technical consultations with regard to their implementation are carried out through administrative resolutions.

Similarly, the adoption of IPSAS can be distinguished from "adaptation" to IPSAS (CIPFA and IFAC, 2018). In the former case, standards that are applicable to a country are transposed into national legislation without significant change. In the latter case, a country that adapts its government accounting to IPSAS usually does not entirely change its national legislation; rather, it includes some changes to bring it closer to international standards, such as in the case of South Africa. In addition, some countries may opt not to apply certain standards, as is the case of most of African countries in terms of the IPSAS relating to financial reporting in war tone, hyperinflationary and even those nations with political stability like Zambia, Mauritius, Ghana, Botswana, Sierra Leone, and The Gambia.

ANTECEDENTS OF CASH BASIS IPSAS

The Cash Basis IPSAS is one of the forty-two (42) International Public Sector Accounting Standards (IPSAS) and three (3)

Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies (Deloitte 2021). Cash Basis IPSAS was first issued by the International Public Sector Accounting Standards Board (IPSASB) in January 2003 on the global scenes. It was later updated with additional requirements and encouragements dealing with the presentation of budget information in 2006 and external assistance in 2007. The initial goals of IPSAS which are also of cash basis IPSAS are to promote greater government accountability, improved quality and reliability in accounting and financial reporting, better financial and economic performance, better financial management and discipline, and international harmonisation of reporting requirements (IFAC, 2021).

The antecedents for the IPSAS adoption and implementation differ from country to country. Claims on IPSAS adoption and implementation indicate that countries have adopted and implemented such reforms because of standard principle of good governance, which includes transparency, accountability, and integrity (Barkerville and Grossi, 2019). Consequently, international institutions such as the International Monetary Fund, Organisation for Economic Co-operation (OECD), and the World Bank, have been pushing for the adoption of Cash Basis IPSAS to ensure comparability, transparency, and control of corruption (Allen, 2009; Manes Rossi et al., 2016). Indeed, the New Public Financial Management Movement has called for the adoption of IPSAS as it pushes towards the harmonisation of accounting practices in the government sector (Benito et al., 2016; Christiaens and Rommel, 2008). More importantly, it has been observed that such reforms are promoted as being learnt from the "best (accounting) practices" of Western countries.

PUBLIC FINANCIAL MANAGEMENT REFORMS AND ITS APPLICABILITY

Public financial Management reforms in the name of cash Basis IPSAS in developing countries is reckoned to be paramount to ensure sound governance, accountability and sustained economic growth (ACCA, 2017). Recently, however, challenges associated with adopting IPSAS in developing countries have been acknowledged and their suitability has been questioned too (Hepworth, 2017; Bakre et al., 2017; Goddard et al., 2016; Hopper et al., 2017; Lassou, 2017). Some of the current obstacles pertaining to IPSAS adoption are broader change management and programme management issues. Others are more basic, such as poor IT infrastructure, bad record keeping, and paucity of core accounting information under previous financial reporting practices (ACCA, 2017; Tanjeh, 2016). However, the author argues that these obstacles could not be homogenous to every nation.

The author's preliminary assessment is largely negative, especially after taking into consideration the happening in Zambia's public sector. For example, the Government of the Republic of Zambia (GRZ), the public sector adopted and implemented the cash basis IPSAS accounting in 2009 with the view to improve the quality, comparability and reporting of Government financial information (GRZ, 2009). Just like any other country, Zambia included, the general expectation after the adoption or implementation of Cash Basis IPSAS were to increase fiscal transparency, public financial accountability, reduced corruption and comparability of government financial information (Cohen and Karatzimas, 2015; Bellanca, 2014). Today, Zambia's public sector has a problem in the way management public financial resources are recorded and communicated to the owners, the 17 million Zambians. This is attested to by the fact that year in and year out financial and audit reports from the office of the Auditor General have continued to reveal unsatisfactory to moderate performance. For example, Ministry of Health, categorised under Ministries, Provinces and Spending Agencies (MPSAs), has been using Cash Basis IPSAS as an accounting too to manage, record and report public financial resources. However, the ministry was in June 2020 involved in a USD17 million procurement of health kit financial irregularities where Honey Bee Pharmacy Limited was involved. Another financial irregularity happened at Ministry of Community Development and Social Services involving 4.3 million U.S. dollars of donor funds meant for the social cash transfer programme which were misapplied and consequently led to the firing and jailing of the minister, yet the ministry has been using cash basis IPSAS. The minister has appealed the jail sentence.

Despite the numerous prescribed benefits of cash basis IPSAS adoption and implementation that range from potential constrainer on corruption and an antidote for the increased public financial management and fiscal transparency, Everett et al. (2007) argue to the contrary that accounting can be both a potential enabler and constrainer in the fight against corruption, particularly in the case of accrual reporting. Tawiah, (2021) also stresses that an arbitrary estimate and discretionary measurement under IPSAS are likely to enable corruption, especially in developing countries, given that government officials and politicians are always looking for opportunities to misuse public funds. IPSAS can allow politicians to engage in corrupt practices which could still be faithfully represented in the financial statements without source documents and more importantly IPSAS is not law that could compel anyone to its total adherence. It has been further argued that decisions on adopting public financial reforms rather than their actual implementation are usually sufficient to ensure legitimacy and survival (Adhikari et al., 2019). This is exemplified by a range of failed accounting reforms in developing countries (Hopper et al., 2017). Studies have delineated cases where reforms have failed to replace the prevailing practices, thereby just layering up and becoming rather ceremonial. For example, Adhikari et al. (2015) argue that ceremonial adoption is more striking when reforms are supplier-led (i.e. by international donors in the case of developing countries) and when local requirements and needs are marginalised. The supplier-led reforms are often influenced by "pro-innovation biases", which implies that externally prescribed best practices are likely to bring benefits to the adopting organisations.

