

PRESS RELEASE BY MINISTER OF COMMERCE, TRADE AND INDUSTRY,
MR ROBERT SICHINGA, ON SUSPENSION OF FUNDING TO CITIZENS
ECONOMIC EMPOWERMENT FUND

Good morning distinguished ladies and gentlemen of the media,

As a ministry, we appreciate your presence at this press briefing which is meant to share with you and through you, the people of Zambia, the current topical issues.

Allow me to start with the **Citizens Economic Empowerment Commission and the Empowerment Fund.**

Introduction and background

I make reference to my press statement of the 17th November, 2011 in relation to the role of the CEEC and the challenges confronting that institution.

I wish to recall the following statement that was made then and I quote:

“CEEC was created to economically empower targeted citizens through an integrated broad based strategy elaborated in its 9 pillars.

I take this opportunity to inform the public that to date the commission has received a total of 4933 applications demanding amounts in excess of k 800 billion. This is against a total amount received from the national treasury of kwacha 176 billion. Currently, the CEEC has approved a total number of 1620 projects valued at k 218 billion. However, only 169 billion kwacha has been disbursed to approved 1427 projects. This therefore leaves a funding gap of K50 billion for 193 approved projects. Furthermore, there is an estimated demand gap of 3310 projects demanding in excess of K568 billion”.

Ladies and gentlemen,

As stated then, the recovery rate on the existing loan portfolio was given to be only 42%, which can be rated as poor performance. This has led to a serious financing gap. I further stated that I was consulting with stakeholders regarding the management of the CEEC and CEEF. You will recall that I further directed the CEEC management to take steps that would ensure that loans obtained were paid back to the fund. This was in order to benefit new applicants. Furthermore, I appealed to all those that had obtained and were owing funds to the CEEC, to ensure that they paid back expeditiously.

Since then, I have reviewed the management and the funding processes, and have determined that there were several factors that have contributed collectively to the poor performance of the commission and empowerment fund. The factors include;

1. The poor policy environment under which the CEEC was managed which is not appropriate for the realization of the objectives for which the CEEC was established;
2. Policy weakness, resulting in decisions that are driven by political expedience rather than prudent financial management considerations;
3. Undue political pressure was exerted which led to imprudent disbursement of funds;
4. The CEEC not being structured to manage the empowerment fund, (which under section 30 of the original legislation CEE per act no. 9 of 2006) was to be managed by the fund managers and financial institutions. This well-intentioned provision was meant to separate the management of the commission from that of the empowerment fund. The failure to engage fund managers and financial institutions in the management of the fund, led to management of the fund being done by the commissioners, who were ill-equipped to handle this

responsibility, and were vulnerable to political pressure, as has been amply demonstrated.

5. As a result of the commission managing the fund, some empowerment funds were misapplied to operations. This action was in direct contradiction to the need to separate the cost of operations from the empowerment fund, hence the legitimate criticism by the office of the auditor general.

Some remedial actions were taken in 2011 which included:

- I. Retirement of the previous commissioners and **constitution of a new board of commissioners in May 2011**
- II. **Non-renewal of the CEEC Director General's contract** of employment in May 2011
- III. **Non-renewal of the CEEC director of finance's contract** of employment in February 2011
- IV. The MCTI through the minister entered into a **performance covenant** with the CEEC in September 2011
- V. The **2007 and 2008 audited financial statements** were concluded and signed by directors, the chairperson and the auditors and are currently with the office of the auditor general.

Distinguished ladies and gentlemen of the media,

These measures were inadequate and came rather too late. Meanwhile loans had been made from the fund which did not comply with the original intention of supporting the marginalized and disadvantaged individuals or citizens-influenced, citizens-empowered companies or citizens-owned companies, which fall under the micro, small and medium enterprises category.

