L411 - OBLIGATORY ESSAY

THE DEVELOPMENT BANK OF ZAMBIA, AN EVALUATION OF ITS CONTRIBUTION TO THE ZAMBIAN ECONOMY

By

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DEDICATION

TO MY WIFE SUSAN, AND OUR BELOVED
CHILDREN

PREFACE

Development Banking is a new form of investment in Africa and in Zambia in particular. Many people in Zambia are not familiar with this form of investment. They are not aware what this facility is all about. Development banking can be of valuable contribution to the development of a country's economy to a substantial degree.

For a country like Zambia with perpertual problems of foreign exchange, development banking form of investment can make a reliable contribution in alleviating pressure on investors by making the foreign exchange facility available to them in bringing into the country the needed capital items from abroad through this facility's lines of credit with international financial lending agencies.

This being the case, I decided to research into this form of investment in Zambia by looking at the contribution and potential of development banking to the Zambian economy. The Development Bank of Zambia which is the Government agency dealing in this form of investment, has been in existence for the past fourteen years. In this respect, I have attempted to examine and evaluate the role it has played and the impact it has made if any on the Zambian economy. The objective of my research was naturally to examine and analyse whether development banking has had any measurable effect and whether the intended objectives have been achieved in the period this facility has been available in the country.

ACKNOWLEDGEMENT

This research brought me into contact with many people. I approached people from many walks of life particularly those in the Banking, Economics, Administrative, Legal and Academic life in search of information and material to make this work possible.

It is now my pleasure to thank all of them for assisting me. They made my work interesting and rewarding. I wish to pay particular gratitude to my Supervisor Dr. A.C. Mulimbwa who tirelessly guided, advised and counselled me on how to go about gathering and compiling material in this work. We sat for long hours discussing the methdology and approach to a new subject like this.

Several institutions assisted me with a lot of statistical data which I have used in analysing this work. I got all the data I required in the manuscripts, computer statistics, literature etc. My particular thanks to the Bank of Zambia Research Department, Ministry of Finance, National Assembly, Department of Agriculture, Department of Marketing, National Commission for Development Planning, Small Scale Enterprises Promotions Ltd, Small Industrial Development Organisation, and Foreign Exchange Management Committee. Others are Director of Economic Research and Post Evaluation, Director of Finance, Director of Projects all of the Development Bank of Zambia. All these institutions and officers were always at my disposal, ready to assist me where I needed assistance.

Indeed I thank my wife and children who have been so patient in the past four years while I pursued my LLB degree at the University of Zambia. My wife has been a source of pride and inspiration in all my undertakings. It is also my pleasure to thank the Law Faculty Staff for their dedication to duty and maintaining the high standard of legal training. I further thank the former General Manager of the Development Bank of Zambia Mr. Oliver Chilembo for convincing the Managing Director Mr. L. M. Nyambe who was reluctant to allow me pursue my Law studies at the University and was afterwards so kind to allow me a paid-study leave. The continued payment of my salary went a long way to alleviate the probable financial repercusion which would have followed in the face of my loss of a Personal to holder Company Car in view of my being on unsponsored study leave.

I sincerely thank Miss Jane Phiri who diligently typed this work. Honestly, I admire her dedication to work. Her desire and skill are admirable.

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CHAPTER FOUR

ABBREVIATIONS

ADB	-	African Development Bank.
BOZ	-	Bank of Zambia (Central Bank).
DBZ	-	Development Bank of Zambia.
DEG	-	Deutsch Entwicklungsgesellschaft.
EIB	-	European Investment Bank.
FINDECO	-	Finance and Development Corporation.
IDA	-	International Development Association.
IERR	-	Internal Economic Rate of Return.
IFAD	-	Internal Fund for Agricultural Development.
IFRR	-	Internal Financial Rate of Return.
IFC	-	International Finance Corporation.
IMF	-	International Monetary Fund.
INDECO	-	Industrial Development Corporation.
SSE	-	Small Scale Enterprises.
SSEP	-	Small Scale Enterprises Promotion Limited.
ZIMCO	-	Zambia Industrial and Mining Corporation.
ZNCB	-	Zambia National Commercial Bank.
ZNBS	-	Zambia National Building Society.
ZSIC	-	Zambia State Insurance Corporation.
RUCOM	-	Rural Commercial Products Limited.
VIS	-	Village Industries Service.
FY	-	Financial Year.

CHAPTER ONE

INTRODUCTION

A. THE ECONOMY [1]

1.01 Zambia is a land-locked country of more than 6.7 million with a per capital national income of US $400 (1985). About 20% of the land is arable, but only 10% of that is under cultivation. Over 50% of the population consists of smallholder farmers who together account for 30% of the land under cultivation. Historically, Zambia has been heavily dependant on copper production,which has provided over 90% of Zambia's foreign exchange earnings.

1.02 Since independence, in 1964, Zambia experienced an up and down economic trend of first a 10 - year prosperity based on high copper prices, then almost a decade of stagnation with a 36% decline in real per capita income, followed by a belated attempt at stabilisation and structural readjustment beginning in December 1982 and more recently an abandonment of such attempt in early May 1987.

1.03 During a decade of copper boom and throughout the 1970's the Government pursued a policy of industrialisation based on import substitution for the domestic market. The industrialisation was heavily dependant on imported inputs and was followed by a policy of progressive state control of the economy and state ownership. The Government acquired a majority interest in the copper mines and in most industrial, transport and public utility operations. High copper prices and mineral revenues permitted government expenditures to grow to 40% of GNP and tax revenue to 25% of GNP.

1.04 World copper prices collapsed in 1975, falling by 40% and have since continued to be depressed. Together with oil prices increases and high inflation abroad, Zambia's terms of trade deteriorated by 70%. In response, the government increased administrative controls on imports and made the allocation of foreign exchange and credit still more restrictive. Government attempts to maintain domestic production and consumption led to mounting government deficit, shortages of foreign exchange and massive accumulation of external debt and arrears. The government budget deficit peaked at 23.9% of GNP in 1975 and averaged 14% during the following decade. Long-term external debt increased nearly fourfold between 1975 and 1985.

1.05 The fact of lower copper prices was made more obvious by the realisation that copper reserves would become exhausted in another 15-20 years at the current rate of production. As mining depths increased and ore quality declined the cost of copper production increased. Copper out-put fell from 600,000 metric tons in the mid 1970's to 479,000 metric tons in 1985. By the early 1980's it was becoming increasingly evident that the development strategy was a failure. Zambia could no longer service its external debt, could no longer rely on copper production as the mainstay of the economy. Could not continue its heavy reliance on imported inputs for its heavily protected industry and could not continue its efforts to maintain public employment and production with deficit financing and external borrowing. In December, 1982, the government unilaterally declared a moritorium on debt servicing and opened negotiations with the IMF - International Monetary Fund and the World Bank on stabilisation and adjustment programme while seeking a rescheduling of its external debt.

1.06 The reform programme embraced a strategy which would diversify the economy and rely more on market forces and the private sector to allocate resources. Emphasis was placed on agricultural development on using domestically produced input for industry and on promoting exports other than copper. The extensive programme to reorient the economy consisted of monetary and fiscal reforms, price reforms, basic changes in the system of trade and payments, and sector reform programmes in mining, industry and agriculture.

1.07 The Kwacha had become increasingly overvalued in the 1970s. The limited foreign exchange was rationed by an inefficient system of import licences. The structure of protection and import licensing favoured local industries based on imported inputs and discouraged the development of industry based on local raw materials. The result was a highly capital intensive industrial sector dependant on foreign input, the continued import of which by 1982 could no longer be sustained by Zambia's declining foreign exchange earnings. The Kwacha was devalued by 20% in January 1983 and in July an adjustable peg was introduced which led to an additional 13% devaluation by the end of 1983. Despite this more realist exchange rate a financial stabilisation programme which was adopted with IMF support, and a rescheduling of external debt in 1983 and 1984 the lower capital inflows produced another severe shortage of foreign exchange by 1985. Foreign exchange earnings were inadequate to pay for imported raw materials and spare parts for a minimal level of consumption goods imported, and for external debt servicing. In October, 1985 the government introduced a foreign exchange auction as a substitute for import licensing and quantitative import restrictions.

1.08 With the auction, the value of the Kwacha fell from K2.23 per US $1.00 to K5.15 in the first Auction and by May, 1987, when the government abandoned the auction system the Kwacha had fallen to about K21 per dollar, a devaluation of 90% before rising to K15 at the last auction.

The auction system did improve the allocation of foreign exchange and permitted an increased use of existing capacity as bottlenecks of spare parts and machinery were overcome. Compared to pre-auction experience, the available foreign exchange went to the parastatals and the importation of luxury consumption goods. The rapid adjustments of relative prices, however, produced severe shocks, and the quick transmission of devaluation to domestic prices led to unaccustomed levels of inflation over 60% per annum by May 1985.

1.09 The exchange rate reform were accompanied by an extensive programme of monetary and fiscal measures. Interest rates were decontrolled and the growth of the money supply was restrained. Lending and deposit rates became positive in real terms. Fiscal self-discipline at first contained control government budget deficits to about 9% of GNP (1983 and 1984), but under the price pressures caused by the devaluation of the Kwacha during the first three months of the auction and by the increase in debt service associated with devaluation again reached 20% of GNP in 1985. Public sector wage increases were held below the inflation rate and the government persuaded the private sector also to restrain wage increases. Finally, the government eliminated most price controls and subsidies, the remaining parastatals were forced to operate more in response to market forces, and a review of parastatal firms was higher with a view to increased privatisation of the economy. The relatively brief experiment with opening up the economy and substituting market forces for administrative controls ended in May, 1987, with the abandonment of the stabilisation and readjustment of the policies and a return to the earlier system of state economic controls which had proved to be unsustainable.

B. THE INDUSTRIAL SECTOR

1.10 Following independence the government promoted industrialisation through heavy protection and direct public investment. Manufacturing was the fastest growing sector of the economy during the decade following independence, averaging a 10% annual growth rate in real terms and amounting to 20% of GNP, higher than in most of Africa. The sector was dependant not only on a heavily protected and relatively small domestic market lent also on imported inputs. About half of manufacturing inputs were imported 80% for metal products. From the mid - 1970's the acute shortage of foreign exchange to purchase spare parts and materials reduced output. Capacity utilisation fell to an extremely low level, to about a third by 1985. By 1984 manufacturing value added was 8% lower than in 1974.

1.11 Although the devaluation of the Kwacha and the foreign exchange auction system made manufacturers potatially more competitive in export markets, manufactured exports remained small and still amounted to less than 20% of merchandise exports. During the 10 year boom following independence, the government's role in the economy grew. At the time of independence the government had little control over large, foreign-owned private sector which dominated all major aspects of mining, manufacturing, commerce and banking. In 1966, on the grounds that Zambianisation was too slow and investment insufficient, the government directed the Industrial Development Corporation (INDECO) a government owned holding company, to participate on its behalf in the industrial sector. This participation greatly expanded after the government's 1968 decision that it would henceforth have a controlling interest in all major industries. By 1985, INDECO had 37 subsidiaries and associated firms. They accounted for about 70% of the sectors assets and two thirds of value added in manufacturing.

1.12 The growth of private sector manufacturing and industry relied largely on expatriate and naturalised Zambians. They constituted much of the entreprenuerial and management skills through the economy. Non Zambians accounted for 7.7% of the number of people in manufacturing and 49.3% of the earnings in 1970. The corresponding figures for the economy as a whole were similar, 8.0% of the number of people and 51.6% of earnings. The government policy of increasing state-ownership and regulating private foreign investment reduced non-Zambian participation in manufacturing to 3.2% of the number of people and 10.2% of sector earnings by 1983 - reduction of nearly 60% and 80% respectively. Gross domestic investment fell from 29.4% to 13.8% of GNP during this period.

1.13 The World Bank sent a basic economic mission to Zambia in 1975 and three industrial sector missions in 1982 - 83 (see paras 2.23ff). They noted that earlier economic strategy had been to:

(a) promote import substitution through high levels of effective protection;

(b) rely on administrative controls rather than market to allocate resources; and

(c) emphasise large scale, public sector investment and state enterprise.

1.14 The World Bank concluded that the imports substitution strategy clearly had outlived its usefulness. The Industrial sector was a net user of increasingly scarce foreign exchange and had not yet developed domestic resources and labour as important input. There were few leakage effects. Continued efforts to encourage import substitution would require increasingly uneconomic investments in order to be financially viable. Zambia's protected industry would make Zambia poorer and poorer. Further protection of industry through the mechanism of over valued exchange rates penalised agriculture and the exports on which development depended.

1.15 The inability of administrative control to allocate foreign exchange efficiently exemplified the inherent inability of administrated prices of substitute for market prices. The Import Licensing Committee had to make judgements on 14,000 - 17,000 licensing requests each year. It was impossible to do this with any semblance of equity or economic efficiency. The administrative mechanism were unavoidably capricious and corruptible.