A perfectly functioning public sector is one where financial irregularities such as unaccounted for revenue, unaccounted for funds, misapplication of funds, unretired accountable imprest, unvouched expenditure, unaccounted for stores, irregular payments, non-recovery of loans and advances, failure to follow procurement procedures, undelivered materials, non-submission of expenditure returns, wasteful expenditure, overpayments, misappropriation of funds, delayed banking, unauthorised expenditure, excess expenditure and underbanked revenue (Kalusa, 2019; Kalusa et al.,2021) are non-existent. However, the opposite has been happening in the Zambian public sector and this calls for more scientific studies that could examine the IPSAS applicability and whether the country has realised the IPSAS benefits as prescribed by IPSASB which range from providing improved quality of general purpose financial, leading to better informed assessments of the resource allocation decisions made by public entities, thereby increasing fiscal transparency and public financial accountability (Atuilik and Salia, 2019; WHO, 2013; UN, 2015). In Zambia's Public Sector, hardly does a year pass without issues pertaining to massive public sector financial irregularities being cited in the annual Auditor General's report and this alone has made the author to wear different lenses to see the prescribed Cash Basis IPSAS benefits.

According to revelations by the World Bank 2010 report, Zambia's corruption add more fertile grounds for questioning Cash Basis IPSAS which has been in use for a decade. The report further questions whether the standard is an antidote for public sector financial irregularities or driven by a desire of representing facade. For instance, after the adoption of Cash Basis IPSAS, Zambia's corruption index imaginarily dropped from 3.0 to 2.5 in 2010 and rose to 3.0 in 2012, a rating that has been constant until 2017 (World Bank, 2010). The average value for Zambia during from 2003 to 2020 has been 33 points with a minimum of 25 points in 2003 and a maximum of 38 points in 2013. For comparison, the world average in 2020 based on 177 countries is 44 points (Transparency International, 2020). An overarching question that appears in the lenses of the author is whether the drop in CPIA transparency, accountability, and corruption in the year 2010 was real. The score of 3.0 is high and it entails that Zambia Public Sectors still lack transparency, accountability and corruption is high despite the adoption of Cash Basis IPSAS. In the mind of the author, Zambia's public sector rushed on Cash Basis IPSAS adoption and the country had limited information about the standard, its consequences and this has led to suspicions as to whether her intentions are genuine or meant to convince donors and international organisations that they could cope with their institutional pressures and to ensure there lease of committed resources. This is not new in Africa; Tanzania did unethical activity just to make donors and sponsors happy. Goddard et al. (2016) demonstrate the case of Tanzania in which all financial statements were stamped as "fully IPSAS compliant", although this was far from the reality. This manipulation was meant to convince donors and international organisations that they could cope with their institutional pressures and to ensure the release of committed resources. Other examples include Nigeria and Benin. Bakre et al. (2017) have demonstrated how the adoption of these IPSAS enabled the politicians to conceal widespread patronage and corruption in the sale of government properties. A similar situation has been experienced in Benin where IPSAS and other public sector accounting reforms have provided a space for clientelism, corruption and patronage to flourish rather than leading to any improvements in governance and accountability (Lassou, 2017). Perhaps the finding of Hepworth who stated that for developing countries "the implementation of the accrual-based IPSAS is not an appropriate reform unless preceded or accompanied by other, essentially managerial, reforms" could be true in the case of Zambia (IPSAS, 2017).

LINKING NEO-INSTITUTIONAL THEORY TO IPSAS

Neo-institutional theory holds the view that an organisation's success and survival largely depends on how it engages with its external environment in day-to-day operations (Meyer and Rowan, 1977; Adhikari et al., 2018). Based on an organisation's position and influence, available knowledge and availability of resources, external influences and pressures can take different forms, ranging from coercion to mimetic to normative (DiMaggio and Powell, 1983). While coercive pressure is linked to state intervention and excess dependency on external resources, mimetic pressure concerns imitating other successful organisations, especially when environmental, regulatory and technical uncertainties are abounding. Normative pressures are, however, more subtle as they tend to originate from the profession and scholars (DiMaggio and Powell, 1983). The dissemination of IPSASs in developing countries is often related to coercive pressure. In the presence of multiple institutional pressures, countries might embrace IPSAS without being convinced of the expected benefits and without ascertaining whether they really fit into their operating context (Hepworth, 2017). Prior studies show that compliance to external requirements enhances legitimacy, but the externally inflicted ideas tend to remain dysfunctional or decoupled in practice (Adhikari et al., 2013)

In conclusion, Zambia and many African countries where Cash Basis IPSAS adoption and implementation have become more a symbolic means of seeking external legitimacy, and these reforms are loosely, if not completely, decoupled from day-to-day practices, not least due to their technical complexities. Actually, a lack of engagement of the professional accounting institutions like the Zambia Institute of Chartered Accountants have added further difficulties in implementing Cash Basis IPSAS as a financial reforms instrument in Zambia. More recent studies demonstrate that the prescription and forceful adoption of IPSAS in many African countries, as part of complying with the World Bank's lending conditionality and other powerful donors, has resulted in disastrous results, promoting the rise of corruption, patronage politics and neo-patrimonialism (Hopper et al., 2017; Adhikari et al., 2018). Could we then say Zambia is one of the many African countries that were forced to adopt Cash Basis IPSAS? This question triggers future research and requires scientific answers. ■

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"Timber is our Business"

1. IASB PROPOSES AMENDMENTS TO IAS 7 AND IFRS 7 REGARDING SUPPLIER FINANCE ARRANGEMENTS

Background

THE IFRS Interpretations Committee received a submission about supply chain finance arrangements asking:

- How an entity presents liabilities to pay for goods or services received when the related invoices are part of a supply chain finance (or reverse factoring) arrangement; and
- What information about reverse factoring arrangements an entity is required to disclose in its financial statements.

