

Caleb M Fundanga: Zambia's economic overview and its accountancy profession

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the 2010 Zambia Institute of Chartered Accountants Annual Ball, Lusaka, 24 April 2010.

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Mr. Chintu Mulendema***

***The President – Eastern, Central and Southern African Federation of Accountants,
Mr. Koos Du Toit***

***The President International Federation of Accountants, Mr. Robert Bunting
The Secretary & Chief Executive – Zambia Institute of Chartered Accountants,
Mr. Hapenga Kabeta***

***The Chief Executive Officer – Eastern, Central and Southern African Federation of
Accountants, Mr. Vickson Ncube***

Distinguished Members of ZICA

Members of the Press

Ladies and Gentlemen

I am greatly honoured to have the opportunity to join you this evening and to say a few words on the important role that the accountancy profession plays in our economy. The importance of the accountancy profession has indeed been highlighted following the recent global financial crisis in which a lack of appropriate governance arrangements and clarity about the inherent risks taken by financial institutions contributed to the near collapse of financial markets in the developed economies. Clearly the accountancy profession has an important role to play in ensuring that the regulatory response to the crisis leads to more robust and transparent financial institutions that serve the needs of households and firms and avoids the build-up of systemic risks.

May I take this opportunity to commend ZICA for the tremendous progress it has made in the development of the accountancy profession in Zambia. I am aware that the number of qualified accountants in the country has continued to grow with ZICA boasting a total of 3,606 members as at December 2009 compared to 2,938 in the previous year. This is no doubt a testimony to the growing number of institutions that are offering quality accountancy training courses. The growing number of accountants is also a reflection of the economic achievements the country has scored in the recent past. It is worth noting that as the economy continues to post positive economic growth, the country's need for accountants will also increase.

Distinguished Members, allow me at this moment to briefly highlight the performance of the economy in 2009. Although projections of GDP growth for 2009 had been revised downwards to 4.3% on account of the effects of the global financial and economic melt-down, preliminary data indicates that the economy posted a real GDP growth rate of 6.3% compared with the 5.7% recorded in 2008. Almost all key sectors of the economy recorded positive growth except for restaurants and hotels which saw negative growth due to lower tourist and business travel arrivals during the financial crisis.

Annual overall inflation slowed down, reverting to single digit level of 9.9% in December 2009 from the 16.6% recorded in December 2008, and was in line with the original end-year target of no more than 10%. This outturn was attributed to the decline in both annual food and non-food inflation.

In the external sector, Zambia's external position showed remarkable improvement as reflected in the build-up of gross international reserves to 5.1 months of import cover in 2009 from 2.1 months of import cover in 2008.

Zambia's overall balance of payment position is expected to remain favourable in 2010 due to the rebound of copper prices on the international market as well as the expected increase in copper production as some mines increase production to full capacity and the resumption of production at some mines.

The rebound in the international price of copper in the second half of 2009 and the return of foreign portfolio flows resulted in an appreciation of the exchange rate of the Kwacha by 4% at the end of the year.

However, fiscal performance in 2009 was weak, mainly due to the global economic crisis, which reduced domestic revenues. Despite this, Government remained within the programmed domestic financing for the year.

Ladies and Gentlemen, the financial sector has remained resilient despite the adverse effects of the recent global financial crisis. Currently, the Zambian financial sector is characterised by high liquidity levels, reflecting tighter lending standards in the wake of the lessons from the global financial crisis leading to marked decline in private sector lending. As a result, the demand for the relatively risk free Government securities has increased causing a decline in yield rates on Government securities. The decline in Government securities yield rates and relatively low inflation experienced since the beginning of the year should contribute to a decline in banks lending rates and thus stimulate borrowing by the private sector.

Ladies and Gentlemen, the critical role the accounting profession plays in enhancing economic development cannot be over-emphasized. One of the most important role the profession plays in any organization is to provide accurate, reliable and high quality financial information which communicates an organization's operating results, its overall health, as well as raise the transparency of its various operating activities. The other role is the audit function, both internal and external, which provides independent assurance of the information produced by accountants and also reviews the control environment in which this information is produced.

In a growing economy like ours, the need for high quality financial information is very critical. Financial information provides the basis for all financial decision making at all levels of economic activity, from households to large international organizations. Remember, there is no high quality information without the work of accountants and that is one reason why accountants play such a critical role in today's global financial system and the global economy. You provide financial information that helps businesses and governments run properly. You provide investors and creditors with reliable information for decision making. You also provide assurance services founded on integrity and independence.

