



**TERMS AND CONDITIONS FOR  
THE STABILITY AND RESILIENCE FACILITY**

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## **1.0 DEFINITIONS**

- 1.1 “**Advance**” means an amount extended by the Bank of Zambia to FSPs under the Facility.
- 1.2 “**Bank**” means the Bank of Zambia established under the Republican Constitution (Amendment) Act No. 2 of 2016 and the Bank of Zambia Act (BoZ Act No. 5 of 2022).
- 1.3 “**Borrowing Allowance**” means the maximum amount that a FSP is entitled to borrow under the Facility, computed as a percentage of the eligible loans outstanding at the time of lodging the application for the advance.
- 1.4 “**FSP**” refers to Financial Service Provider and has the same meaning as in the Banking and Financial Services Act.
- 1.5 “**Repayment date**” means the date the Advance is due for settlement.
- 1.6 “**SRF**” stands for Stability and Resilience Facility.
- 1.7 “**TMTRF**” stands for Targeted Medium -Term Refinancing Facility.
- 1.8 “**Green loans**” shall have the same meaning as defined in the Banking and Financial Services (Green loans) Guidelines, 2023.

## **2.0 INTRODUCTION**

- 2.1 The mandate of the Bank of Zambia (hereinafter referred to as ‘the Bank’), as provided for under the Republican Constitution (Amendment) Act No. 2 of 2016 and Section 5 (1) of the Bank of Zambia Act, No.5 of 2022, is *to formulate and implement monetary and supervisory policies that achieve and maintain price and financial system stability*. In pursuing this mandate, and as provided under Section 44(4) of the Act, the Bank hereby introduces the **Stability and Resilience Facility** (hereafter referred to as ‘the Facility’ or ‘SRF’) to safeguard financial stability and enhance the resilience of the financial sector in the wake of the 2023/24 drought.
- 2.2 The drought has adversely affected food production and hydroelectricity generation significantly, leading to food insecurity and extended periods of load shedding. These have had cascading effects on the economy with high potential to compromise financial system stability. As food and energy prices increase, inflation has been on the rise while the growth rate for the economy in 2024 has been revised downwards to 1.2 percent from the 2.3 percent projection made in July 2024.
- 2.3 Under the Facility, the Bank will provide liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable businesses in the agriculture sector and those negatively impacted by the current electricity shortages. The facility is, therefore, expected to contribute to the broader mandate of the Bank of Zambia of supporting and engendering price and financial system stability.
- 2.4 Under the Facility, clients with existing facilities, including those obtained under the TMTRF, can access the funds as long as they meet the specified terms and conditions. However, this should not be for the purpose of refinancing such facilities.
- 2.5 While access to the Facility will be based on the terms and conditions contained in this document. The Bank reserves the right to vary the terms and conditions as may be deemed necessary.

## **3.0 THE STABILITY AND RESILIENCE FACILITY**

- 3.1 The SRF will be available to FSPs that satisfy the eligibility criteria as defined under Section five (5) of these terms and conditions. It will be primarily intended for onward lending to viable businesses including MSMEs in the agriculture sector and those negatively impacted by the current electricity shortages. The FSPs will make determination of business entities affected by the drought as part of the due diligence process.
- 3.2 The funds from the Facility shall be solely for the intended purpose and shall not be used to support activities as defined under Section four (4) of these terms and conditions. The funds shall be provided against eligible, clearly specified, and verifiable collateral.

- 3.3 Access to the Facility shall not be open-ended, but subject to the borrowing limit as prescribed in section ten (10). The funds shall be disbursed to the ultimate beneficiaries as prescribed under section eleven (11). Failure to do so may result in imposition of mandatory repayment as defined under Section thirteen (13).
- 3.4 Interest rates on the Facility shall be priced off the Monetary Policy Rate (MPR) with a 24-months moratorium on both principal and interest. FSPs are therefore expected to structure their portfolios in such a way that the benefits and any concessions provided for under this facility are passed onto their respective clients.
- 3.5 This SRF access window shall open for a period of 12 months. No further applications shall be received or considered after the 12-month period has lapsed.