In response to that submission, the Committee published an agenda decision in December 2020. However, feedback and input received — in particular from investors and analysts — suggested the information entities provide about supplier finance arrangements applying existing IFRS requirements does not meet all investor information needs.

In response to that feedback, the Board tentatively decided to amend IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to add disclosure requirements, and 'signposts' within existing disclosure requirements that would ask entities to provide qualitative and quantitative information about supplier finance arrangements.

Key proposals

The main proposals in ED/2021/10 *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)* would:

- **Not define supplier finance arrangements.** Instead, the proposed amendments describe the characteristics of an arrangement for which an entity would be required to provide the proposed information and the amendments would also provide examples of the different forms of such arrangements that would be within the scope of the Board's proposals.
- **Add a disclosure objective.** Entities would have to disclose in the notes information that enables users of financial statements to assess the effects of their supplier finance arrangements on their liabilities and cash flows.

Complement current requirements in IFRSs by adding additional disclosure requirements about:

- the terms and conditions of each supplier finance arrangement;
- for each arrangement, as at the beginning and end of the reporting period:

a) the carrying amount of financial liabilities that are part of the arrangement and the line item(s) in which those financial liabilities are presented;

b) the carrying amount of financial liabilities disclosed under a) for which suppliers have already received payment from the finance providers;

c) the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under a); and

- as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

An entity would only be permitted to aggregate this information for different arrangements when the terms and conditions of the arrangements are similar.

- Add supplier finance arrangements as an example within the liquidity risk disclosure requirements in IFRS 7 and the disclosure requirements regarding changes in liabilities arising from financing activities in IAS 7.

The deadline for submitting comments on these proposals is 28 March 2022.

Effective date

The Board intends to decide on the effective date after exposure. The amendments would be applied retrospectively in accordance with IAS 8. Earlier application would be permitted.

2. ICAEW CONCLUDES SERIES ON IPSAS VS IFRS

Over the recent months, the Institute of Chartered Accountants in England and Wales (ICAEW) published a series of reviews of major standards looking at the differences between International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSASB), and the suitability of each in public sector financial reporting. The fourth and final part of the series has now been released.

When introducing the series, ICAEW noted that IFRS are internationally recognised and widely adopted which brings about consistency in financial statements which in turn facilitates cross border comparability and understandability. On the other hand, IPSAS are designed for public sector entities whose main objectives are to provide goods and services to benefit society and to redistribute wealth. Therefore, the ICAEW series looked into the question: what is the better choice of standards if a government were to adopt accrual accounting now?

The complete series of in-depth reviews can now be accessed on the ICAEW website:

3. COMMENTS ON THE BUDGET

A. Commentary on selected specific economic sector proposals

1. Agriculture, Fisheries and Livestock

- Government will implement a new comprehensive agriculture support programme commencing in the 2022/2023 season which will be cost effective, better targeted and equitable across beneficiaries compared to the current Farmer Input Support Programme (FISP). We commend the Minister for this proposal as the rotation of beneficiaries under FISP has been a challenge.
- The Minister announced other measures including promoting development of viable farm blocks such as Nansanga Farm Block in Serenje. Operationalising on-going irrigation infrastructure projects and mobilise highly concessional financing for irrigation equipment for small-scale farmers and establishing additional hatcheries for fingerlings and completion of other infrastructure such as aquaculture parks are commendable proposals and we will look forward to further announcements on the specific actions that will be taken to realise them.

2. Manufacturing and Industrialisation

To attract investment and help to enhance value addition, the Minister has proposed the reinvigoration of the programme of Multi-Facility Economic Zones and Industrial Parks through the provision of tax incentives that will attract private sector investment into these zones. The Government will also comprehensively review the country's investment promotion strategy and promote access to export markets through trade missions as well as provisions of trade facilitation and support services to markets such as the Tripartite Free Trade Area and African Continental Free Trade Area. To help reduce the cost of doing business, Government will rationalise the number of licenses and permits required to operate a business. Government has made provisions to guarantee the borrowing of SMEs through the Zambia Credit Guarantee Scheme in 2022.

We commend government on these proposals. We note that tax is only one consideration in investment decisions. Other factors such as tax administration, infrastructure, employment law and ease of doing business also play a significant role. We propose that an investment summit be convened with a cross section of stakeholders to discuss making Zambia a more attractive investment destination.

3. Tourism

Cognisant of the expected gradual recovery of the global tourism market, relief measures provided to the sector in 2021 will be extended for another year. Government will also review the multiplicity of licenses and develop other parts of the country by establishing the necessary infrastructure that will make them attractive for the private sector to establish hotels, lodges, and other tourism facilities. Immediate interest is to complete developments at Kasaba Bay in the Northern Circuit and the Liuwa National Park.

We support these measures and the Minister's stated objective to diversify tourism away from Livingstone to a cross section of other destinations. The proposed reforms must also include an overhaul of the tourism and hotel grading system that has effectively collapsed over the year and has negatively impacted tourism in other parts of the country. We note that global travel operators largely recommend and book travel based on grading.

4. Mining

The Minister has announced plans to increase copper output from the current 800,000 metric tonnes to over 3 million metric tonnes in a decade. Measures proposed include reintroducing deductibility of Mineral Royalty Tax. To promote the growth of small-scale mining, Government will formalise operations of artisanal miners through the formation of cooperatives especially for the youth and women. Government is also undertaking a comprehensive audit of the mining licenses issued to help develop and implement reforms to enable Zambians participate in the sector.

We commend these measures. We also urge government to resolve other challenges besetting the sector that include delayed VAT refunds, poor access to funding for emerging mines as well as double taxation on the transfer of mining rights through shares sales (Property Transfer Tax on shares as well as interests in mining rights). The double taxation is a significant impediment for specialised exploration companies to exit their projects.