1.16 Although there may be a rationale for public ownership of large scale capital-intensive natural monopolies, there is less justification for smaller scale and more labour intensive industries. In both components of public sector investment and ownership there was a demonstratable lack of the use of economic evaluation and an absence of efficient management and profitable operations.

1.17 The World Bank sector analysis recommended an increased reliance on market prices as opposed to administrative controls, a decreased protection of import-substitution activities and a corresponding increased attention to eliminating the discrimination against export-oriented industry and agriculture and a re-examination of the operation of state enterprises.

1.18 The fundamental readjustments which a programme along these lines would do is to evidently harm those groups which had profited from the existing system. Accordingly during the 1983 the government held in various parts of the country in an effort to build a national consensus for reorienting the economy. It then vigorously undertook measures to reform the economic system. The measures were to:

(a) free the exchange rate;

(b) eliminate import licensing and most import restrictions;

(c) restructure the tariff system;

(d) remove interest-rate controls;

(e) remove most agricultural and other price controls;

(f) eliminate most price controls and subsidies; and

(g) improve the planning and budgeting system.

1.19 The net effect of the measures to open up the economy to market competition was to increase production, ease the constraints of foreign exchange shortages increase capacity utilisation (and hence employment), and enable Zambia to reschedule its external debt. In December, 1986 the government's report to the consultative World Bank Mission noted however, that while fully committed to the economic recovery programme, the government felt that it was essential that more tangible benefits be realised quickly. [2] The improvements in Zambia's economic situation apparently did not materialise quickly enough in sufficient magnitude to be politically tolerable. The foreign exchange auction was suspended in December 1986. Upon assumption of the auction a few months later the exchange rate quickly rose from K9.00 to over K21.00 per American dollar, a 57% devaluation in six weeks. The government thereupon in May 1987 renounced the stabilisation and adjusted programme, broke relations with IMF, in effect unilaterally declared a moritorium on external debt service and reaffirmed the need for the state to administer the economy.

C. THE FINANCIAL SECTOR

1.20 INSTITUTIONS:

The financial system in Zambia presently is fairly extensive though it is not very sophisticated. It consists of the Bank of Zambia (BOZ) the Central Bank, nine commercial banks a number of specialised parastatal financial institutions most under the control of the Government-owned Zambia Industrial and Mining Corporation (ZIMCO), an office of a foreign merchant bank, two leasing operations and the Development Bank of Zambia (DBZ). The small stock exchange which operated when Zambia was a member of the Central African Federation no longer exists. BOZ was established in 1964 at independence to issue currency, regulate the commercial banks and establish and administer national monetary and credit policies through the use of the discount rate, reserve requirements and direct control on ceilings of interest rates. BOZ also manages Zambia's international reserves and is in charge of the country's foreign exchange control system.

1.21 From the time the World Bank appraised the Development Bank of Zambia (DBZ) for the first line of credit in early 1975 until the beginning of the 1980's there were four commercial banks operating in Zambia. These were the state-owned Zambia National Commercial Bank (ZNCB - established in 1969) and subsidiaries of Barclays, Standard (now Standard Chartered) and Grindlays. Since then five new foreign - owned banks have been established. ZNCB, the largest of the nine, handles the bulk of the commercial banking business of parastatal organisations and other government agencies. Its assets amounted to K1,305 million US $228.9 million equivalent at December 31st 1985. The subsidiaries of Standard Chartere and Barclays are next in size, with assets of K1,090 million (US $191.2 million equivalent) and K1,035 million (US $181.5 million equivalent) respectively. One of the new banks, the Bank of Credit and Commerce, is fourth with total assets of K532 million (US $93.3 million equivalent) followed by the others with assets ranging from K241 million (US $42.3 million equivalent) to K64 million (US $11.2 million equivalent). Zambian investors recently established a tenth bank, the African Commercial Bank.

1.22 The Commercial Banks have a large network of branches throughout the country. They mobilise saving from the general public and had deposits totalling K1,964 million (US $344.5 million equivalent) at the end of 1985. Three quarters of these were held by the three largest banks. Demand deposits account for slightly over half of the total. The Commercial banks concentrate on short-term lending, rarely engaging in term financing and then only for three or four (occassionally five) years. About 35% of their loans go to the agricultural sector, 20% to manufacturing, 15% to mining, 8% to commercial activities with the balance being lent to transport, construction, financial institutions and individuals. Half of their loans are to the private sector and 38% to parastatals, with the balance being held in government securities to meet statutory requirements.

1.23 Zimco is the overall holding company for the Government's investments in all sectors of the economy. Zimco operates through various subsidiaries like the Industrial Development Corporation (INDECO) for the industrial sector and the Finance Development Corporation (FINDECO) for the financial sector, INDECO carries out most public investment in manufacturing. However, it has had limited capability to appraise projects and to assess the performance of established enterprises. As a result it has made uneconomic, capital intensive and import dependent investment. The Industrial Finance Company was established in 1969 as an INDECO subsidiary to finance small commercial and industrial enterprises. Due to a variety of reasons including mismanagement, a high default rate operating losses and a shortage of staff, its effectiveness was limited and it was liquidated in 1977. [3]

1.24 Subsidies of FINDECO include, besides ZNCB, ZNBS, the Zambia National Building Society (ZNBS) the Zambia State Insurance Corporation (ZSIC) and the National Savings and Credit Bank. The Zambia National Building Society was established in 1971 after the nationalisation of three private building societies. It obtains funds through savings shares and deposits from the general public and institutions. As at the end of 1984, its assets totalled K161.4 million (US $74.2 million equivalent) of which four fifth were invested in mortgage loans, mainly for residential properties. The Zambia State Insurance Corporation was formed in 1971 after the nationalisation and merger of all the existing insurance companies. At the end of 1985 its resources totalled K415.0 million (US $72.8 million equivalent) of which about 80% were invested in Government bonds, loans including mortgages) and in various industrial and commercial investments.

The National Savings and Credit Bank, known as the Post Office Savings Bank from its establishment in 1926 until 1973, is the most wide spread financial institution in Zambia with other 150 branches. The Bank caters for small savers especially in rural areas where no other banking facilities exist. At the end of 1984 its total assets amounted to K125 million (US $56.8 million equivalent) and were invested equally in loans to the Government and parastatals and in deposits with the Zambia National Building Society and Zambia National Commercial Bank. The Zambia National Provident Fund was established in 1966 as a government owned statutory board to administer a mandatory retirement savings scheme for non-civil service Zambian employees. Its funds are channelled into productive investments mainly through credit to the public sector. As of March 31, 1984, its assets totalled K550.5 million (US $341.5 million equivalent).

The agricultural finance company was established in 1970. Most of its activity is seasonal lending to small farmers. As of March 31, 1985, it had accummulated losses, due to its very high default rate of K95.7 million (US $18.6 million equivalent), versus a share capital of K43.5 million (US $18.6 million equivalent). Although insolvent, it has continued operating with government financial support. It is now merged into a new institution called the Lima Bank. The Agricultural Development Bank was established in 1979 with the intention of taking over the activities of the Agricultural Finance Company. It only began operation in 1983 and has never gotten off the ground.

It too is merged into the Lima Bank. Equator Bank Limited an international trade and merchant bank serving institutions and individuals doing business in Africa, recently opened an office in Lusaka. However, there is apparently little call for merchant banking services at this time in Zambia.

INTEREST RATES:

During the period 1970 - 1983, the nominal regulated interest rate ceiling on deposits with commercial banking systems were almost always negative in real terms. Real lending rates to the manufacturing sector peaked at 2% per annum in 1980 and thereafter with increasing inflation turned severely negative. The consequences included an excess demand for the subsidised credit and an uneconomically capital intensive industrial structure. Beginning in January 1983 the government raised interest rates three times in two years in an effort to encourage savings and to allocate financial resources more efficiently. In September 1985, at the time of the introduction of the Treasury bill auction, the government removed all remaining restrictions on the structure of bank interest rates. The Treasury bill rate promptly jumped from 13% to 23% per annum in two months. However, the advent of still higher inflation, real interest rate remained negative.

FOOTNOTES

1. Recent analysis of the Zambian economy can be found in the Economic Reform and Development prospects, World Bank Report No. 6355 - ZA, 10th November, 1986. Also in Economic Reform Programme and on the Public Expenditure Programme 1986 - 1987.

2. Republic of Zambia, "Progress Report on Action Programme for Economic Restructuring dated December 1986.

3. Other efforts to assist small scale enterprises (SSE's) including Rural Commercial Products Limited (RUCOM) Barclays Bank Zambian Development Loans Scheme and Village Industry Service (VIS).

   RUCOM was established in 1961 to promote the development of small industries in rural areas by providing premises and technical assistance. When the Government in 1976 issued directives to all parastatal enterprises to be more profit-oriented and less reliant on government subsidies, RUCOM underwent a total re-orientation and changed from a subsidised promotional institution to a purely commercial operation, no longer assisting SSE's.

   Barclays introduced its Zambian Development Loans scheme in 1974 Performance under the scheme was disappointing for a number of reasons and it was terminated after some four year.

   Vis was set up in 1978 with voluntary contributions to promote simple labour-intensive rural industries with a view to providing work for school leavers and thus prevent rural urban migration. Because of a lack of resources its scope and effectiveness has been limited.

CHAPTER TWO

2. THE DEVELOPMENT BANK OF ZAMBIA

A. HISTORICAL BACKGROUND

2.1 The government of the Republic of Zambia requested the World Bank to send a mission to Zambia in November 1971 to evaluate the need for a development finance institution in the country. The mission's evaluation report revealed that none of the existing financial institutions discussed in Chapter One, was able to make a careful screening of new investment proposals by properly assessing their technical, economic financial merit and viability. The mission therefore recommended the creation of a new institution to mobilise resources and promote appraise and finance viable projects. The government accepted this recommendation and a second mission of the World Bank visited Zambia a year later to advise the government on the organisation, staffing and other matters relevant to the establishment of a new financial institution.

2.2 A Development Bank Act was passed by Parliament in December 1972 and DBZ was established as a statutory corporation in July 1973. The institution began operations in January 1974. Its main objects are to provide medium and long-term loans and equity financing for projects in industry, agro-industry, construction, transport, power, tourism, mining and large scale agriculture. Under Section 12 of the DBZ Act (to be discussed later) the Bank is authorised to provide technical assistance and advisory services and to administer a special fund on behalf of the government.

B. OWNERSHIP AND CAPITAL

2.3 The Development Bank of Zambia was established with an authorised share capital of K10 million consisting of "Class A" shares which are reserved for the government and its agencies (60%) and "Class B" shares reserved for local private and foreign investors (40%). The "Class A" shares were subscribed to by the Ministry of Finance (45%), Bank of Zambia (5%) and four parastatals (10%). The "Class B" shares were all subscribed to by institutions including the International Finance Corporation (3.5%) then three local private commercial banks (Barclays, Standard and Grindlays (for a total of 7%) (Deutsch Entwicklungs-gersellschaft(1.5%), the European Investment Bank(5.5%), (African Development Bank(1.5%) and some foreign commercial banks (7.5%).

C. CAPITAL STRUCTURE

2.4 The authorised capital of the Bank may be increased by the creation of new classes of shares such as "class C" shares with such preferred or other specified rights in regard to dividends and return on capital and such redemption terms as the Board deems fit or in such manner as the Board by resolution determines, provided the ratio of "Class B" shares to "Class A" shares is not exceeded. Such a resolution is not effective unless it is approved by the Minister. [1]

2.5 The share capital of the Bank is subscribed in the following manner:-

(a) "Class A" share are alloted as follows:-

(i) 450 shares to the Ministry of Finance

(ii) 150 shares are alloted in the manner the Minister deems fit among - the Bank of Zambia, Zambia National Provident Fund, Zambia State Insurance Corporation, Zambia National Building Society and any commercial bank in which the Government holds a controlling interest.

(b) "Class B" shares are alloted to such private institutions as private commercial banks and other international institutions as the Minister deems fit. [2]

Shares are paid at par value 30 days after they have been alloted. The shares of the Bank are not pledged or encumbered and are not transferrable or assignable without the approval of the Minister.

2.6 In April, 1979 in order to increase its local currency resources, Parliament authorised DBZ to issue K10 million of a few class of non-voting prepared interest bearing (7% per annum) shares designated "Class C" shares. There were subscribed to by Bank of Zambia and two parastatals. However, after the World Bank suggested that these shares provided little flexibility in terms of redemption and that bonds or similar instruments would be a more appropriate alternative to obtain local resources these subscriptions were converted to subordinate loans and the "Class C" shares remained unissued.