Following the budget speech of 2010 the ministry of finance and national planning then, directed that from that time onwards, the CEEC could disburse funds up to K50 million kwacha, without any collateral. This led to a

flood of applications by many who considered it a windfall not to be repaid. This further weakened the ability of the CEEC to recover the loans that were granted. Clearly this exacerbated and further weakened an already poor weak policy framework.

Way forward

Ladies and gentlemen,

As a consequence of the foregoing, it has now become necessary for the patriotic front to take drastic measures to salvage the situation.

Accordingly, I have taken the following measures:

1. Requested the ministry of finance to suspend further funding to the CEEF until our review process is completed;
2. Directed that the CEEC should not receive or process any new applications;
3. Also directed CEEC to institute measures to recover all existing loans due, without political interference and in a business like-manner, which measures shall include :
 - (a) engagement of nationwide debt collectors;
 - (b) institution of legal proceedings against defaulters except those which were only partly funded; and
 - (c) CEEC to engage an independent consultant to rating of loans for recovery purposes.
4. I have further directed that the **CEEC re-assesses the approved but yet to be funded projects** to ascertain viability for such funding and restructuring of funded and viable projects in terms of loan repayment to ensure improved performance;
5. The office of the auditor general has been invited to conduct a **forensic audit on the Citizen Economic Empowerment Fund;** and

6. It has come to my attention that **that there were some officers within the CEEC that were engaged in dubious activities. In this regard, I invited Anti-Corruption Commission to examine the authenticity of possible cases of corruption** in the administration of the CEEF.

Further, it has become necessary that the CEEC law be amended in order to address the short-comings that have been identified. Clearly, it has become necessary to restructure CEEC management and processes. This will involve the re-constitution of the board. As regards the management of the CEEC, since the changes made in May 2011, most of the senior officers have been serving in an acting capacity. This can hardly be a motivating situation. Accordingly, I have requested the board to fill all vacant positions.

Although the CEEC empowerment fund has been the most prominent aspect of the CEEC since commencement of its operations, there are several other pillars of empowerment which have not been given any attention.

Accordingly, I have directed the management of the commission to address the following other empowerment pillars:

- I. Issues of **equity ownership and management control;**
- II. Effective and efficient implementation of the preferential procurement statutory instrument number 36 of 2011;
- III. Skills development through development of a discrete sector education and training plan in liaison with TEVETA;
- IV. Increasing investment opportunities by identifying specific areas of commerce, trade and industry to be reserved for targeted citizens, citizens influenced companies, citizens empowered companies and citizens owned companies;
- V. Immediate development and **implementation of sector codes** and codes of good practice; and

- VI. In the interest of transparency, I have also directed that the commission should publish, in the print media, all beneficiaries who have accessed the empowerment funds since inception, by amount, province and location.

Members of the media,

In **conclusion** I wish to state that it is my sincere hope that with the foregoing measures, which I expect to be completed within three months, the performance of the CEEC can be enhanced and my office will keep a watchful eye on the progress.

I now turn my attention to the **Zambia Development Agency**.

At my last press briefing on 17th November 2011, I had directed that “ZDA re-orient its strategies and programmes in line with the PF manifesto expectations in order to increase investment and exports particularly by citizen owned-companies and to focus its efforts in attracting investment, especially in the growth sectors of agriculture, livestock & fisheries, tourism, mining, manufacturing and services”.

Ladies and gentlemen,

I wish to take this opportunity to restate government's commitment towards private sector development as a key source for investment and partners in driving economic growth.

I must therefore once again emphasize the importance that government attaches to the role that ZDA can play, as the interface between the private sector and government on investment matters. Accordingly for 2012, I expect the ZDA to focus on attracting increased levels of investment to exceed those which were achieved in 2010 and 2011.