5. Energy

To ensure an effective energy sector, reforms will be undertaken in the electricity and petroleum sub – sector. In the electricity sub – sector, Government will implement a Renewable Energy Investment Plan that will improve the energy mix. Government will also review the operations and efficiency of ZESCO. Power – Purchase agreements are being re-negotiated as part of the strategy to sustain the company. Government will also implement cost – reflective tariffs in the electricity sub – sector. Government will scale up the programme of rural electrification through the extension of the grid network as well as deployment of the off – grid electrification solutions.

We commend these measures given the significant amount of debt that the power utility has contributed to the country's overall debt burden. We also note that consistent energy supply is key to economic growth given the negative impact that prolonged load management has on both large and small businesses.

In the petroleum sub sector, Government will restructure the fuel supply chain and achieve least cost pricing while ensuring stable supply of petroleum products. We expect pricing of petroleum products to be a significant challenge that the Minister did not address in detail. Currently, petroleum products are being subsidised through actual cash subsidies and tax concessions (zero rating for VT purposes and customs duty exemption). This is not sustainable in the long run and calls for a comprehensive overhaul of the fuel procurement system.

6. Transport Sector

Priority will be placed on maintenance, rehabilitation and upgrading of feeder roads. Government has also commenced the improved rural connectivity project to maintain and rehabilitate a total of 4,300 kilometres of rural feeder roads. To overhaul the existing line and construct new railway spurs as well as roads, Government will aggressively pursue Public – Private Partnerships as a mode of financing. In the aviation sub – sector, focus will be on completion of Kasama and Mbala airports.

We commend government for these measures. We also urge continued investment in the railway network and enforcement of the existing regulations on road-rail freight management. The current volume of freight on the national roads is unsustainable and significantly shortens the lifespan of the road network. Focus must also be placed on rehabilitating the rail network to improve average speeds. The current state of the network leads to significant delays and may disincentives the use of the rail network.

7. Social Protection Programmes

In 2022, the social cash transfer programme will be scaled up by increasing the number of beneficiaries and the transfer value. The number of beneficiary households under the programme will be increased to over one – million from the 880,539 as at end of August 2021. Further, the transfer value per household will be increased from K150 to K200 per month. For households, with a disabled member, the transfer value will be increased from K300 to K400 per month. Government will increase the number of beneficiaries of the Food Security Pack programme from 263,700 as at end of August 2021 to 290,000 households. Government will also dismantle all the outstanding pension benefit arrears for retired public service workers which stood at K1.9 billion in 2021.

We support the Minister's proposals as they enhance the social protection of the most vulnerable in our society. We also support the quick resolution of pension arrears as they have contributed to increased household vulnerability. We applaud the Minister's stated intention to clear the arrears in full.

8. Education and Skills Development

To reduce the backlog of unemployed teachers and improve the quality of education by reducing the Pupil – Teacher ratio, Government will recruit 30,000 teachers in 2022. To improve the quality of education through the provision of teaching and learning materials, grants to primary schools will be increased three-fold in 2022. Government will construct additional 120 secondary schools. To further increase access to education, tuition, Parent Teachers Association, and examination fees that learners pay in public schools will be abolished. The Minister has also proposed a bursary scheme to cover boarding fees for the vulnerable learners. Government also intends to expand the support to the girl child through the keeping girls in school programme from the current 28,964 in 2021 to 43,520 girls in 2022.

We commend governments for these proposal as they will lead to significantly improved education outcomes in the long term. Education is key income mobility and the proposals will help reduce income inequality in the long term.

Whilst the Minister was clear on the employment of additional teaches, he was less clear on the plans to address the accompanying requirements given the extra teachers that will be employed. These include additional classrooms to address the significant overcrowding in schools as we do not think the proposed 120 additional schools will be enough to address this. Other requirements will be educational materials, classroom furniture.

The Minister has stated that the additional spending will be funded from SDR funds. However, it is not clear what the funding sources will be in the long term and how sustainable the expansion will be.

9. Health

In 2022, Government will recruit and equitably deploy 11,200 Health personnel to strengthen the health care system. The procurement of medicines and medical supplies will be undertaken by the Zambia Medicines and Medical Suppliers Agency in accordance with the Zambia Medicines and Medical Supply Agency Act No. 9 of 2019. Government will continue with the programme of construction and completion of health Infrastructure throughout the country. To ensure that healthcare is affordable, Government will reform the National Health Insurance Scheme to benefit all.

We commend government for these proposals as the health sector is critical to the wellbeing of the nation and economic growth. We urge government to ensure that the additional health care workers include public health care specialists as well as environmental health works. We also urge government to accelerate the rollout of technology solutions to manage the medicine supply chain as they disconnect between the supply of drugs and their availability to patients in health centres remains a challenge.

B. DIRECT-TAXES

Pay as You Earn

Monthly		
Current PAYE Bands-2021	**Proposed PAYE Bands-2022**	**Tax Rates**
0- 4,000	0- 4,500	0%
4,001-4,800	4,501-4,800	25%
4,801-6,900	4,801-6,900	30%
Above 6,900	Above 6,900	37.5%

The Government has proposed to increase the exempt threshold from ZMW4 000 in 2021 to ZMW4 500 per month in 2022. The annual exemption threshold will be at ZMW54 000 in 2022 from ZMW48 000 in 2021. The marginal PAYE rate in 2022 will remain the same at 37.5%.

Commentary

We welcome this move because it will help put more money in the pocket for the employee. The adjustment will increase disposable income available to employees and help mitigate the increase in living cost. We note however that below inflation adjustments in the past (no adjustments in some years) have resulted in the bands falling significantly behind the Basic Needs Basket.

ii. Corporate Income Tax

- Presumptive tax for individuals operating public service vehicles

The Minister has proposed to adjust the presumptive tax for individuals operating public service vehicles by 20%.

Commentary

We welcome this measure. The last time the presumptive tax categories for motor vehicles used for passenger transportation were reviewed was in 2018. The proposal updates the bands to take inflation into account.