2.7 In July 1984 the DBZ authorised share capital was again increased from K20 million to K30 million by doubling the number of "Class A" and "Class B" shares (to K12 million and K8 million) respectively. While all of the new "Class A" shares have been subscribed, the response has been poor from "Class B" shareholders. For example IFC has deferred consideration of an increased investment due *inter alia*, to the likelihood that the Government would not agree to reduce its holding to a minority. Efforts are continuing to increase the Bank's paid-up share capital in line with the expected increase in its operations.

2.8 THE ACT

The Development Bank of Zambia Act (No. 35 of 1972) established the DBZ as a body corporate with perpetual succession and a Common Seal capable of suing and being sued. The Act authorises the Bank to establish a Board of Directors (Section 4(1)) responsible for the

Director from among members of the Board.[3] The Managing Director is the Chief Executive in the Bank and performs duties prescribed to him by the Board. The Board is also authorised to employ a General Manager and Secretary and such other officers and agents as to enable it conduct the business of the Bank.[4] The Board delegates its powers to the Managing Director to make appointments in the Bank of such officers as may be necessary. A General Manager is responsible for the day to day running of the Bank. He performs such duties as may be prescribed by the Managing Director.

2.10 REVOCATION AND RESIGNATION FROM OFFICE AS DIRECTOR

The Act authorises the Minister to revoke the appointments of any "Class A" directors and the holders of "Class B" shares may at any time revoke the appointment of any "Class B" directors.[5] A member of the Board may at any time resign his office by giving written notice to the Chairman, such resignation is not effective until it is accepted by the Minister. A member of the Board ceases to be a member if he is absent from three consecutive meetings of the Board without leave of the Chairman. In the case of appointments, revocations, resignations or disqualifications, the Minister is required to give notification in the Gazette within three weeks of such occurance.[6]

policy and general administration of the affairs and business of the Bank. The Board of Directors consists of a Chairman and nine other members. They hold office for a period of three years and are eligible for reappointment. The Chairman and five other members (one of whom is the Managing Director) are appointed by the Minister of Finance and the remaining four members (one of whom is the Deputy Chairman) are appointed by "Class B" shareholders. The five directors appointed by the Minister of Finance represent "Class A" shares, while the four appointed by "Class B" share directors represent "Class B" shareholders. The later currently include an official of the DEG and ADB Regional representative, the Credit Manager of Grindlays and the Resident Director of the foreign banks.

2.9 The Board meets quarterly under the Chairmanship of the Ministry of Finance Permanent Secretary, Ministry of Finance and takes an active interest in the Bank's activities and has been instrumental in helping the Bank maintain its autonomy and develop into a sound and profitable institution. The Board appoints from among the "Class B" directors a Deputy Chairman who holds Office for such a period and upon such terms as the Board may determine. In the absence of the Chairman the Deputy Chairman (Section 9), exercises the powers and duties exercised by the Chairman (Section 9). The Board appoints a Managing

2.11 BUSINESS AND FUNDS OF THE BANK

The main activities and business of the Bank are prescribed in Part IV of the Act. Under this part the Bank is authorised to raise funds for long-and medium-term projects for economic development. As such the Bank is required to provide technical assistance, advisory service, obtain and place foreign investment and to carry out Board's decisions on Special Funds from time to time placed at the Bank's disposal. The Bank is also authorised to borrow funds in Zambia and elsewhere. The Bank can also buy and sell securities and can promote and study investment opportunities.[7]

2.12 The Bank is disuaded from wholesale and retail trade and may not indulge in import or export trade except in the course of satisfaction of debts due to it, (i.e. the externalisation of funds to overseas shareholders and receiving funds therefrom). The Bank may not acquire controlling interests and assume managerial responsibility in enterprises in which it renders assistance except in circumstances were the Board feels the necessity of protecting its investment in such projects.[8]

2.13 FUNDS OF THE BANK

The Bank draws its funds from the allotment of shares as authorised under Sections 10 and 11 of the Act. The Bank receives grants and raises loans and parliament appropriates money to provide it with necessary funds for development purposes.

The Act requires that Special Funds should be kept separate from the funds raised and specified under the above manner. The funds so raised are applied in the manner specified and authorised by the Act under Section 15. These are funds for the payment of salaries, fees remuneration, allowances and expenses due and payable to members of the Board and employees of the Bank; the repayment of sums raised by way of loans by the Bank and the payment of interest thereon; providing long-and medium term finance; the payment of rates, taxes, insurance premiums including the expenses of maintenance of buildings and other Bank property; the payment of dividends as the Board may approve; and the application of funds to pay for capital expenditure as the Board may authorise.[9] The funds of the Bank can only be used to finance those projects which are economically viable and technically feasible (i.e. projects which have development elements and can be done by the available technology).

2.14 The Bank may alone or in conjunction with other domestic or foreign investors provide or participate in providing long-and medium-term finance for development.

In the circumstances the Bank is required by the Act to maintain a reasonable diversification in its investments among all sectors of economic activity in Zambia and to maintain a satisfactory balance between dates of maturity of its own obligations and those of the loans it grants. The Bank's assistance in the form of loan, and equity participation should not in a single project fall below K25,000 [10] and in case of single recipient, exceed 20% of the Bank's paid up share capital and reserve without the Minister's approval. The Bank may invest in equity participation provided the aggregate of the amounts does not exceed the aggregate of the Bank's paid-up-share capital.

2.15 Section 17A empowers the Bank to set up a special fund known as the "Small Industries Fund" for the purpose of financing small industries. Under this Section the Bank may participate in equity in enterprises or provide loans on terms the Bank may determine. The Bank is required in the administration of "The Small Industries Fund" to maintain a separate account and annual report on Small Scale Enterprises (SSE's). The Bank is however, authorised to guard its investments in small industries by taking any precautionary measures. Section 9, empowers and authorises the Bank to take appropriate action to safeguard its investment. The Bank has on the strength of this, placed some projects on receivership where clients have failed to honour their obligations stipulated in the project proposal and where the client fails to pay back the loan (capital plus interest).[11] The Board determines annually after the first three profitable years of the Bank's operations what part of the net income of the Bank should be allocated, after providing for reserve fund, to surplus and what part if any should be distributed to shareholders as dividends; any distribution to shareholders is in proportion to the number of shares held by each shareholder and the manner of payment is determined by the Board as between "Class A" shares and "Class B" shares.

2.16 ACCOUNTS AND AUDIT

The Board determines the financial year of the Bank. The Act requires that full accounts and records be kept and all books of accounts and records should be kept at the principle place of the business of the Bank. It is further required that the accounts of the Bank for each financial year must be audited by a person who publicly carries on the profession of accountant in Zambia and such a person is appointed by the Board as auditor and the Board's appointment must be approved by the Minister.[12] Accordingly the Bank has an Internal Audit Department and external auditors (Coopers and

Lybrand) who are accorded reasonable access to all books and records of the Bank relating to the assets, liabilities, income and expenditure of the Bank. The Board is also required to provide to each shareholder a financial and operational report including the annual statement of its accounts for that year and these reports must be certified by the auditor. The submission is done not later than six months after the end of each financial year. The Minister is required to lay annual accounts before Parliament and must cause the annual operational and financial account reports to be published in a manner he may determine.[13]

2.17 The Development Bank of Zambia Act is an enabling Act which allows the Bank to carry out investment activities in viable and technically feasible projects. Thus, enabling it to contribute to the economic development of the country. The Act also provides it with sufficient investment authority to carry out its financial assistance in agro-industries, manufacturing, tourism, construction, etc. In the succeeding Chapters, I will endeavour to evaluate whether or not the Bank has fulfilled the role for which it was established under this Act.

2.18 <u>POLICY STATEMENT</u>

The Development Bank of Zambia statement of operating policies was adopted by its Board of Directors in 1975 and has been modified somewhat since. It provides that the DBZ will give priority to projects contributing towards (a) foreign exchange savings and earnings, (b) use of local raw-materials, (c) development of related industries, (d) transfer of appropriate technology, creation of permanent employment and develop skills and (e) development of Zambian entrepreneurship and management. Equal priority will be given to parastatal and private projects. It notes that DBZ will do its best to identify investment opportunities and present them to potential Zambian and foreign investors. The policy provides that exchange risk on foreign currency borrowings will be borne by either the borrowers or the Government. Finally, it notes that the DBZ's funds shall not normally be committed for the financing of working capital unless it is part of the permanent working capital of an investment project.

2.19 MANAGEMENT

When the DBZ began operations, management was in the hands of expatriates supplied under technical assistance agreements with friendly governments. In early 1975 the General Manager and three heads of departments were expatriates, with only the Managing Director and the Company Secretary being Zambians. Four of the remaining 24 professional staff were also expatriates. This situation continued until the latter part of 1977 when the present Managing Director joined the Bank as General Manager. He became Managing Director in mid--1978 and began moving the expatriates out of management positions were held by competent Zambians. However, the services of expatriates continued to be sought both to fill technical positions and to provide in-house training.

A high point was reached in 1981 when fourteen expatriates were on the staff. Currently, though all management positions are held by Zambians and the only expatriate is a project advisor from Uganda whose contract is maintained on humanitarian ground having been long in the Bank, he is reluctant to return to his home in view of the war situation. He wants to remain in Zambia for his own safety. On the whole the Bank's management is experienced, dedicated and effective in getting things done.

2.20 ACTIVITIES.

The Bank has been providing loan finance to a variety of sectors, though most of its activities have been in the manufacturing, agricultural and agro-industrial sectors. The Bank made its first equity investment in the Financial Year (FY) 1978, but this has never been a major activity. From the beginning the Bank has recognised the importance of project promotion. In its first few years of its promotional work it concentrated on tours of areas outside Lusaka to publicise the Bank and identify potential projects and sponsors. To strengthen its ability to assist promoters in carrying out feasibility and other studies, the Bank established a special fund for technical assistance. This fund to which Norway, Sweden and West Germany have contributed, finances and consultant studies. In addition the Bank's own staff initiate project ideas a number of which have led to project investment. Several observers, however, have suggested that the Bank could have been more aggressive especially in identifying projects based on local raw materials to which priority should be given.

2.21 The DBZ has not been dynamic in terms of financing small-scale enterprises (SSE's). The Government took the lead in 1984 by establishing the Small Industries Development Organisation (SIDO) to promote and provide technical assistance to SSE's. In FY.83 the Bank participated in the establishment of the Small Scale Enterprises Promotion Ltd (SSEP), an associate company designed to provide financing to (SSE's).[14] Initially this company took only equity positions in SSE's with the DBZ providing loan financing.

Recently however, the Small Scale Enterprises Promotion Ltd (SSEP) has acquired additional financing and has began to provide both direct and equity financing, with the result that DBZ's direct role in this field has diminished significantly.

2.22 ORGANIZATION

The Bank's organisational structure had undergone various changes over the years in reaction to changing needs. At the beginning of 1987 a major reorganisation was effected, following the recommendations of a German Consultant. The main changes were (a) the integration of promotion and supervision work with appraisal in one department which were previously separate departments; (b) the creation of a regional office in Ndola on the Copperbelt with full promotion, appraisal, supervision capabilities; and (c) the creation of a post or Evaluation and Economic Research Department. The new integrated approach is expected to provide better staff continuity from identification through supervision. There is concern though, that promotional activities may be abolished. The establishment of the regional office is in recognition of the large volume of business the Bank has in the Copperbelt. The Ndola Office is expected to handle some 40% of the Bank's project work. The Bank is on the whole structured under five departments each headed by a Director who is assisted by divisional managers under him. The following are the departments and the areas of their responsibilities:

1. Projects Department

Responsible for identifying and appraisal of projects. It also supervises the progress and development of projects ensuring that the projects proposal follows the project developments as contained in the project proposal report.

2. Post Evaluation and Economic Research

Is a department responsible for the after effects of the project. It carries out studies of the significant developments in the project proposal. They also study the general economic trends likely to affect investment proposals in the country, bearing in mind investment opportunities.

3. Internal Audit

This department is responsible for the internal auditing of accounts on the day to day basis and make a report to the Management for action.

5. Administration and Personnel

This department is responsible for the general administration of properties, transport and property maintenanceetc. It is also responsible for secretarial work. On the personnel side it is responsible for personnel administration, recruitment and training of staff.

6. Ndola Regional Office

This office is headed by a Director and is fully responsible for all the activities of the Bank on the Copperbelt which include project administration, finance and personnel and administrative duties.

2.23 STAFF

The DBZ staff has increased steadily over the years and now stands at 182 from the initial six (in 1974 the Managing Director, Director, Company Secretary, Secretary to Managing Director, one messenger and two drivers). The present staff includes 64 professional staff and 118 secretarial and general support staff. Almost all the professional staff are University graduates with a quarter also holding Masters degrees. Management has been very aggressive in training staff, both-on-the-job and abroad. In 1986/87 an average of about ten staff members were receiving training abroad. The availability of training opportunities is one of the attractions of employment with the bank.