Distinguished Members, the vision of this country is to become a prosperous middle income country by the year 2030. In order for us to attain this vision, we need to improve the financial infrastructure in Zambia. The Government intends to achieve this through the implementation of the Financial Sector Development Plan. An improved financial infrastructure will result in efficient capital and money markets which will in turn attract foreign investment into our economy. However, in order to attract and retain foreign investment, we need to have the ability to provide investors with transparent information that will result in efficient investment decisions, higher returns and greater investor confidence. Without confidence, investors will simply find somewhere else to invest their money. High quality, investor oriented and transparent financial reporting attract both seekers and providers of capital. This is where accountants come in, to ensure the provision of reliable and transparent financial information to potential investors and other users of financial statements.

Ladies and Gentlemen, I am certain that as members of ZICA you take pride in helping improve the financial sector in Zambia. This is done through standard setting. I recognize the fact that Accounting standards provide the foundation for the production of high quality financial information. I am aware that ZICA has adopted International Financial Reporting Standards (IFRS's) in full and that all members of ZICA are obliged to ensure compliance with IFRS. However, it is unfortunate that despite ZICA adopting IFRS, it is not a legal requirement under the Securities Act, the Insurance Act, the Banking and Financial Services Act and also at the Lusaka Stock Exchange.

Nonetheless, I wish to state that efforts are underway to make IFRS a mandatory requirement for financial institutions. It is important for this provision to become a legal requirement in order to enhance the credibility of financial statements that are being produced by institutions governed by the various laws. I wish to state here that as much as it is important to follow international standards, these need to be reviewed for their relevance and practical application locally. It is also important to look at their relevance to small and medium enterprises where compliance may place additional burdens on operations.

Ladies and Gentlemen, as we discuss the harmonization of various laws, I would like to bring up the issue of money laundering. The Prohibition and Prevention of the Money Laundering Act (PPMLA), enacted in 2001 requires all persons, whether corporate or unincorporated, to comply with its provisions. Although the Act does not impose specific obligations on accountants, they are expected to comply with its provisions. It has been noted from the recent court cases on abuse of office and corruption that professional entities such as law and accounting firms have been used as a channel to launder some of the proceeds of crime. As we are all aware, one of the duties of accountants is to know the sources and application of the resources in their organization. Therefore I don't think it is unfair to say that in most organisations, where money is being laundered, an accountant is involved.

As we speak, the PPMLA is being reviewed, and it is expected that the amendments to PPMLA as well as the new law for the establishment of the Financial Intelligence Unit will impose some reporting requirements on accountants. To maintain the reputation of your profession, all accountants should uphold good ethical and professional standards as custodians of financial resources. There is also the need to ensure that financial matters are prudently managed in organisations for we have seen an increase in reported cases of accountants involved in unlawful practices which does not reflect well on the profession.

Notwithstanding, allow me to commend ZICA for the hard work leading to the enactment of the Accountants Act in 2008. This is a positive development for the regulation of the Accountancy profession in Zambia. I note that the Act prescribes the relevant qualifications for accountants and also provides for disciplinary action against accountants found guilty of misconduct and corrupt practices. It is my sincere hope that the enactment of the Accountants Act will deter potential offenders and will also ensure that accountants found guilty of malpractice receive the appropriate punishment.

Distinguished Members, I further wish to commend ZICA for the development of the local qualification, the ZICA Accountancy program which has been in existence since 2006. This is a positive achievement for ZICA as it provides affordable training to accountants. I am encouraged by the statement in your annual report that you intend to make the ZICA qualification the most preferred in the market. I urge ZICA to ensure this program is relevant not only to Zambia but to our neighbouring countries in order to provide an alternative to the costlier international professional training courses. This is a potential area of foreign exchange earnings for this country. The competitive strength of our country can only be proven by our ability to sell in the most demanding of international markets.

As I conclude, let me challenge ZICA and all its members to assist in promoting efforts to improve the financial capability and financial education in Zambia. I particularly would like to urge ZICA to partner with Non-Governmental Organisations as well as the Ministry of

Education in promoting financial education in schools and other institutions of learning in rural areas. This sort of collaborative approach provides an excellent model for how professionals should put their expertise to good use in local communities across the country.

At this time when the world economy is at crossroad, I am sure the accountancy profession is positioned to take a leadership role in helping to steer our way out of the financial crisis, through high-quality accounting and auditing standards; through high-quality ethical standards and through an understanding and support of the growth of Small and Medium Enterprises.

Ladies and Gentlemen, I thank you for your attention.