- Make mineral royalty deductible for Corporate Income Tax assessment purposes

The Hon. Minister proposes to re-introduce the deductibility of mineral royalty for corporate income tax assessment purposes.

Commentary

We welcome this measure as it is in line with international best practice. Currently, mineral royalty paid is not a deductible expense for income tax purposes. The measure will enhance the mining sector's contribution to job creation, investment and economic development.

Mineral royalty is computed using "Gross value" for most industrial metals and precious stones. Gross value is defined as the realisable price for sale Free on Board (FOB) at the point of export in Zambia or at the point of delivery inside Zambia for the purposes of calculating Mineral Royalties. For base metals, the MRT calculation is based on "Norm Value". Norm value is calculated based on the monthly average London Metal Exchange (LME) cash price per metric ton multi- plied by the quantity of the metal or recoverable metal sold or the average cash price if the metal is not quoted.

We further note that at current copper prices above $9000 per tonne, MRT is calculated at 10 percent and it is effectively a revenue based non-deductible cost that has resulted in significantly high effective tax rates for mining companies. The high effective tax rates have been a disincentive for further investment in the mining sector. We note that production of copper fell in 2021 compared to 2020.

Therefore, once this deduction is implemented, it may act as an incentive for mining companies to recapitalize and bring new projects on-stream. The Minister has indicated that this change, together with other policies, will boost copper production to over three million metric tonnes over the next decade. This will depend on further reform of the mineral royalty regime which currently does not provide sufficient buffer for mining companies in the face of largely cyclical metal prices.

- Reduce the standard Corporate Income Tax rate to 30 percent from 35 percent but maintain the top marginal tax rate for telecommunication companies, which will be maintained at 40 percent.

The Hon. Minister proposes to reduce the standard Corporate Income Tax rate to 30 percent from 35 percent. However, the top marginal tax rate for telecommunication companies will be maintained at 40 percent.

Commentary

We welcome the measure as it is aimed at providing relief to businesses in order to promote investment, job creation and economic growth following the adverse economic impact of the COVID-19 pandemic. However, as we pointed out in our commentary on the 2021 budget with respect to the reduction of the rates for the tourism industry, there is a risk that many companies that are still suffering depressed performance due to COVID-19 will suffer an erosion of their tax loss assets and will have to recognise valuation allowances (that is a reduction in their tax loss assets as the probability of utilising these losses against future profit becomes quite low), leading to further deterioration of their performance. Furthermore, the significant difference between the top rate of personal tax (37.5 percent) and the new corporate tax rate may lead to tax avoidance through arbitrage.

- Extend the 15 percent Corporate Income Tax rate on income earned by hotels and lodges on accommodation and food services to 31st December, 2022 from 31st December, 2021.

The Hon. Minister proposes to extend the 15% corporate income tax rate on income earned by hotels and lodges on accommodation and food services to 31st December 2022 from 31st December 2021.

Commentary

We welcome this measure. The tourism industry has been affected by the COVID 19 pandemic and consequent restrictions on travel and tour activities. The extension of this measure by the minister, despite pressure for the government to protect its revenue base will further promote growth in the sector. This reduced corporate tax rates should encourage more investment in the tourism sector. Our comment with respect to valuation allowances above also applies in this instance.

- Withholding tax exemption on interest paid to bank accounts held by individual with institutions registered under the Banking and Financial Services Act

The Hon. Minister proposes to extend the tax exemption relating to payments of interest arising on bank accounts held by individuals to all interest earning accounts held by individuals with Institutions registered under the Banking and Financial Services Act.

Commentary

We welcome this measure. Currently, the rate of withholding tax from any payment of interest arising from savings or deposit accounts held with institutions registered under the Banking and Financial Services Act to an individual is zero percent. The measure seeks to extend this treatment to interest earned by individuals on all interest earning accounts held with institutions registered under the Banking and Financial Services Act. This will also encourage a culture of saving and promote financial inclusion.

- Turnover/corporate tax for rental income

The Hon. Minister proposes to reform the rental income tax regime by charging Turnover Tax rate at 4 percent on rental income below K800, 000 per annum and apply the Income Tax regime for individuals or corporates with rental income above K800, 000 per annum.

Commentary

We welcome this measure. Currently, rental income is subject to Withholding Tax at the rate of 10 percent. This measure will align the treatment of rental income with that of other income sources.

However, the National Budget speech and the ZRA House-keeping measures do not make it categorically clear that the 10% withholding tax will be dropped. This leaves room for misinterpretation that the that the 10% withholding tax will altered from a final tax to an interim collection mechanism and will still continue to apply. It should be make clear that the withholding tax will be removed.

- Suspension of corporate income tax for manufacturers of ceramic products

The Hon. Minister proposes to Suspend Corporate Income Tax for persons carrying on the business of manufacturing ceramic products for the charge years 2022 and 2023.

Commentary

We welcome this proposal as this measure seeks to promote the production of locally manufactured ceramic products such as tiles and create jobs. This measure is meant to protect local manufacturers and make them more competitive among other key players in the industry in the given period of 2 years.

- Increase the period to carry forward the non-deductible interest

The Hon. Minister proposes to increase the carry forward period for interest disallowed under EBITDA rules from 5 to 10 years for mining companies and electricity generation companies.

Commentary

We welcome this proposal as this measure seeks to align with the current legislation on tax carry forward limit of losses for those two sectors. Currently the ITA limits deductions of interest to 30 percent of Earnings Before Interest, Taxes, Depreciation and Armotisation (EBITDA). For purposes of this provision, EBITDA is calculated based on taxable income rather than accounting profit. The excess interest above the 30 percent tax EBITDA can only be carried forward for a period of 5 years, except for mining and electricity generating companies, who can carry forward for a period of 10 years. This limitation of interest carry forward is not sufficient in many instances, particularly for capital intensive projects. Therefore, if an entity is conducting a capital-intensive project with substantial investment funded through debt (in many cases with accelerated capital allowances), excess interest credits are likely to expire before they are utilised. This measure should help such companies preserve the excess interest credits.