2.24 In 1970s the DBZ salary structure was set in accordance with the structure of other parastatal companies. This led to inadequate salary levels and affected negatively staff morale, as well as making recruitment of experienced new staff and retention of existing staff difficult. In 1980, the DBZ's Board and the Government approved an increase in the salary structure; it did the same in 1984 and again 1986. This year a submission has been made to the Government in which a new salary structure has been recommended. Through these exercises salary levels are now higher than in most parastatals, although not fully competitive with the private sector. Although in theory, the DBZ is free to set its aalary levels where it wants to in fact, its Board when approving increases, bears in mind what the parastatals are paying and does not like DBZ to get too far out-of-line. While the DBZ salary levels may be below the private sector fringe benefits such as an attractive home mortage scheme compensates but such benefits reduce the turnover.

2.25 PROCEDURE

The DBZ initial team of expatriates formulated appraisal and supervision procedures and prepared an operations manual. These were adapted to the DBZ's needs over time, the manual being revised in 1979. In its early years, the DBZ focussed mainly on appraising projects. Early deficiencies in the appraisal of projects Management and technical aspects were gradually corrected as staff was built up and experience gained. Economic analysis has been added more recently, though the calculation of the Internal Economic Rate of Return (IERR) (which is the point at which the economic benefits are greater than economic costs to the ecomomy) is still not done for all larger projects and then only towards the end of the appraisal cycle.[15] However, over the years the DBZ's appraisal procedures have improved steadily and are now said to be satisfactory by the World Bank appraisal team.

2.26 Even though the Government controls 60% of DBZ's share capital, the DBZ enjoys substantial autonomy in investment decision-making. The presence of private shareholders, while only in the minority, has been a significant factor in this regard. So too have been the operating policies and approval procedures which provide for internal review of proposals at several stages, culminating in presenting to and consideration by the full Board.[16] The competent professionalism of the staff and management are further safeguards.

2.27 The project supervision began to receive attention only several years after the DBZ began operations. A separate supervision department was created in 1978 and reporting forms were sent out to clients the following year. A supervision manual intended to assist staff in the department to follow supervision standard was adopted in 1980. Initially supervision were hampered by lack of experien staff and a tendency to visit enterprises only after problems had developed. With the recruitment of trained staff and the introduction of the supervision manual problems of supervision were gradually reduced.

2.28 The failure of DBZ to solve supervision problems completely became more apparent in recent years when the quality of the portfolio, that is its financial position began to deteriorate as the Zambian economic crisis accelerated in the early 1980's. To combat this, the DBZ,, with the assistance of the World Bank established a more systematic approach to supervision and geared its supervision activities to achieving specific and reasonable goals. In particular, in 1985 it established a two-phase debt recovery action plan to reduce arrears (see arrears page 48 post). Phase one has been successful in reducing arrears among the 40 clients with the largest arrears, and the DBZ has started phase two. Until recently improvements, project supervision was one of the DBZ's weaker activities. The efforts of supervision staff have been essentially geared towards loan recovery and visits to enterprises have been undertaken mainly when enterprises have fallen into arrears. With the recent integration of the supervision and appraisal department into one projects department, it is not clear whether routine supervision will continue to receive the attention it deserves. There is however, a Rehabilitation Unit within the new projects department which will continue to deal with projects that are in problems, as well as with the debt recovery plan.

2.29 The DBZ has historically been fairly active in promotion work, where officers of the department formulated project ideas and assisted promoters in the project ideas, but now with the integration of the promotion department into the new projects department, it is unclear whether promotion will receive the same attention as in the past. Now that individual staff members are responsible for appraisal and supervision as well as promotion, the load of work has become too heavy. All the officers including the Director in the department feel that it is likely that promotion will not get much emphasis.

2.30 In spite of its promotional effort, the DBZ has been, and remains a conservative investor. This is, it is said, reflects the attitude of the Board, especially the foreign members as well as the Managing Director. While a cautious approach at the beginning was no doubt appropriate, the DBZ has been well established now and can afford to be more venturesome in its lending. Instead it has tended to wait for project proposal to be presented to it, and then to focus on their financial aspects and the available collateral requirement. For this conservative attitude the Bank has received numerous criticisms from the public. The avoidance of riskier investments of course, is reflected in its reasonable sound financial position.

2.31 Financial management and accounting in the past have been quite satisfactory. With the steady growth in its operations and portfolio, though, the old manual accounting system has become inadequate, leading, for example to delays in preparing management reports, and to poor co-ordination between those rexponsible for portfolio supervision. In order to alleviate those weaknesses, in 1986 the DBZ and its auditors reviewed the present accounting and management information practice and designed a new management information system to replace them. The World Bank had promised technical assistance to help improve this system. The technical assistance promised has not been given because of Zambia's differences with the IMF.

2.32 OPERATIONS

The DBZ's operations, which consists essentially of loan approvals have gone through four distinct phases since the first loans were approved in FY. 1975. For the first five years, through Fy. 1979, the level of operations showed only modest growth at current prices and was essentially flat in terms of constant prices (See Annex 1). There then was substantial growth in FY.80 and FY. 81. This was followed by an equal amount of decline in the next two years, approvals in FY. 83 had dropped back to the same level, in current prices as they had been in FY. 79, though in constant prices they had dropped further to only about 60% of the FY. 79 level.

2.33 Approvals in current prices then shot forward over the next three years, those for FY. 86 being over five times those for FY. 83. In terms of constant prices, however, the growth was much more modest, FY. 86 approvals being just over twice the FY. 83 level, indicating how inflation had taken hold since 1983. Interestingly, though, there is no clear correlation between macroeconomic performance and these variations in the DBZ's level of loan approvals.

2.34 Annex 1 provides the sectoral distribution of loan approvals from FY. 75 through FY. 86. Slightly over half in terms of amount (52%) are accounted for the manufacturing sector, followed by agriculture, agro-industry and forestry (28%). Mining and quarrying, the third largest sector accounts for only 7% in spite of Zambia's copper endownment. Over half of the total loan approvals, in terms of numbers and amount, have been for new enterprises, with the rest being for expansion and/or modernisations. In recent years though, the number of expansion and rehabilitation projects have been growing.

2.35 Although the DBZ's policy statement gives equal priority to the parastatal and private projects, the vast majority of approved loans (90% of the number and 70% of the amount) have been for the private sector. Most (about 90% in number as well as amount) have been located along the line of rail in Lusaka, Copperbelt, Central and Southern Provinces, reflecting the difficulty the DBZ has had in attracting rural projects. In FY. 86 the mix of foreign and local currency loan approvals changed dramatically. Whereas the previous general pattern had been a majority of foreign currency loans, this had now changed to over 90% local currency. The new preference for local currency loans was a response to the aversion on the part of borrowers to assume the foreign exchange risk and the availability of foreign exchange through the new auction mechanism.

2.36 The DBZ had made equity investments in some 23 enterprises, usually in conjunction with a loan. The total amount so invested is about K5 million. Only three of these investments paid a dividend in FY. 86. Total dividends in FY. 86 represented a return on the equity portfolio of somewhat less than 3%, the best result so far though still unsatisfactory. Dividends had been received in only three other years, FY. 80, and FY. 85.

2.37 The DBZ became involved in financing SSE's only in FY. 84 though it did assist in the establishment of Small Scale Enterprises Promotion (SEP) in FY.83. Its direct financing of SSE's has been as follows:-

	FY. 84	FY.85	FY. 86
Number of Loans	6	19	12
Amount (K'millions)	0.4	1.6	2.7

In FY. 86 a special fund - the International Fund for Agricultural Development with resources provided by IFAD became operative. This special fund is restricted to financing small scale projects in the North-Western Province of the country. During the FY. 86 fifteen SSE projects were financed from the fund for a total of K1.1 million. With the availability of this special fund, and with SSEP now in a position to provide both debt and equity financing from its own resources, it is likely that the DBZ will once again become inactive in SSE financing for its own account.

FOOTNOTES

1. Section 3 DBZ Act, 1972.

2. Section 10(1) and (2).

3. Section 12(2) DBZ (1972).

4. Section 13 DBZ (1972) Act.

5. Section 14 Subsections (1) and (2).

6. Section 15 (a) - (h) DBZ (1972)Act.

7. Section 17(3)(a) DBZ (1972) Act.

8. The DBZ put Chilama Motel on receivership and the Bank sold it to Garden Motel Ltd. This is one example of the many cases handled by the Bank.

9. Section 23 Subsections (1) to (4).

10. Section 24 Subsection (2).

11. The DBZ has maintained its equity contribution in this Company at 25%

12. See "Contribution of DBZ Projects to the Economy" post page

13. The Board approves every investment proposal, with the exception of SSE's which it has delegated to management. Though the Board only meets four times a year, this procedure does not seem to have proved cumbersome.

14. For further discussion of DBZ's economic appraisal methodology see under heading "Contribution of DBZ projects to the Economy" (See page 63).

15. The Board approves every investment proposal, with the exception of SSE's which it has delegated to management. Though the Board only meets four times a year. This procedure does not seem to have proved cumbersome.

CHAPTER THREE

3. THE DBZ'S FINANCIAL POSITION

3.38 Section 23(1) of the Bank's Act requires that full accounts and financial record should be kept and the books of accounts should be kept at the principal place of business of the Bank. The DBZ has adhered to this provision. It has maintained a fairly sound financial position since its establishment, reflecting its conservative management. Financial statements from FY. 74 through FY. 86 and various financial indicators and ratios are presented in Annex 2 - 4.

3.39 Balance Sheets

The size of the DBZ loan portfolio and total assets have steadily increased over the years, commitment and disbursement delays smoothing out the ups and downs in the loan approval level. Part of this growth since 1983 is attributed to the upward revaluation of the foreign exchange component of its loan portfolio as a result of the depreciation of the Kwacha. In current prices, the increase since about FY. 80 has been especially steep, on average almost 40% each year. Even when adjusted for inflation, the increase from FY. 80 to FY. 83 has been an impressive 30% per annum, though after that the growth curve inflattens out before turning negative in FY. 86.

3.40 The growth of medium-and long-term debt has followed the same general curve, with part of the growth since 1983 attributed to the revaluation of foreign exchange borrowings. Net worth on the other hand, has shown little growth since FY. 81, except for FY. 86 when the paid-up share capital was increased. As a result DBZ's debt/equity ratio has grown from 1:1 at the end of 81 to 8.1:1 in FY. 85 falling back to 7.5.1 at the end of FY.86. It is expected to fall further as the recently authorised share capital is subscribed and paid up.

3.41 Income Statement:

In spite of the increasingly adverse economic conditions in recent years, the DBZ has continued to show a profit. This is primarily due to the DBZ's ability to maintain a fairly generous financial spread, though the policy of recognising income when it accrues whether or not it is received, has helped. When this spread was being squeezed in early 1984, the DBZ adopted a variable lending rate policy for local currency loans. Its financial spread in FY. 85 and FY. 86, as a result, was about 7% the highest ever. Loan income as a percentage of the average loan portfolio has risen from around 9% in the DBZ's early years to about 16% currently while financial expenses as a percentage of the average debt have increased from between

7% and 8% to only 9% (See annex 4). Unlike many other Development Finance Institutions (DF), the DBZ has not benefitted from substantial low-cost local funds. The weighted average cost of local currency resources available at the end of the FY. 86 was 13.7% per annum whilst of foreign currency resources was 8.8% per annum.

3.42 The DBZ needed this enhanced spread in recent years in order to absorb the greatly enlarged provisions for possible losses it has had to make due to its deteriorating loan and equity portfolios. While it began making provisions in FY. 81 and had set a-ide a total of K1.7 million by the end of FY. 84, in FY. 85 it set aside another K4.0 million and in FY. 86, K3.3 million in recognition of the growing problem. The DBZ follows the practice of taking interest into income on an accured basis, except when loans are classified as doubtful, In those cases interest is taken into income only when it is collected. As noted in Annex 2, accured income reached a high of K8.9 million at the end of FY. 85 before dropping back to K4.2 million a year later. This latter is equivalent to almost 20% year-end FY. 86 net worth and represents practically all of the net increase recorded during the past three years.

3.43 Arrears:

The DBZ's portfolio traditionally has been of high quality. Principal in arrears over three months remained below 3% of the total loan portfolio through the end of FY. 83 though the percentage of the portfolio effected by arrears over three months had increased from around 7% at the end of FY. 79 to 27% by FY. 83. The situation became progressively worse in the following years, with principal affected by arrears growing to 50% by the end of FY. 86 when almost two-thirds of the number of loans were in arrears over three months (See Annex 5). The deterioration in Zambia's terms of trade which led *inter alia* to foreign exchange shortages. These in turn, resulted in shortages of imported raw materials and spare parts for the many manufacturing enterprises in the DBZ's portfolio (over-half) that were dependent on them, thus reducing their output and cash flow. The Kwacha devaluation in 1983 exacerbated the situation. In addition, agricultural enterprises, a significant proportion of the DBZ's portfolio, suffered from the drought which persisted between 1982 and 1984.