#### **4.0 NON-QUALIFYING PURPOSES**

- 4.1 Funds obtained from the SRF shall be solely for the purpose of supporting businesses in the agriculture sector and those affected by the current electricity shortages. The funds shall not be applied to any of the non-qualifying purposes, as stated below:
- a) Investments in foreign exchange holdings.
  - b) Purchases of Government securities.
  - c) Placements with other FSPs.
  - d) Credit facilities to FSPs' employees (and their related parties), board members (and their related parties), and shareholders.
  - e) On-lending on non-concessionary terms against what has been provided for in these terms and conditions; and
  - f) Any other non-qualifying purposes as may be determined by the Bank from time to time.

#### **5.0 ELIGIBILITY CRITERIA**

- 5.1 To be eligible, the FSP should at a minimum:
- a. be licensed by the Bank of Zambia;
  - b. have a settlement account with the Bank. Where the FSP does not have a settlement account, it will be required to provide a settlement account that it has with a commercial bank;
  - c. be in a sound financial position as determined by the Bank of Zambia; and

- d. be able to provide the Bank with valid and enforceable collateral of the type specified under Section eight (8).

5.2 Meeting the minimum requirements is not a guarantee to access the Facility. The Bank reserves the right to determine access and can reject or accept an application by an FSP for any other reason it deems appropriate.

## **6.0 APPLICATION PROCEDURES**

6.1 An eligible FSP shall apply for an advance in the manner prescribed by the Bank as follows:

- a) Written application for the Advance from the Facility in a prescribed format.
- b) Board resolution authorizing the FSP to obtain Advance from the Facility.
- c) The latest audited financial statements and the latest balance sheet position.
- d) Statement of current holdings of Government Securities as well as a list of other eligible collateral, as specified in Section eight (8) of this document.
- e) FSPs without settlement accounts at the Bank should submit bank details of the settlement account held with a commercial bank.
- f) An approved pipeline of borrowers. The borrowers should be categorized into those that applied for Green loans and those who wish to obtain Non - Green Loans (normal loans).
- g) The applications should distinguish between green and non-green loans and should be submitted on separate applications forms. The applications shall be supported by an approved pipeline of borrowers as provided under 6.1 (f).

6.2 FSPs should demonstrate how they will ensure that the benefits obtained on the Facility are extended to their respective client(s) i.e. cost of funds and moratorium, and all other terms for the on-lending.

6.3 The Bank will only consider duly completed applications. The applications will be assessed as quickly as possible and FSP will be informed FSPs of the decision of their application once made. Funds will be disbursed to FSPs once they have confirmed that all the formalities for lending to clients have been fulfilled and that they are ready to disburse funds once received.

6.4 The Bank reserves the right to amend the application procedures as and when deemed necessary.

6.5

## 7.0 TENOR OF ADVANCES

- 7.1 The Advances that shall be offered under the SRF shall be for a period of up to 7 years.
- 7.2 Where the tenor of the advance by the FSPs to the clients is not aligned to the 7-year tenor as provided for under these terms and conditions, the repayment from such clients shall either be:
- a) Used for onward lending in accordance with the terms and conditions
  - b) Early paid as defined under section thirteen (13).
- 7.3 The Bank reserves the right to change the tenor of the Advances as may be deemed necessary, but this will not apply to already existing Advances made under this facility.

## 8.0 ELIGIBLE COLLATERAL

- 8.1 Funds obtained from the Facility shall be backed by prescribed collateral which shall include applicable haircuts.
- 8.2 Collateral requirements for commercial banks shall be as specified under Table I while for non-bank financial institutions it shall be as per Table II.