- Withholding Tax on reinsurance placed with reinsurers not licensed in Zambia

The Hon. Minister proposes to introduce Withholding Tax at the rate of 20 percent on reinsurance placed with reinsurers not licensed in Zambia.

Commentary

We understand that the newly introduced Withholding tax on reinsurance placed with reinsurers not licensed in Zambia is set to make the reinsurance market in Zambia more competitive, and in doing so, discourage the placing of policies offshore. Whilst this measure is welcome, we would propose that it excludes secondary reinsurance (reinsurance offshore by Zambian based reinsurers). Secondary reinsurance is important as it allows reinsurance companies to transfer their risk to larger reinsurers. If this exclusion is not applied, it would have the effect of discouraging reinsurers from transferring their risk offshore and will concentrate all insurable risk into the local market. This would be catastrophic in the case of widespread claims arising from natural disasters, for example, as the local reinsurance industry would not have the resources to absorb the claims. If no exemption is provided for secondary reinsurance, taxpayers should consider the potential impact on their insured risks. The lack of an exclusion would potentially lead to a two-tier market with taxpayers wishing to have the added security of offshore reinsurance subject to higher premiums.

iii. Property Transfer Tax

- Extend Property Transfer Tax on transfers of mineral processing and other mine related licenses at the applicable rate of 10 percent.

We welcome this measure. Currently, the transfer of a mining right is subject to property transfer tax while the transfer of a mineral processing license is not. This measure aims to subject transfers of mineral processing licenses to property transfer tax as they have intrinsic value akin to a mining right.

C. INDIRECT TAXES

The indirect tax changes are focused on increasing agricultural production and value addition of the outputs within Zambia. There is also an emphasis on compliance requirements with an increase in penalties for non-compliance.

i. Value Added Tax

- Amend the Zero-rating Order to provide for zero-rating of the following agricultural

Equipment and accessories:

a. Manure Spreaders;
b. Balers;
c. Combine Harvesters;
d. Commercial Sprinkler Irrigation Systems;
e. Animal Feed Grinder-Mixer; f)
f. Pelleting Machines;
g. Sprayer;
h. Trailers of a specific HS code; and
i. Dryers for agricultural products of a specific HS code.

Commentary

We welcome these measures as they are intended to promote production in the agricultural sector and enhance food security.

- Amend the Zero-rating Order to include solar street lights and solar charge control units.

Commentary

We welcome the move as this measure seeks to promote the use of alternative renewable energy sources.

- Standard rate the supply of property and non-life insurance, and abolish the current Applicable insurance premium levy.

Commentary

We welcome the move. Currently, the arrangement, provision, or transfer of insurance services is subject to Insurance Premium Levy at 3 percent. The measure intends to remove the Insurance Premium Levy on the arrangement, provision, or transfer of non-life insurance services and subject these to VAT.

Standard rate the supply of booklets and newspapers.

Commentary

We welcome the proposal as it is intended to broaden the tax base.

D. CUSTOMS AND EXCISE TAX

- Reduce Customs Duty to zero percent from 15 percent and 25 percent on solar street lights and solar charge control units, respectively.

Commentary

We welcome the proposal as it seeks to promote uptake of alternative energy sources and reduce

Dependency of the national grid.

- Harmonise customs duty rates at 15 percent from 40 percent or K5 per kilogram, whichever is greater, applicable on tyres for Lorries and buses as well as construction and agriculture machinery.

Commentary

We welcome the proposal as it is intended to reduce the input costs in these sectors.

- Extend the waiver of customs duty on safari game viewing vehicles, tourist buses and coaches to 31st December, 2023.

Commentary

We welcome the proposal as this measure is intended to extend relief to the tourism sector following the adverse impact of the Covid-19 pandemic. This will only apply to accommodation establishments, convention centers and tourism enterprises.

- Extend to 31st December 2022 suspension of customs duty on importation of refrigerated trucks for agro-processing, processors of milk and manufacturers of medicaments.

Commentary

We welcome the proposal as this measure is intended to allow the subsectors to support the supply of perishable goods on the domestic and export markets.

- Increase the exemption value of goods on which duty is not paid to US$500 from US$50 inclusive of freight and insurance.

Commentary

We welcome the proposal as this measure aims to provide relief on such petty consignments. This excludes goods consigned through parcel post or airfreight.

- Remove 5 percent Customs Duty on filler master batch.

Commentary

This measure is intended to reduce costs in the plastic production industry and thereby create employment and domestic value addition.

- Remove 5 percent Customs Duty on cattle breeding stock.

Commentary

This measure seeks to support the livestock subsector.

- Suspend the 5 percent customs duty on grandparent and/or parent stock of day old chicks when imported by a breeding company for one- year effective 1st November, 2021.

Commentary

This measure aims to increase domestic production of chickens and thereby increase the supply of chickens and chicken products on the domestic market.

- Remove 10 percent Export Duty on Maize effective 1st November, 2021.

Commentary

We welcome the proposal as this measure aims to stimulate domestic production of maize and enhance the competitiveness of maize exports, thereby improving the incomes of farmers.

- Remove Selected Goods Surtax of 5 percent on bovine semen.

Commentary

We welcome the proposal as this measure is intended to increase domestic Production of cattle and thereby increase the supply of meat and meat products on the domestic market.

- Increase specific excise duty on unmanufactured tobacco, tobacco refuse, smoking tobacco whether or not containing tobacco substitutes, water pipe tobacco and cutrag to K355 per kg from K240 per kg.

We welcome this measure as it intends to adjust the specific duty rates for inflation.

- Increase the specific excise duty on opaque beer to 50 ngwee per litre (packaged) and to one Kwacha (unpackaged) from 15 ngwee.

We welcome this measure as it intends to raise revenue to finance the provision of public goods and services.