3.44 The situation was compounded by the DBZ's unsystematic supervision methods. Collection ratios fell steadly during the first half of the 1980's hitting a low of 42% of total due during FY. 85 (See Annex 6). As part of the preparation for the proposed 1987 credit, the DBZ intensified its collection efforts and systematised its approach to debt recovery. It prepared, with the World Bank's assistance a two-phase Debt Recovery Action Plan, referred to earlier. Phase one focussed on reducing the arrears of 40 clients with the largest arrears at the end of 1985, 73% of the total. The first step was to get an accurate cash-flow statement from each of these firms. On the basis of this, the repayment schedule was reviewed and revised when necessary. If there were no prospects for eventual repayment, legal action was resorted to. This approach has yielded good results. By the end of 1986, 18 of the 40 enterprises had paid off their arrears, four were in the process of clearing their arrears through monthly instalments, five were selling assets to pay off their loans, one had had its loan rescheduled and the rest were in court for settlement. Phase two, involving a second gropp of 40 clients accounting for an additional 20% of arrears, has began and shows similar signs of success. By the end of March 1987, five of these enterprises had paid off their arrears, agreements had been reached on revised repayment schedule for eleven others, 17 have been taken to courts and negotiations are still going on with seven.

3.45 The Government also took a significant step to reduce the impact of the Kwacha devaluation on the DBZ's clients. When the foreign exchange auction was started on October 11, 1985, it fixed the liability on the DBZ's disbursed and outstanding dollar denomination sub-loans at the exchange rate then in effect(K2.23 to the US dollar), assuming the difference itself. This step insulated the DBZ's borrowers from the further devaluation of the Kwacha which would have increased even further the local currency cost of repaying the foreign currency sub-loans. The auction itself, whilst it lasted, enabled many firms to acquire the additional foreign exchange needed to obtain imported raw materials and spare parts so that they increase capacity utilisation and thus generate the income they needed to service their debts. Although the DBZ began making provisions for possible losses as early as FY. 81, it had no explicit policy for establishing the yearly provision until early in 1986. At that time it decided to establish provisions equal to 50% of principal and interest in arrears for six to twelve months and 100% of principal and interest in arrears over twelve months, without regard to the value of the security it held. This policy was applied for the first time at the end of FY. 86. The provision shown in the FY. 86 balance sheet of K4.0 million represents annual provision totalling K8.9 million less written offs since FY. 81 to K4.9 million.

3.46 DIVIDENDS

The DBZ has declared a dividend every year since FY.80, representing a payout of about 33% (except in FY.81 when dividends, actually interest payments, were also paid on the "Class C" shares). From FY. 83 through FY. 84 the dividend has amounted to K500,000 a 5% return on the K10 million per value of "Class A" and "Class B" shares. On resources, the DBZ has been quite successful, until recently, in raising resources from foreign official resources. The fact that several of these are also shareholders has helped. By the end of FY. 86 it had raised the equivalent of almost K15.0 million as line of credit from lenders the World Bank, African Development Bank, European Investment Bank (all shareholders), the Netherland Development Finance Company (considering becoming a shareholder) the OPEC Fund and the Arab Bank for Economic Development in Africa.

3.47 The DBZ has also been successful in raising local currency resources from institutional sources such as parastatals and the local commercial bank as well as the Government and Bank of Zambia. Of the K80.0 million, it has raised from these sources, K10.0 million is in the form of subordinated loan stock (replacing the "Class C" shares) and some K42.0 million in three year credits from commercial banks. So far, no attempt has been made by the DBZ to tap the general public through for example, a bond issue, no doubt this is because the local private market is too undeveloped.

3.48 <u>Foreign Exchange Risk</u>

As noted under policy statement earlier, the DBZ provides that the foreign exchange risk should be born by either its borrowers or the Government. The DBZ has followed the practice of denominating sub-loans from its various foreign currency lines of credit in US dollars, thus passing the exchange risk between the Kwacha and the US dollar on to its borrowers. [1] Where its foreign currency lines of credit have been disbursed in currencies other than US dollars, though, the risk between the currency of disbursement and the US dollar has remained with the DBZ. This violation of its policy statement, and of covenants in the Bank Loan Agreements has inexplicably gone unnoticed by the staff. While its accounting practives have apparently varied from year to year, the DBZ has basically followed the practice of taking the net worth of exchange gains and losses it has experienced into Income Statement each year. These have then been appropriated to a Reserve for currency fluctuations including as part of its net worth. This practice started in FY. 79 (about the time when the World Bank began disbursing a variety of currencies to development finance institutions instead of only US dollars) and continued through FY. 85. By then, some K4.8 million in net gains had been credited to income and appropriated to the Reserve. Because unrealised losses were also covered by the Reserve, it had been built up to only K1.6 million by the end of FY.85. At the end of FY. 86, the DBZ wrote the entire Reserve off against unrealised losses of K0.8 million. These are shown separately on its balance sheet for that year (See Annex 2).

FOOTNOTE

1. An exception to this noted "Income Statement" page 46 above, are US dollar denomination sub-loans that were distributed and outstanding when the foreign exchange auction began in October 1985. For these borrowers, the government froze the exchange rate at K2.23 per US dollar and carries the risk of any further devaluation of the Kwacha.

CHAPTER FOUR

4. EVALUATION OF DBZ'S OPERATIONAL ROLE IN ITS ENVIRONMENT

4.49 Several major economic shocks and policy changes since 1974 shaped the environment in which the DBZ operated. The major external shocks were:

- The collapse of copper prices in 1975.
- The second oil price increase in 1979.
- The world-wide recession in 1980-1982.

The major policy changes by the Government in reaction to those shocks included:

- The 1977 Industrial Development Act to encourage private investment.
- The 1979-1983 Third National Development Plan to promote the substitution of domestic inputs for imported inputs rural SSE, employment, and the creation of linkages between industry and agriculture.
- The IMF/World Bank supported stabilisation and structural readjustment programmes 1982 - 1987.
- Abandonment of the IMF/World Bank programmes in 1987.

4.50 The results of stabilisation and structural adjustment programme however, were not quick enough nor substantial enough to render the policies politically tolerable in the judgement of the Government. The principal repercussion on the DBZ of the economic policy reorientation was to curtail the demand for foreign exchange loans. Firms found it more advantageous to borrow in domestic currency and buy foreign exchange on the auction market, thereby avoiding the unacceptable prospect of severe foreign exchange losses. For the DBZ's part, the new government policy measures to promote exports, employment, industrial-agricultural linkages, the efficiency of import-substitution, production, and the use of domestic resources did not alter the DBZ's project selection and investment practices. Business continued as before on the basis of financially conservative banking principles, without any apparent effort being made to select projects which supported government policy measures. The DBZ's Annual Reports, however, do reflect the evolving aims of Government economic policy. They endorse the desirability of promoting projects which emphasise the use of fomestic resources, and which are export-oriented or are efficient alternative suppliers of imported products, SSE promotion also cited as a socially desirable goal. While the DBZ appeared to accept these policy changes, its actions indicate little response to the changes in its economic environment.

Lending to export-oriented firms did not increase. Despite the endorsement to promote employment, the investment cost per job has not decreased. Despite the endorsement to promote the use of domestic resources, relatively few projects were primarily users of domestic rather than imported input.

4.51 The explanation of this lack of response can be inferred from several factors. For those projects for example financed in part from World Bank loans for which the Internal Economic Rate of Return was calculated, the IERR is suspiciously high. For the 23 large projects under the first World Bank loan to the DBZ for example, the projected IERR ranged from 10% to 44%. For 13 of those projects, for which both the IERR and IFRR were computed, the projected IERR was only slightly less than the IERR for some projects and was actually equal to or greater than the IERR for the other four projects. One suspects that the underlying market projections, cost estimates, and capacity utilisation estimates were overly optimistic.

<u>Ex post</u> calculations of the IERR which are not available, probably would produce significantly lower estimates.

4.52 The second factor can be found in the mechanical application by the DBZ of rule-to-thumb criteria without modifications to reflect changing economic conditions. Thus, for example, the model used to evaluate the DBZ's bus transport loan in 1978 - 1979 only now is being re-examined and adapted to current conditions in the industry. The same is true for hotel projects. During a decade in which hotel construction costs trembled and even though hotel price controls were relaxed in 1985, the same rules-of-thumb have continued to be used for loan percentages and operating criteria. Only now is the model being re-examined and updated. Finally the cut-off criteria for investment cost per job, the foreign exchange impact, and the IERR itself have not been changed since the current appraisal manual was revised in 1979.

4.53 These observations should not be interpreted to mean that DBZ necessarily has financed economically bad projects. All it means is that the economic analysis of the projects which it financed was not a strong decision criterion. As with many other development finance institutions, the economic analysis is an appendage. Financial soundness and adequate collateral are the primary considerations, an approach quite appropriate for a commercial bank but less for a development Bank. More attention to the economic analysis of projects would enable the DBZ to finance projects more in accordance with the Government priorities and economic conditions. The DBZ has the technical capacity to use economic analysis effectively to effect project selection and project design. The additional cost to the DBZ of doing so would be negligible while the benefits, both to the country and to the DBZ's portfolio would be significant.

4.54 EVALUATION OF THE DBZ

A. - ADAPTABILITY

Under the authority of Part IV of Section 12 of the DBZ Act, the Bank has mobilised sufficient resources locally and externally to enable it operate efficiently and to adopt to changing economic needs of the country. [1] Generally, however, the DBZ has been slow to adapt its activities to changes in its environment. The DBZ was conceived during the early 1970's when the outlook for Zambia appeared positive, when foreign exchange earnings were high and economic growth appeared to face few constraints. This almost eupharic mood set the stage for the DBZ's activities for a number of years that followed, a stage where resource constraints were minimal and thus where almost any financially and technically feasible project which was presented to it could and would be financed. Though the economy started its down turn just as the DBZ was beginning its operations, to a large extent and for a long period the DBZ was isolated from that deterioration because of its rich resource endowment. Its shareholders and others have provided it with ample foreign exchange and local resources. Not having to allocate scarce resources between competing projects, has meant that ranking projects by economic desirability has not been necessary, the only test required being that the project holds promise of being profitable.

4.55 As noted earlier, the DBZ has essentially paid lip service to periodic policy pronouncements made by the Government regarding for example, the importance of fostering projects based on local raw materials, projects which produce for export or projects which increased employment. Instead of refocusing its lending and its promotional efforts to support these initiatives, the DBZ has basically continued to operate as in the past, accepting whatever projects presented to it regardless of their economic merit. A case in point is the DBZ's approach to financing SSE's though the Government in its Third National Development Plan (1979-1983) designated the SSE development as one of its priority objectives and in 1981 established the Small Industrial Development Organisation (SIDO) to promote and provide technical assistance to SEE's, it was only towards the end of the Plan period that the DBZ became involved through its 25% participation in the equity of SSE (See under heading "Operations" - paragraph 2.32) the reluctance to be at the forefront, to take the initiative and come to grips with the economic problems facing the country, reflects DBZ's conservative nature and cautiousness. It saw as its first task the building up of a well trained and dedicated staff, and it has successfully devoted much time and energy to achieving this. It has equally successfully placed the reins of management in the hands of a cadre of competent and knowledgeable Zambians. Having achieved these important goals sometime ago, one would have thought that the DBZ would now be well placed and motivated to take new initiatives to accept new challenges to change the *status quo*. However, so far the DBZ has demonstrated only a limited interest in staying far from the fields it knows best.

4.56 The lack of competition, or even the threat of competition is another factor encouraging the *status quo*.

The DBZ is the only significant source of long-term funds for the private sector whether local currency or foreign, in Zambia.[2] The Commercial banks have concentrated on short-term lending and with several being shareholders of the DBZ, they object to the DBZ entering this field. Industrial Development Corporation (INDECO) only finances parastatals, usually at the behest of the Government and without a thorough appraisal. Finance Development Corporation (FINDECO) and its subsidiaries invest their funds in other areas such as residential mortgage loans and Government bonds. With no one challenging the DBZ's monopoly position, it has little incentive to be innovative. In addition, the market is not yet large or sophisticated enough for underwriting, which the DBZ might consider offering in future. While the DBZ has shown a reluctance to refocus its lending and promotional effort to better meet changes in its environment, it has been willing to modify its procedures when the advantage or necessity of such change has been demonstrated. Thus, over the years it has revised and improved its appraisal manual and is now updating several subsector models.[3] It introduced supervision activities and placed more and more emphasis on them as the need developed. More recently it has adopted and vigorously applied a Debt Recovery Action Plan. Finally, it has just established a Post Evaluation and Economic Research Department.