Distinguished ladies and gentlemen of the media,

In 2011, a total of us\$ 5,413 million in investment pledges was recorded, representing a 13 percent increase over the \$4,788 million of pledged investment in 2010. The energy sector recorded the highest level of pledged investment totalling us\$1,098 million, the main projects being the thermal power plants planned for Maamba in southern province. In line with PF government's policy to increase FDI inflows, as well as increase the level of participation by citizens, I am directing the ZDA to include the following areas of focus in their 2012 workplan:

- 1) Undertake investment promotion missions to the following countries which have the potential of boosting our FDI inflows; united states of America (Los Angeles and New York); Brazil, Germany, United Kingdom, Luxemburg/Belgium, Saudi Arabia, United Arab Emirates, Turkey, India, South Korea, Australia (Perth) and South Africa. Finally, we will conduct an investment promotion here at home sometime towards the end of the year;
- 2) Increase the level of investment facilitation services in order to improve on the realisation rate of pledged investment to actualised investment, above that recorded for 2011, which stood at 21% for large enterprises and 50% for MSMES. This will entail increasing ZDA's focus on its statutory functions related to assisting investors obtain approvals from other government agencies, identifying bottlenecks to investment and making policy recommendations to further improving the investment climate in Zambia; and
- 3) Increase collaboration with other government agencies that provide business services to the private sector through the rolling out of the one stop shop model and enhancing the e-registry portal for business regulations.

Ladies and gentlemen,

As I stated at my last briefing, government is fully committed to increasing the rate at which new value-addition industries particularly those led by MSMES, are created. Accordingly, my ministry has been working on a strategy for rolling- out **industrial clusters**, which entails the setting up of clusters of MSMES producing complimentary products in localised areas, and availing them common or shared services. This strategy is also expected to re-enforce entrepreneurial and management talent, promote technology transfer, improve skills training for the youth, and create job opportunities both in urban as well as rural areas.

In order to establish our potential for this, we have undertaken a resource endowment audit in eight provinces and as of today, only Muchinga remains to be assessed. I am leading a team of my staff which leaves tomorrow for Muchinga province to complete this work. Based on the results of the audit, my ministry will, in collaboration with its statutory boards and multilateral partners, commence the implementation of **industrial clusters** in all the ten provinces.

The outputs of this model will also include the rolling-out of the one province with a maximum of five products concept, which propagates a bottom-up development approach that utilises local material and human resources to produce globally marketable products.

Ladies and gentlemen,

With regard to non-traditional exports, we are putting in place measures to enable MSMES fully participate and take advantage of opportunities presented in COMESA and SADC regional markets where Zambian products can enjoy duty free and quota free market access under the existing FTAs, as

long as, they comply with rules of origin criteria. Other opportunities that need to be exploited are those presented under the Zambia – United States bilateral trade, under AGOA, where products enjoy DFQF market access to the US market, as long as, they qualify and meet required American standards.

Members of the media,

I am also mindful, that some immediate neighbours, who, in actual sense, can be our major trading partners, have not acceded to either the COMESA or SADC FTAs.

In this regard, we are undertaking to engage them on a bilateral basis, so that we exploit huge trade potential existing among us, thereby implementing intra-African trade. I can confirm that we are discussing this matter with our DRC colleagues on this matter and expect to sign a bilateral agreement within the next 90 days.

Besides that, we are examining the possibilities of how we can establish formal regional trading markets at some of our busy borders so that we can allow our people to easily engage into cross border trade with their counterparts in neighbouring countries. This again will be in order to generate employment as well as create wealth among these communities.

Conclusion

Ladies and gentlemen,

In this ministry, we recognize that it is our primary responsibility to create job and self-employment opportunities for not less than four million citizens of this country, the majority of the unemployed are young people who fought so hard to bring about a change of administration, in the hope that they can

secure employment for themselves. We take this responsibility with the seriousness it deserves.

We are therefore working diligently to set the foundation for creating the appropriate environment as well as several other programmes and measures, which we expect will enable us meet that objective. In this regard, we cannot afford to antagonize nor frustrate potential investors both local and foreign. We will regularly, at least once a month, provide the media with the briefing on how we are working towards fulfilling our major objective.

I thank you for coming and now wish to invite questions.