**Table I: Eligible Collateral for Commercial Bank and Their Respective Haircuts**

	<b>TYPE OF SECURITY</b>	<b>HAIRCUT</b>
1	Zambian Government Treasury Bills.	5%
2	Zambian Government Bonds.	10%
3	Securities issued by FSPs in Zambia.	20%
4	Securities issued by corporate entities in Zambia.	50%
5	Real estate - office buildings owned by FSPs in Zambia.	50%
6	Loans on the bank's books classified as Pass and secured by perfected security.	45%
7	Portfolio of salary-backed loans on the bank's books classified as Pass.	50%
8	Dollar denominated loans on the bank's books classified as Pass, secured by perfected security, and with matching foreign currency cash flows.	50%
9	Zambian Sovereign Kwacha denominated Green Bonds.	5%
11	Kwacha denominated Green Bonds issued by Zambian corporates	40%
12	Portfolio of Green loans on the bank's books classified as Pass.	40%

**Table II:** Eligible Collateral for Non-Bank Financial Institutions and Their Respective Haircuts

	<b>TYPE OF SECURITY</b>	<b>HAIRCUT</b>
1	Zambian Government Treasury Bills.	5%
2	Zambian Government Bonds.	10%
3	Securities issued by FSPs in Zambia.	20%
4	Securities issued by corporate entities in Zambia.	50%
5	Real estate, inclusive of commercial and residential property, is owned by the NBFIs.	50%
6	Guarantees from Shareholders backed by tangible assets.	50%
7	Loans on the NBFI's books classified as pass and secured by perfected security.	40%
8	Portfolio of salary-backed loans on the NBFI's books classified as Pass.	50%
9	Dollar denominated loans on the NBFI's books classified as Pass, secured by perfected security, and with matching foreign currency cash flows.	40%
10	Zambian Sovereign Kwacha denominated Green Bonds	5%
11	Kwacha denominated Green Bonds issued by Zambian corporates	40%
12	Portfolio of Green loans on the bank's books classified as Pass.	40%

8.3 Preference shall be for collateral in the form of Government Securities.

8.4 The Bank reserves the right to change the list of eligible collateral and applicable haircuts as and when necessary and may accept any other type of collateral as may be determined.

## **9.0. INTEREST RATES**

9.1 The applicable interest rate on the SRF shall be determined as the prevailing Bank of Zambia Monetary Policy Rate (MPR) less an administrative margin of 100 basis points, at the time of granting the Advance.

9.2 Where the Advances applied for are to support environmental sustainability as provided for under the Banking and Financial Service (Green Loans) guidelines, the applicable interest rates shall be the MPR less an administrative margin of 300 basis points.

9.3 Where there is a downward adjustment to the MPR, the interest rate shall be revised and aligned to a new level for the remaining life of Advance. Further, no adjustment to the interest rate shall be applied whenever there is an upward adjustment to the MPR.

9.4 The interest shall be paid semi-annually with a 24-month grace period.



- 9.5 Much as FSPs are free to set the interest rate charged to clients on the Advances obtained from the Facility, they are obliged to pass on the benefits of the low interest rates on the Facility to their clients and to demonstrate that they have done so at the time of disbursement of the funds.
- 9.6 The margin for onward lending above the cost of funds for this facility shall not exceed 10.0 percentage points. For instance, if the cost of funds (MPR less 100 basis points) is 13 percent, the interest rate to clients cannot exceed 23.0 percent.
- 9.7 The FSP that offers an interest rate to the client, that is within five (5) percentage points of the rate prevailing on the Facility shall be entitled to an additional borrowing amount equivalent to 20% of the initial borrowing amount as outlined in Section ten (10) of this document.
- 9.8 The interest rate that FSPs shall on-lend the funds to their clients shall be aligned as provided for under section 9.1 and 9.2 and shall adjust accordingly as provided under section 9.3, 9.6 and 9.7 respectively.
- 9.9 FSPs are obliged to report to the Bank the interest rate and any other relief offered to their clients as prescribed under Section fifteen (15).