B. CONTRIBUTIONS OF DBZ'S PROJECTS TO THE ECONOMY

4.57 The DBZ's economic methodology for project appraisal, especially as revised in 1979 is good. It is fairly comparable to any development finance institution (DFI's) and, is based on reliable financial projections and assumes that projects are economically viable. In particular, the Appraisal Manual requires that the investment cost per job and the domestic resource cost of foreign exchange saved or earned should be calculated as well as the IERR. The World Bank reports of 1982 and 1983 reveal that industrial development had been characterised, in nearly all sectors by extremely high capital intensity and inefficient production under the umbrella of high rates of effective protection. The domestic resource cost was less than one, (was not a net consumer of foreign exchange at internationally priced value added) only for food products non-food consumer products, consumer durables, light and heavy intermediate goods and capital goods in a 1980-1981 sample of 24 firms revealed sector average domestic reserve cost (DRC) ratios of 1.4 - 3.0. All those industrial sectors were not consumers for foreign exchange and drained the foreign exchange earnings for the economy. The DBZ's economic methodology should have produced results far superior to these industry averages.

4.58 The manner in which the UBZ used economic analysis, however, mitigated against its making as great a contribution to the economy as would have been possible. The methodology called for calculating a first approximation of the IERR by adjusting financial projections for taxes, subsidies, import charges and financial charges. If the first approximation yielded an IERR equal to or greater than 10% no further economic analysis was required. Financially sound projects usually met this criteria and a second approximation was not done. The second approximation, if done, used a general conversion factor for non-tradeables and permitted unskilled labour to be shadow priced. In no case was foreign exchange shadow priced. This approach became increasingly inappropriate as the economic situation deteriorated. The increasingly over-valued Kwacha and growing shortage of foreign exchange, together with the mounting problems of rural-urban migration and unemployment which the import substitution policies were causing, should have persuaded the DBZ to apply its economic evaluation more vigorously. Doing so would have eliminated the distortions which favoured import-substitution firms, the preference for imported inputs and the incentives to use capital intensive technology. The benefits foregoing were in project design and project selection more consonant with economic reality than Government policy. There should have been no cost to the DBZ in the sense of a reduction in its volume of activity. As a rough proxy of the relative importance of the DBZ in total investment, one notes that the DBZ's loan approval constituted only between 1.3 and 8.3% of annual gross domestic investment during the period 1975 - 1985.

4.59 Since real interest rates were negative and the Kwacha over-valued throughout most of this period, the DBZ's additional contribution to the economy need not have been at the cost of sacrifices in its total financing. The DBZ's loan portfolio historically has been of remarkably good quality with a low level arrears, when compared to other Development Finance Institutions in Africa and elsewhere, so the World Bank report says, indicating that the projects supported by the DBZ have been profitable and able to meet their debt obligations on time. A few years ago, though, many of the industrial projects began to run into trouble, to a large extent because foreign exchange became tight and capacity utilisation dropped drastically. A concerted effort by the DBZ, with foreign exchange available through the auction, these problems seem to have been alleviated. However, now that the foreign exchange auction has been terminated, it seems likely that mthose projects dependent on imported raw materials will again be in trouble.

C. OTHER CONTRIBUTIONS TO THE ECONOMY

4.57 The DBZ has with some success filled a gap in the financial system by providing a source of long-term funds for potentially profitable projects which otherwise might not have been able to go forward. The quality of its portfolio until recently attests to the DBZ's ability to attract financially sound project ideas and to support well managed enterprises. Whether these projects will be able to continue to survive in the current economic environment remains to be seen.

4.58 However, the often weak economic analysis, resulting in projects which have not been reconciled to the emerging economic realities, has been noted as a significant defect in the DBZ's contribution. DBZ has done much less than it might have to support such economically desirable projects as those that are export-oriented, or use local raw material, or are labour-intensive, or invest in rural areas or support local enterprenuership, etc. The DBZ has made little contribution to the development of the financial sector, and probably should not have been expected to give the sector a boost, other than to demonstrate the value of thorough project planning, appraisal and supervision. In addition the DBZ's training programme has produced a large number of competent officers, some of whom have left the DBZ and this has enriched other institutions.

4.59 It also would appear that the DBZ has had little impact on the Government's formulation of economic policy. The recent creation within the DBZ of an Economic Research division, however, may change this. For example, included in the division's initial programme are studies on the transport and tourism sectors. The division also is to prepare a policy paper on the establishment of an agricultural equipment leasing company. In my observation, then, the DBZ has not proved to have been as constructive a force in the development of Zambia's economy as perhaps initially expected, though it has developed the potential to be so. It should be able to realise this potential when it breaks out of its conservative mould and becomes more aggressive and innovative.

CONCLUSION

The DBZ is a soundly managed institution. Its conservation has helped it to achieve the several shocks that have rocked the Zambian economy. Many of its projects though have suffered seriously from those shocks. While most of the projects appeared to be recovering in the early part of 1987, Government reversal of economic policy caused them to lapse into trouble again. However, the DBZ itself is well supported by its shareholders and this support has continued. Given this continued support, the DBZ should be able to sustain its financial viability for the foreseeable future.

The DBZ has not, however, made as substantial a contribution to the economy as it might have. Although it has echoed the Government's economic priorities, these priorities have not been followed. The DBZ has tended to be more passive than active in promoting projects to which Government attaches priority. This, to a large extent, is because it has managed to obtain from the World Bank and other lenders, sufficient credit in foreign exchange and local currency to be able to finance all of the financially sound projects presented to it.

With regard to project appraisal, while the methodology has been sound, its application has been too mechanical. A more serious use of economic analysis together with a more professional attitude could draw the DBZ's attention to Government priorities. A more analytical appraisal of the economic trends taking place internationally and locally would have predicted the economic events the country is now going through.

The Government should be commended for not interfering with DBZ's operations. In particular the Government has not interferred with the DBZ investment decisions nor unduly influenced it to lend to specific projects. The Government might be said to have erred in not insisting that the DBZ comply with its priorities. After all the DBZ was established, first and foremost as a vehicle for Government initiative in channelling productive investment to the economy. Government influence over the DBZ's lending policies will render the Bank more flexible and result in greater support for the Government's changing development policies.

The Act does not provide for Government influence in the DBZ's investment decisions. It provides for complete autonomy to the DBZ's board to undertake investment. Although the Government holds the majority shares (60%), the minority shareholders particularly, foreign, exercise substantial influence because they provide the much needed foreign exchange to the Bank. The participation of the minority foreign shareholders, however, essential, impedes Government effort to direct the Bank to invest in those projects which enjoy Government priority. As a result the institution has, substantially, been influenced by the profit motive as an investment criterion. This motive has built up over the years. The institution is now extremely conservative in project selection. Thus, investment by the DBZ is made only in enterprises with high prospects of prifit, replicating the pattern of private investment.

The DBZ act and articles of association specify what the Bank is legally authorised to do, beyond which its acts will be <u>ultra vires</u>. It must be noted that Government has delegated the power of management to the Board of the DBZ, which should be accountable to the Government. In practice this is not the case. The Act should be broad based and provide guidelines for accountability to the Government by the DBZ board. This will make it easier for the Government to check the operations of the DBZ.

The appointment of the Board of Directors is largely a formality because almost all the directors including the Chairman are nominees, nominated by foreign institutions and local shareholders. They are professionally qualified either as economists, engineers, and accountants. There is in addition one Lawyer on the board. In practice, the appointment by the Minister amounts to approval of individual nominees. The Act is silent on the question of qualification. For better accountability and improved quality of directors a qualification must be prescribed.

The DBZ management enjoys substantial autonomy in decision making on the day to day basis. All managerial positions are localised with well trained and experienced staff. Accounting and Audit systems are performed by well qualified professional statt in the field. Annual accounts and audit reports are made annually giving the Bank an indication of its performance. Given the presence of these well trained and experienced staff and the amendment of the Act so as to give the Government greater influence over the DBZ lending policies, the Bank should be in a stronger position to support and contribute to the economy.

FOOTNOTES

1. The DBZ Act Part IV (See Section 12), (See appendix 6).

2. The leasing activities referred to are apparently only on Small Scale and for a limited clientele.

3. DBZ's Agricultural projects also experienced difficulty, though mainly because of draught.

Evolution of Approvals – 1975-1986

(K000's)

Year ending March 31,	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Current Prices												
Manufacturing	2,824	5,470	2,666	3,588	7,382	15,379	26,968	19,267	3,613	9,489	26,688	22,459
Agriculture, Agro-Industry and Forestry 222	2,299	1,609	1,981	2,731	3,351	6,514	5,404	4,264	5,247	8,774	13,460	23,835
Mining and Quarrying	105	1,190	40	3,000	44	217	1,500	-	-	3,000	177	11,398
Distribution	1,400	-	-	1,100	-	-	-	-	-	-	778	-
Tourism	-	160	985	480	-	409	1,121	276	760	7,098	4,091	3,796
Haulage/Transport	---	-	-	-	1,169	-	4,267	-	896	-	-	1,054
Fishing	-	-	-	-	-	-	-	1,842	1,328	1,495	903	507
Totals	6,628	8,429	5,672	10,899	11,946	22,519	39,250	25,449	11,844	29,858	45,395	63,041
Consumer Price Index (1980 = 100)	49.3	58.6	70.1	81.6	89.6	100.0	114.0	128.2	153.4	184.1	253.0	383.6
1980 Prices												
Manufacturing	5,728	9,334	3,803	4,397	8,239	15,379	23,656	15,029	2,355	5,154	10,548	5,855
Agriculture, Agro-Industry and Forestry	4,663	2,746	2,826	3,347	3,740	6,514	4,740	3,326	3,420	4,766	5,320	6,214
Mining and Querrying	213	2,031	57	3,676	49	217	1,316	-	-	1,630	70	2,989
Distribution	2,840	-	-	1,348	-	-	-	-	-	-	31	-
Tourism	-	273	1,405	588	-	409	983	215	495	3,856	1,617	990
Haulage/Transport	-	-	-	-	1,305	-	3,734	-	584	-	-	275
Fishing	-	-	-	-	-	-	-	1,281	866	812	357	132
Totals	13,444	14,384	8,091	13,357	13,333	22,519	34,430	19,851	7,721	16,217	17,943	16,434

* Preliminary

Source: DBZ Annual Reports

1 DEC 1987

Evolution of Approvals - 1975-1986

(K000's)

Year ending March 31,	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Current Prices												
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Haulage/Transport	---	-	-	-	1,169	-	4,267	-	896	-	-	1,054
Fishing	-	-	-	-	-	-	-	1,842	1,328	1,495	903	507
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Distribution	2,840	-	-	1,348	-	-	-	-	-	-	31	-
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Haulage/Transport	-	-	-	-	1,305	-	3,734	-	584	-	-	275
Fishing	-	-	-	-	-	-	-	1,281	866	812	357	132
Totals	13,444	14,384	8,091	13,357	13,333	22,519	34,430	19,851	7,721	16,217	17,943	16,434

* Preliminary

Source: DBZ Annual Reports

Summarized Balance Sheets - 1974 - 1986

(K'millions)

March 31	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
ASSETS													
Current Assets	6.6	2.7	2.7	3.6	0.6	0.9	1.9	4.8	5.9	11.3	17.2	26.1	30.1
Portfolio Loans	-	3.8	9.4	12.7	16.3	19.8	25.3	38.8	58.1	85.4	100.9	139.9	180.5
Less: Provisions	-	-	-	-	-	-	-	(0.1)	(0.3)	(1.0)	(1.4)	(3.8)	(3.4)
Loan Portfolio	-	3.8	9.4	12.7	16.3	19.8	25.3	38.7	57.8	84.5	99.5	136.1	177.2
Equity Investments	-	-	-	-	0.3	0.4	0.4	0.7	1.1	1.6	1.8	2.1	4.9
Less: Provisions	-	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)
Equity Portfolio	-	-	-	-	0.3	0.4	0.4	0.5	0.9	1.4	1.6	1.8	4.2
SSEPromotion Limited (25%)	-	-	-	-	-	-	-	-	-	0.0	0.1	0.1	0.4
Staff Housing Loans	-	-	-	-	-	-	-	-	0.2	0.8	2.2	3.8	5.4
Fixed Assets (net)	0.3	0.6	1.1	1.1	1.2	1.2	1.8	2.4	3.3	4.0	4.6	4.9	5.4
Total Assets	6.8	7.2	13.3	17.3	18.4	22.4	29.3	45.7	68.1	102.0	125.2	172.8	222.7
LIABILITIES AND NET WORTH													
Current Liabilities	0.1	0.1	0.1	0.1	0.2	0.9	1.5	1.7	2.7	4.4	6.2	9.4	14.0
Medium and Long-Term Debt	-	0.1	3.9	7.0	7.5	9.0	8.5	20.7	27.5	78.1	101.8	145.4	184.8
Special Funds	-	-	-	-	-	0.5	1.0	1.8	2.0	3.8	0.3	0.0	(0.8)
Share Capital	6.7	6.9	8.9	9.5	9.5	10.0	15.4	17.4	11.0	10.0	10.0	10.0	19.0
Reserves	0.0	0.1	0.4	0.8	1.3	1.9	2.8	4.0	4.8	5.9	6.8	8.0	6.6
Unrealized Exchange Loss	-	-	-	-	-	-	-	-	-	-	-	-	(0.8)
Subtotal - New Worth	6.7	7.0	9.3	10.2	10.7	11.9	18.2	21.5	15.8	15.9	16.8	18.0	24.7
Total Liabilities and Net Worth	6.8	7.2	13.3	17.3	18.4	22.4	29.3	45.7	68.1	102.0	125.2	172.8	222.7