- Increase customs duty to 25 percent from 15 percent on floor and wall tiles imported from outside the COMESA and SADC regions.

We welcome this measure as it is intended to increase domestic production of floor and wall tiles and create employment.

- Introduce Excise Duty on coal at the rate of 5 percent.

We welcome this measure as it is intended to discourage the use of coal which is harmful to the environment.

- Increase customs duty to 25 percent from 5 percent and 15 percent on yarn made from acrylic fibre of HS codes 5511.10.00, 5509.31.00, 5509.32.00, 5509.11.00, 5509.12.00 and 5509.22.00 imported from outside the COMESA and SADC regions.

We welcome this measure as it aims to promote the growth of the domestic textile industry and create employment.

- Introduce Selected Goods Surtax at the rate of 5 percent on knitted or crocheted jerseys, pullovers, cardigans, waistcoats and similar articles.

This measure intends to promote domestic value addition and job creation in the textile industry.

- Introduce Selected Goods Surtax at the rate of 10 percent on imported cement bags.

We welcome this measure as it is intended to encourage the use of locally manufactured cement bags as there is sufficient domestic capacity.

- Increase Selected Goods Surtax to 20 percent from 5 percent on flexible intermediate bulk (FIB) bags.

We welcome this measure as it is intended to encourage the use of locally manufactured FIB bags.

- Introduce Selected Goods Surtax at the rate of 20 percent on imported glass of HS code 7005.10.00, 7005.21.00, 7005.29.00 and 7005.30.00.

We welcome this measure as it is intended to support local manufacturers of glass and glass products.

- Introduce Selected Goods Surtax at the rate of 5 percent on imported floor and wall tiles.

The local production of wall tiles has increased over time. We welcome this measure as it aims to further promote the use of locally manufactured wall tiles.

- Introduce Selected Goods Surtax at the rate of 5 percent on selected fruits and vegetables.

We welcome this measure as it is intended to promote the consumption of local supply of fruits and vegetables and support incomes of farmers.

E. MEASURES TO REVAMP MULTI FACILITY ECONOMIC ZONES

- Introduce zero percent tax for a period of 10 years from first year of commencement of works in a Multi Facility Economic Zone or Industrial Park, on dividends declared on profits made on exports by companies operating in these economic zones under the Zambia development Agency Act No. 11 of 2006;
- Introduce zero percent tax for a period of 10 years from first year of commencement of works in a Multi Facility Economic Zone or Industrial Park, on profits made on exports by companies operating in these economic zones under the Zambia Development Agency Act No. 11 of 2006. For years 11 to 13 only 50 percent of profits should be taxed and 75 percent of profits for years 14 and 15; and
- Reduce the threshold to US $50, 000 for a Zambian citizen to qualify for incentives provided under the Zambia Development Agency Act No. 11 of 2006

Commentary

Having been embarked on more than a decade ago to drive the industrialization agenda, this will help more investment to be directed into these established economic zones as investment in these zone has remained dismal for over ten (10) years. We welcome these measures as they will help revamp and remodel the economic zones and as these incentives are more targeted. The proposed measures should enhance Zambia's export competitiveness and industrialization drive, in the face of the Africa Continental Free Trade Agreement (AfCFTA). We note however that tax incentives alone do not drive investment. Other factors that influence investment and need attention include efficient, equitable and predictable tax administration, ease of doing business, the strength of governance institutions and transport infrastructure. Tax administrative challenges including VAT refunds (which will accelerate in an export driven regime), VAT Rule 18 export provisions that transfer the administrative burden of zero rating of exports onto the taxpayer and depend on documentation generated by other jurisdictions could still pose a significant challenge to investment.

Furthermore, in the era of the 4th Industrial revolution, which is driven by emerging technologies, the incentive regimes must focus not only on manufacturing but emerging technologies and innovation as well.

To ensure certainty by investors, there is also a need to restrict the power to revoke incentives to the Zambia Development Agency rather than the ZRA. The ZRA's role should be limited to administration of the incentive.

In addition, it will be critical to ensure that incentives are only granted to investors that intend to remain in Zambia for the long term and whose overall disposition with respect to economic development and wider environmental, social and governance ethos align with that of the Government. Therefore, it is critical that appropriate due diligence is undertaken on granting approvals.

F. MEASURES PUT IN PLACE IN HANDLING THE ECONOMIC GROWTH, INDUSTRIALIZATION AND JOB CREATION

The amount allocated for economic affairs is not adequate as it is just a 19% of total budget on the background of attaining 3.3% economic growth. One would expect more budget and measures to stimulate economic growth and to ensure that the SME sector starts growing.

We have taken note of some initiatives taken up in the agricultural sector (which accounts for about 50% of employment in Zambia according to the CSO). We are of the view that comprehensive programs like the Aquaculture transformation program are critical to build capacity and competitive advantage is selected sectors. We are of the view that two other sectors (for example cashew nuts, horticulture or other high value cash crops) in addition to Aquaculture which have ability to create jobs and create more tax revenue sources should have been targeted. This is a more sustainable way of providing social protection and creating wealth for Zambians.

G. ECONOMIC TRANSFORMATION AND JOB CREATION- SME SUPPORT

We have noted that the budget theme is mainly about growth and job creation. This has been addressed by plans to employ 44,000 teachers and health workers and brilliant interventions in the agricultural sector.