Memo Items:

DEVELOPMENT BANK OF ZAMBIA

Summarized Income Statements - 1974- 1986

(K'millions)

Year ending March 31,	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Loan Income	-	0.1	0.6	1.1	1.6	1.9	2.8	4.3	6.7	9.5	12.7	19.4	25.3
Exchange Gain/Loss)	-	-	-	-	-	0.1	0.2	0.5	0.4	0.8	0.7	2.1	(0.4
Other Income	0.2	0.3	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.2	0.3	0.3	1.3
Total Income	0.2	0.4	0.8	1.3	1.7	2.1	3.1	4.9	7.2	10.5	13.7	21.8	26.3
Financial Expenses	0.0	0.0	0.2	0.4	0.5	0.7	0.8	1.2	3.3	5.1	8.2	11.1	14.8
Salaries and Administrative Expenses	0.1	0.3	0.4	0.4	0.6	0.8	0.9	1.1	1.3	1.6	2.1	2.7	4.4
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4	0.5
Total Expenses	0.2	0.3	0.6	0.9	1.2	1.5	1.7	2.4	4.7	6.9	10.6	14.2	19.7
Profit before provisions	0.0	0.1	0.2	0.4	0.5	0.6	1.4	2.5	2.5	3.7	3.1	7.5	6.6
Provision for Possible Losses	-	-	-	-	-	-	-	0.3	0.3	0.6	0.4	4.0	3.3
Net Income before Taxes	0.0	0.1	0.2	0.4	0.5	0.6	1.4	2.1	2.2	3.0	2.7	3.5	3.3
Taxes	-	-	-	-	-	-	-	-	1.0	1.4	1.3	1.9	1.6
Net Income	0.0	0.1	0.2	0.4	0.5	0.6	1.4	2.1	1.2	1.6	1.4	1.7	1.6
Memo item:													
Dividends delcared	-	-	-	-	-	-	0.5	0.9	0.4	0.5	0.5	0.5	0.5

Source: DBZ Annual Reports
1-DEC-87

Year ending Marc 31,	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Profitability Indictors												
Net Income as a % of Average Net Worth	1.0	2.9	4.5	4.8	5.5	9.1	10.7	6.3	10.2	8.6	9.6	7.7
Net Income as a % of Average Total Assets	1.0	2.3	2.9	2.8	3.0	5.3	5.7	2.1	1.9	1.2	1.1	0.8
Loan Income as % of Average Loan Portfolio Before Provisions (a)	4.1	9.1	9.7	10.8	10.8	12.4	13.5	13.8	13.5	13.6	16.1	15.8
Financial Expense as % of Average Medium and Long-Term Debt (b)	-	7.8	6.9	7.4	8.3	8.9	8.5	9.7	8.1	9.1	9.0	9.0
Average Spread (Line (a) - Line (b)	-	1.3	2.8	3.3	2.5	3.5	5.0	4.0	5.1	4.5	7.1	6.9
Operational Indicators												
Total Income as a % of Average Total Assets	5.7	7.8	8.5	9.3	10.3	12.0	13.1	12.6	12.4	12.1	14.6	13.3
Administrative Expenses as a % of Average Total Assets	4.1	3.7	2.9	3.2	3.7	3.5	3.0	2.3	1.9	1.8	1.8	2.2
Financial Expenses as a % of Average Total Assets	0.3	1.5	2.5	3.0	3.4	3.0	3.3	5.8	6.0	7.2	7.5	7.5
Administrative Expenses per Professional Staff (US$000) /a	n.a	n.a	n.a	18.7	18.5	22.6	28.2	28.9	27.8	25.7	22.0	25.1
Volume of Approvals per Professional Staf (US$000) /a	n.a	n.a	n.a	354	294	568	976	575	209	367	367	363
Year-end Professional Staff	n.a	n.a	n.a	39	50	50	51	51	61	65	69	64
Financial Structure Indicators												
Medium and Long-Term Debt/Equity Ratio	0.0	0.4	0.7	0.7	0.8	0.5	1.0	3.0	4.9	6.0	8.1	7.5
Provisions/Total Loan Portfolio (%)	-	-	-	-	-	-	0.2	0.6	1.1	1.4	2.7	1.9
Provisions/Total Equity Portfolio (%)	-	-	-	-	-	-	29.0	20.1	14.0	12.7	11.1	13.3
Total Provisions/Total Portfolio (%)	-	-	-	-	-	-	0.7	0.9	1.4	1.6	2.8	2.2

/a Kwachas converted using the average exchange rate for the previous calendar year

Sourt :DBZ Annual Reports

APPENDIX 5

(amounts in K'million)

Year ending March 31,	1978	1979	1980	1981	1982	1983	1984	1985	1986
Number of Loans									
Total in Portfolio	44	63	96	135	182	218	208	185	188
Number in Arrears over 3 months	11	12	21	37	46	70	91	97	117
Number in Arrears as % of Total	25.0	19.0	21.9	27.4	25.3	32.1	43.8	52.4	62.2
Principal Outstanding									
Total in Portfolio	16.3	19.8	25.3	38.8	58.1	85.4	100.9	139.9	180.5
Principal Affected by Arrears of over 3 months	0.6	1.5	4.6	5.1	9.1	23.4	41.1	65.6	90.1
Principal Affected as % of Total	3.6	7.4	18.3	13.1	15.6	27.4	40.8	46.9	49.9
Amounts in Arrears over 3 months									
Principal in Arrears	0.1	0.2	0.5	0.7	0.9	2.4	5.8	12.6	13.3
Principal in Arrears as % of Total Outstanding	0.7	1.2	1.9	1.8	1.6	2.8	5.8	9.0	7.3
Interest in Arrears	0.0	0.1	0.1	0.3	0.7	1.4	2.2	5.7	6.3
Interest and Principal in Arrears as % of Total Oustanding	0.9	1.5	2.4	2.6	2.8	4.5	7.9	13.1	10.8

Source : DBZ
1-DEC-87

(Amounts in K millions)

	Arrears at Beginning of Year	Amounts Falling Due During Year	Total Due	Total Collected	Total Collected/ Total Due (%)	Total Collected/ Falling Due During Year (%)	Arrears at End of Year
FY 81							
Principal	1	2	3	2	66.7	100.00	1
Interest	1	2	3	2	66.7	100.00	1
Total	2	4	6	4	66.7	100.00	2
FY 82							
Principal	1	4	5	3	60.0	75.0	2
Interest	1	5	6	4	66.7	80.0	2
Total	2	9	11	7	63.6	77.8	4
FY 83							
Principal	2	10	12	8	66.7	80.0	4
Interest	2	11	13	10	76.9	90.9	3
Total	4	21	25	18	72.0	85.7	7
FY 84							
Principal	4	21	25	15	60.0	71.4	10
Interest	3	13	16	11	68.8	84.6	5
Total	7	34	41	26	63.4	76.5	15
Principal	10	23	33	13	39.4	56.5	20
Interest	5	14	19	9	47.4	64.3	10
Total	15	37	52	22	42.3	59.5	30
Principal	20	29	49	31	63.3	106.9	18
Interest	10	23	33	21	63.6	91.3	12
Total	30	52	82	52	63.4	100.00	30

Source: DBZ

GOVERNMENT OF ZAMBIA

A C T

NO. 35 OF 1972*)

Date of Assent: 20th December 1972

An Act to provide for the establishment, constitution, duties and powers of a Development Bank of Zambia to assist in the economic development of Zambia and to provide for matters incidental to or connected with the foregoing.

ENACTED by the Parliament of Zambia

P A R T I

P R E L I M I N A R Y

1. This Act may be cited as the Development Bank of Zambia Act , 1972 and shall come into operation on such date as the Minister may, by statutory order, appoint.

2. In this Act, unless the context otherwise requires:

"Bank" means the Development Bank of Zambia established under section three;

"Board" means the Board of directors of the Bank appointed under section four;

"Class A directors" means the members of the Board appointed by the holders of Class B shares under subsection (3) of section four;

"Class A shares" means the shares allcted under paragraph (b) of subsection (1) of section ten;

"Class B shares" means the shares alloted under paragraph (b) of subsection (1) of section ten;

"Class C shares" means the Class C shares created under paragrpah (a) of subsection (2) of section nine and allotted under section eleven;

*) Including the Amendments No. 6 of 1975, No. 28 of 1975, No. 6 of 1979, No. 29 of 1982

"commitment fee" means a fee imposed on the allocated but the unwithdrawn portion of the principal of any loan;

"economic development" means the development, in conformity with the priorities of the national development plans made by the government from time to time, of-

a. manufacturing, assembly and processing industries including industries engaged in the processing of products of agriculture, forestry and ranching;

b. engineering, construction, transport, power, tourism and mining industries; and

c. large-scale corporate agriculture and ranching

"employee" means any person in the service of the Bank or engaged in connection with any business of the Bank;

"long- and medium-term finance" means any-

a. equity participation in a company; or

b. loan where the obligation of the borrower to repay the principal sum advanced will not, in the absence of default, be discharged sooner than twenty-four months from the date on which such loan became effective,

"recipient" means any body, corporate or unincorporate, to whom the Bank makes available long- and medium-term finance;

"shareholders" means the person who have subscribed to the share capital of the Bank and have the subscription;

"special funds" means the funds administered by the Bank under paragraph (d) of section twelve

P A R T II

ESTABLISHMENT AND ADMINISTRATION OF THE BANK

3. There is hereby established the Development Bank of Zambia which shall by that name be a body corporate with perpetual succession and a common seal and shall be capable of suing and being sued, and, subject to the provisions of this Act, of doing or performing all such acts or things as a body corporate may by law do or perform.

4. (1) there shall be a Board of Directors which shall, subject to the othe provisions of this Act, be responsible for the policy and general administrat of the affairs and business of the Bank.

(2) The Board shall consist of a Chairman and nine other members. The Chairman and such members shall, subject to the other provisions of this Act, hold office for a period of three years and shall be eligible for reappointment.

(3) The Chairman and five other members (one of whom shall be the Managing Director) shall be appointed by the Minister and the remaining four members (one of whome shall be the Deputy Chairman) shall be appointed by the holders of Class B shares;

Provided that such appointment shall be in writing addressed to the Bank Class A director, in the case of an appointment by the holders of Class B shares, a true copy thereof shall be forwarded to the Minister.

(4) The Minister may at any time revoke the appointment of any Class A director, and the holders of Class B shares may at any time revoke the appointment of any class B director.

(5) A member of the Board, other than the Chairman, may at any time resign his office by giving written notice to the Chairman who shall forward the same to the Minister.

Provided that such resignation shall not become effective until it is accepted by the Minister.

(6) No person shall be appointed to or continue to hold office on the Board while he is:-

a) an undischarged bankrupt;
b) of unsound mind;
c) incapacitated through illness or otherwise from performing his duties;
d) serving a sentence of imprisonment upon conviction for an offence involving fraud or dishonesty; or
d) declared person a non grata by Government.

(7) A member of the Board shall cease to be a member if he is absent from three consecutive meeting of the Board without leave of the Chairman.

8. The Minister shall:-

a) in the case of a Class A director, within three weeks of making the appointment under subsection (3),
b) in the case of a class B director, within three weeks after receiving a true copy of the written appointment under subsection (3),
c) in the case of a Class A director, within three weeks of revoking the appointment under subsection (4),
d) in the case of a Class B director, within three weeks after receiving

a true copy of the written revocation under subsection (4),

e) in the case of a member of the Board resigning under subsection (5), within three weeks after receiving a true copy of the notice;

f) in the case of a member of the Board being disqualified from continuing to hold office on the Board under subsection (6) or ceasing to hold office under subsection (70, within three weeks of the Minister becoming aware of the disqualification or cessation, as the case may be;

notify in the Gazette the appointment, revocation, resignation, disqualification or cessation, as the case may be.

9. The Board shall appoint from among the Class B directors a Deputy Chairman who shall hold office for such period and upon such terms as the Board may determine, and who shall in the absence of the Chairman exercise the powers and perform the duties conferred upon or to be performed by the Chairman under this act.

10. A member of the board, who is not a public officer, shall be paid from the funds of the Bank such remuneration and allowers as the Board may, with the approval of the Minister, determine from time to time.

11. a) At the first meeting of the board after a person is appointed its member, he shall declare to the Board the terms and conditions of all outstanding long- and medium-term finance and all other assistance being provided by the Bank to him or to any of his assiciates.

b) Whenever the Board is considering an application by a member or any associate of a member for a long- and medium-term finance or any other assistance from the Bank, or for variation of the terms or conditions of any outstanding long- and medium-term finance or other assistance, such member shall declare his interest to the Board and shall refrain from taking part in any discussion of or vote upon such application.

c) For the purpose of this subsection a person is an associate of a member if that person is:-

i) related to that member within the third degree of affinity or consanguinity;

ii) a partner, employee or employer of that member; or

iii) a debtor, mortgagor, creditor or mortgagee cf or otherwise has direct, material or commercial dealings with, that member of any body of persons, whether corporate or unincorporate, of which that member is a director or in which that member holds any office or position other than that of an auditor or in which that members holds a controlling interest.

12. The Minister may, by writing, give to the board such general directions concerning the policy to be followed by the Bank in the performance of its functions under this Act as he may deem necessary and appropriate in the public interest.

13. The Chairman may at any time resign his office by giving notice to the Minister.

Provided that such resignation shall not become effective until it is accepted by the Minister.

4A. The Deputy Chairman shall preside at any meeting of the Board at which the Chairman is not present and, if at any meeting both the Chairman and the Deputy Chairman are not present, the members present, if they constitue a quorum, shall elect one of their number to be the Chairman of the meeting.

5. (1) The quorum of the Board shall be two class A directors, and one Class B director.

(2) Subject to the provisions of subsection (1), the Board may, from time to time prescribe rules governing its meetings.

6. The Board may establish one or more committees comprising some or all of its members to carry out such functions as the Board may delegate to any such committees.

7. (1) The Bank shall employ at such remuneration and on such terms and conditions as the Minister may determine, a Managing Director from among the members of the Board appointed by him under subsection (3) of section four. The Managing Director shall be the chief executive officer of the Bank and shall peform such duties as may, from time to time be prescribed by the Board with the approval of the Minister.

(2) The Managing Director shall be present at all Board meetings unless his presence at any meeting is excused by the Chairman or when any matter in which he is directly or indirectly interested is to be considered at such meeting.

8. (1) The Board may employ at such remuneration and such terms and conditions as it may determine, a General Manager, a Secretary and such other officers and agents as it may deem necessary for the conduct of the business of the Bank;

Provided that a General Manager or Secretary may only be employed with the prior approval of the Minister.

(2) The Board may grant loans to employees of the Bank for the purpose

of acquiring housing accommodation, motor vehicles or refrigerators and may guarantee a loan for the same purpose made by other person to such an employee.

(3) Subject to the other provisions of this Act, the Board may delegate to the Managing Director any of the powers vested in the Board by this Act including the power to make appointments under subsection (1).

(4) The General Manager shall assume such responsibilities relating to the day to day running of the Bank as the Managing Director may assign to him, shall perform such other duties as the Board may from time to time prescribe and shall, in the absence of the Managing Director, act as Managing Director.

PART III

CAPITAL

9. (1) Subject to the provisions of the next following subsection, the authorised capital of the Bank shall be ten million Kwacha (K10,000,000) and shall be divided into one thousand shares each having a par value of ten thousand Kwacha (K10,000) of which six hundred shares shall be designated Class A shares and four hundred shares Class B shares.

(2) The authorised capital of the Bank may be increased:-

a. by the creation of a new class of shares designated Class C shares with such preferred or other special rights in regard to dividend and return on capital, and on such redemption terms, as the Board may deem fit;

b. in such other manner as the Board may, be resolution, determine: Provided that:

i. the ratio of Class B shares to Class A shares as stipulated in subsection (1) is not exceeded; and

ii. such resolution shall not take effect unless it is approved by the Minister.

10. (1) Subject to the provisions of the next following subsection, the share capital shall be subscribed in the manner that:-

(a) Class A shares shall be alloted as follows:-

i. 450 shares to the Minister of Finance

ii. 150 shares in such number as the Minister deems fit among the Bank of Zambia, Zambia National Provident Fund, Zambia State Insurance Corporation. Zambia National Building Society and any commercial bank in which the Government holds a controlling interest;

(b) Class B shares shall be allotted to such private institutions including but not limited to commercial banks other than commercial banks referred to in subparagraph (ii) of paragraph (a), and international institutions, as the Minister deems fit.

(2) Payment for shares shall be made by the subscribers at the par value of the shares not later than thirty days after this Act comes into operation, or not later than thirty days after the shares have been allotted under subparagraph (ii) of paragraph (a) and under paragraph (b) of subsection (1), whichever is later.

(3) The shares of the Bank shall not be pledged or encumbered in any manner whatsoever and shall not without the approval of the Minister be transferred or assigned.

(4) The liability of the shareholders shall be limited to the unpaid portion of the par value of their shares.

11. (1) Where the authorised capital of the Bank is increased pursuant to subsection (2) of section nine, the Board may allot the additional shares resulting from the increase of authorised capital to such persons, whether resident in Zambia or elsewhere as the Minister may approve.

(2) Payment for such additional shares shall be made by the subscriber at the par value of the shares within such period as the Board may determine.

P A R T IV

THE BUSINESS, PURPOSE AND FUNDS OF THE BANK

12. The business of the Bank shall be:-

a. to make available long- and medium-term finance for economic development;
b. to provide technical assistance and advisory services for the purpose of promoting economic development and at the discretion of the Board to charge fees for such services;
c. to assist in obtaining and placing foreign investment for the purpose of promoting economic development;
d. to administer on such terms and conditions as may be approved by the Board such special funds as may from time to time be placed at the disposal of the Bank;
e. to borrow funds in Zambia and elsewhere;
f. to buy and sell securities, including securities which the Bank has issued or guaranteed;
g. to study and promote investment opportunities and
h. to do all other matters and things incidental to or connected with the foregoing.

13. (1) The Bank shall not engage on its own account in the wholesale or retail trade, including the import or export trade, except as may be necessary in the course of satisfaction of debts due to it and then only as long as may be necessary for that purpose.

(2) The Bank shall not seek to acquire a controlling interest and shall not assume managerial responsibilities, in enterprises to which it may render assistance (whether financial or otherwise) except to the extent that the Board deem it necessary so to do in order to protect any investment therein of the Bank.

(3) The Bank may, subject to the other provisions of this Act, borrow money or other assets required by it for the purpose of meeting any of its obligations or discharging of its functions under this Act;

Provided that the aggregate of the liabilities of the Bank outstanding at any one time, including bonds and debentures, if any issued by the Bank, shall not, without the written approval of the Minister, exceed seven times the amount of its paid-up share capital and free reserves.

14. (1) The funds of the Bank shall consist of:-

a. such sums of money as may be received by the Bank under section ten or eleven;

b. such sums of money as the Bank may acquire by virtue of grants or raise by means of loans;

c. such sums of money as may be appropriated for it by Parliament and

d. such other sums of money as may accrue to it in the course and on account of its business except the funds referred to in paragraph (d) of section twelve.

(2) The Special funds shall be kept separate from the funds specified in subsection (1), and the income therefrom shall be applied or distributed in such manner as the Board may approve.

(3) No charge or lien created on any special fund shall operate as a charge or lien upon the funds of the bank.

15. The funds of the Bank shall be applied towards:-

a. the payment of salaries, fees, remuneration, allowances and expenses due and payable to the members of the Board and employees of the Bank;

b. the repayment of sums raised by way of loan by the Bank and the payment of interest thereon;

c. providing long- and medium-term finance in accordance with the provisions contained in this part;

d. the payment of rates, taxes, insurance premiums and other outgoings including the expenses of maintenance of buildings which may become vested in the Bank;

e. the payment of such dividends as the Baord may approve;

f. such capital expenditure as the Board may authorise;

g. such contributions to charitable or benevolent organisations as the Board may authorise and

h. all other expenses necessary for or incidental to the business of the Bank authorised under this Act.

16. The Bank shall finance only those projects which are economically viable and technically feasible.

17. (1) Subject to the other provisions of this Act, the Bank may alone or in conjuction with other domestic or foreign investors provide or participate in providing long and medim term fiance in aid of development investment.

(2) In providing such finance, the Bank shall:-

a. maintain a reasonable diversification in its investments among all sectors of economic activity in Zambia and

b. maintain a satisfactory balance between the dates of maturity of its own obligations and those of the loans it grants.

(3) The Bank's assistance in the form of loan, equity participation or both, shall not:-

a. in the case of a single project, fall below K25,000 and

b. in the case of a single recipient, exceed without the approval of the Minister twenty percentum of the Bank's paid-up share capital and reserves;

(4) In the case of funds invested by the Bank in equity participation:-

a. the aggregate of the amounts so invested shall not exceed the aggregate of the Bank's paid-up share capital;

b. the Bank shall limit such participation in any recipient to a maximum of ten per centum of the Bank's paid-up share capital and reserves, or to a maximum of twenty-five per centum of the share capital of such recipient whichever is the lesser; and

c. the Bank shall seek to rotate its funds by selling such participations to other investors wherever it can do so on satisfactory terms.

18A. (1) Notwithstanding the other provisions of this Part, the Bank may set up a special fund to be callled the Small Industries Fund for the purpose of financing small industries.

(2) In financing small industries out of the Small Industries Fund, the Bank may, in respect of any enterprise:-

a. participate in the equity of such enterprises; or

b. provide loans for such periods and on such terms as the Bank may determine and shall not be bound by the limit imposed by paragraph (a) of subsection (3) of section seventeen.

(3) The Bank shall maintain separate accounts for the Small Industries Fund, and in the annual report referred to in section twenty-four, the Bank shall make a separate report thereon.

(4) In this section, "small industries" means the small scale enterprises and the village enterprises registered in accordance with the provisions of the Small Industries Development Act, 1981.

19. In case of default on any loan, the Bank shall take appropriate action to safeguard its investment.

20. The Bank may invest all or any part of its funds not immediately required for the purposes mentioned in this Act in good and sound investment.

21. (1) The Bank shall provide against any anticipated losses by establishing and maintaining a Reserve Fund to which shall be allocated at the end of each financial year of the Bank:-

a. not less than twenty-five per centum of the net income of the Bank for that year until the total sum standing to the credit of such reserves fund shall amount to a sum equal to the paid-up share capital of the Bank;

b. not less than twelve and one half per centum of the net income of the Bank for that year if the total sum standing to the credit of such reserve fund exceeds a sum equal to the paid-up share capital of the Bank;

(2) The Board shall determine annually, after the first three profitable years of the Bank's operations, what part of the net income of the Bank shall be allocated, after providing for the reserve fund, to surplus and what (if any) shall be distributed to the shareholders;

(3) Any distribution to shareholders made under subsection (2) shall be in proportion to the number of shares held by each shareholder, and the payment shall be made in such manner as the Board shall determine;

Provided that in making any such distribution, the Board may distinguish between the holders of Class A shares and Class B shares, as one class of shareholders, and the holders of Class C shares, as another class, and may make different provision for each class of shareholders, respectively.

PART V

ACCOUNTS AND AUDIT

22. The Board shall determine the financial year of the Bank.

23. (1) The Board shall cause true and full accounts and records to be kept of all the transactions with which the Bank is concerned, and the books of account and records shall be kept at the principal place of business of the Bank.

(2) The accounts of the Bank for each financial year shall be audited by a person who publicly carries on the profession of accountant in Zambia.

(3) The person referred to in subsection (2) shall be appointed by the Board as auditor with the approval of the Minister.

(4) For the purpose of audit, the auditor shall at all reasonable times have access to all books and records relating to the assets, liabilities income and expenditure of the Bank.

24. (1) The Board shall, not later than six months after the end of the each financial year, submit to each shareholder a report of its operations, including the annual statement of its acctounts for that year certified by the auditor.

(2) The Minister shall, later than nine months after theend of the Bank's financial year, cause the annual statement of acctouns and the report referred to in subsection (1) to be laid before the National Assembly and shall cause the annual statement of accounts together with the auditor's report thereon and the report referred to in subsection (1) to be published in such manner as he may direct.

P A R T IV

MISCELLANEOUS

25. The Board may take such rules, consistent with the provisions of the Act, as it considers necessary or appropriate to further the objects and functions of the Bank.

26. Section fifty of the Banking Act, 1971, is amended:-

a. by the deletion of the full stop at the end of paragraph (e) and the substitution therefor of a semicolon;

b. by the insertion after paragraph (e) of the following paragraph;

f. the Development Bank of Zambia established by the Development Bank of Zambia Act, 1972.

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