The most sustainable path to job creation and economic growth is to provide support to the private sector which helps the companies grow. We have seen concrete steps taken to help the local farmers grow, applicable to both small and medium sized farmers. We have only observed broad plans for the SME commercial sector coming under the new Ministry of SMEs. We expect that the support to be provided to SMEs and Cooperatives will be similar to that planned in the agricultural sector. We expect at a minimum:

- Programs to be designed to provide financing : grants and cheap loans especially for Covid-19 Relief (for both working capital and capital expenditure)
- The programs should also provide technical services or business development services. The BoZ refinancing facility is only available to financial institutions and SMEs who had loans with the Banks pre-covid-19. This excludes the majority of SMEs from accessing the fund. We need a similar SME Fund that is available to all SMEs (like FISP under agriculture) in the market but it should be managed by a party with a higher risk appetite than BoZ. SMEs need a fund with a risk appetite similar to a venture capitalist.
- Operationalization of the Credit Guarantee scheme is very welcome. This should reduce interest rates and in turn increase access to finance by SMEs. However, the increase in domestic borrowing from K17.4bn to K24.4bn negates this gain. This will overcrowd private sector lending and drive interest rates up.
- To achieve the above the Government should consider deferring some of the expenditure activities to 2022, so that the SME Fund is created. For example the mass recruitment of Government workers can be done in 2 instalments up to 2022. The SMEs that will be supported to growth will provide extra jobs and Government tax revenues in future budgets. This is more sustainable. ■

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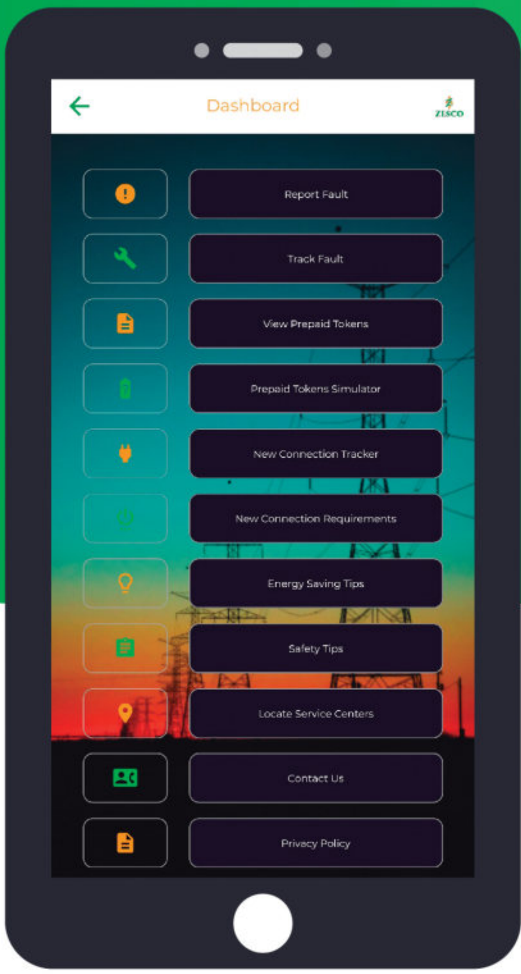

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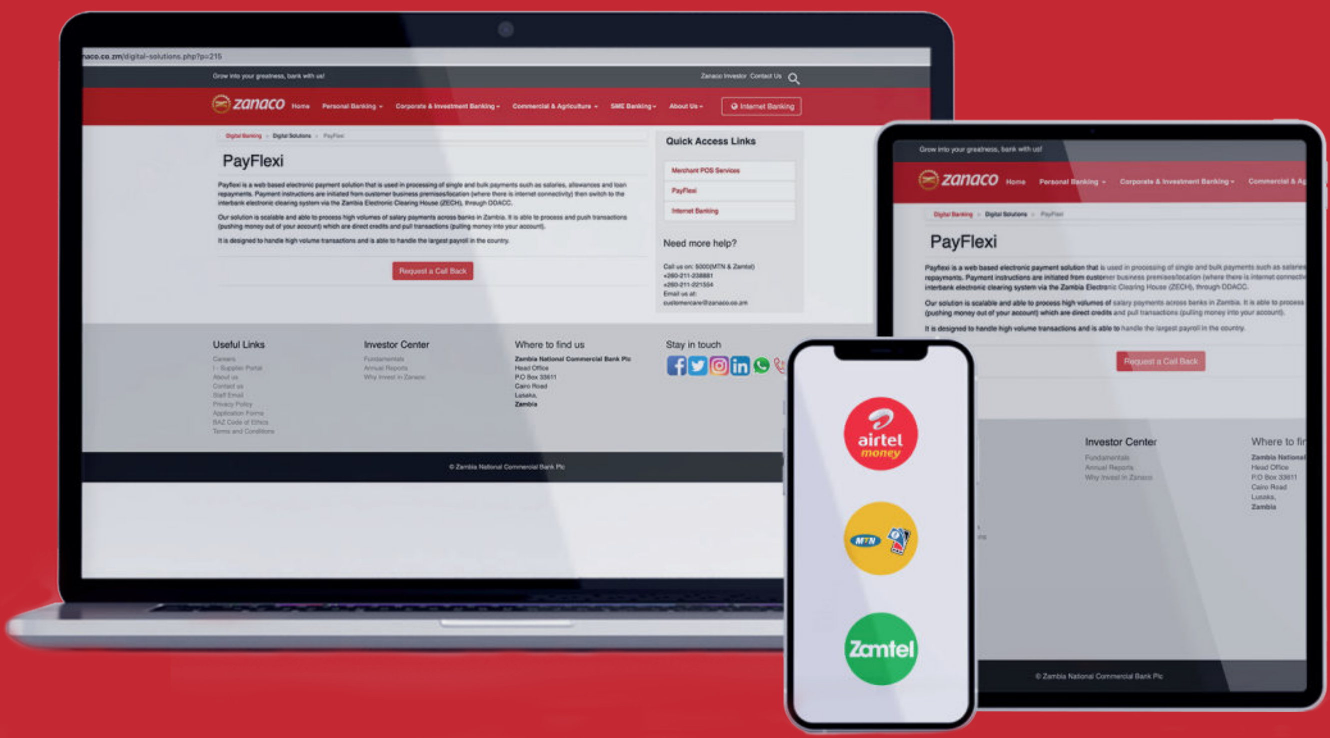

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