## **10.0 LIMITS ON BORROWING**

- 10.1 Access to the Facility shall be subject to a borrowing limit. The borrowing limit applicable shall be calculated based on the loan data for the FSP in respect of outstanding amounts of eligible loans.
- 10.2 The eligible loans shall be the total amount of the outstanding performing loans based on the latest financial position at the time of submitting the application.
- 10.3 An eligible FSP shall be entitled to 100 percent of the total outstanding eligible loans. Where the initial Advance applied for is below 100%, the FSP can obtain additional funds, but this should not exceed the total amount of the outstanding performing loan portfolio.

## **11.0 DISBURSEMENTS**

- 11.1 Once the Advance has been approved and communicated accordingly, the offer shall remain valid for a period of 14 days beyond which it shall lapse. Consideration to extend the validity period shall be on a case-by-case basis and only with justifiable reasons.
- 11.2 Once the offer has been accepted, there shall be a drawdown within 30 days. In case of a partial initial drawdown, the remaining amount should be exhausted in a maximum of two drawdowns within a maximum period of 30-days between drawdowns. Consideration to extend the drawdown period shall be on a case-by-case basis and only with justifiable reasons.

- 11.3 Disbursement of funds is subject to the FSP meeting all requirements including submission of name(s) of borrowers, terms for the on-lending, collateral perfection, and any other pertinent supporting information.
- 11.4 Onward disbursement of funds to clients should be within 14 days of drawdown. Consideration to extend the disbursement period shall be on a case-by-case basis and only with justifiable reasons.

## **12.0 REPAYMENT**

- 12.1 The principal amount on the facility shall be repaid either as a bullet payment at maturity or amortized according to the FSP's preference. The FSP shall indicate the suitable option at the time of application.
- 12.2 The payment (principal/interest or both) shall be transferred to a designated settlement account as shall be guided by the Bank.

## **13.0 EARLY REPAYMENT**

- 13.1 The Bank shall accommodate early repayments of Advances should an FSP decide to repay part of or the entire Advance before the maturity date. Early repayment shall commence twenty-four (24) months after the date of accessing the Facility.
- 13.2 To exercise the early repayment option, the FSP shall notify the Bank that it intends to repay at least one week before the planned early repayment date.

## **14.0 MANDATORY EARLY REPAYMENT**

- 14.1 FSPs shall be subjected to mandatory early repayment of the Advance if:
- i. The FSP fails to report in the prescribed format or provides the required information past the due date; and
  - ii. The FSP breaches any of the eligibility requirements or misapplies the Advance accessed.
- 14.2 The Bank shall notify the FSPs that are subject to Mandatory Early Repayment a month before the mandatory early repayment due date. This mandatory early repayment notice shall not constitute notice of an event of default.
- 14.3 Failure by the FSP to settle, in full or in part, the amount due under the Mandatory Early Repayment by the repayment date may compel the Bank to invoke the default clause as provided for under Section sixteen (16) of this document.

## **15.0 REPORTING REQUIREMENTS**

- 15.1 FSPs shall submit accurately completed reporting templates to the Bank monthly by the specified due date until full repayment of the Advance.
- 15.2 FSPs shall be subjected to regular examination of accuracy in respect of data submitted in 15.1 above.
- 15.3 If an FSP fails to comply with the obligations set out in 15.1 and 15.2 above, the full amount of the Advance shall become payable in line with Section fourteen (14).
- 15.4 Where errors or inaccuracies in the data submitted in the reporting templates are identified and notified by either the FSP or the Bank, the Bank shall assess the impact of the relevant error and undertake appropriate action, including the possibility of requiring mandatory early repayment or imposition of penalties as prescribed in the Banking and Financial Services Act.

## **16.0 DEFAULT**

- 16.1 An event of default shall occur when the FSP fails to repay the principal and interest in accordance with the terms and conditions of the Facility.
- 16.2 When an event of default occurs, the Bank shall realize the collateral pledged with further recourse to the FSP where the collateral is inadequate.
- 16.3 Where the default is due to unsafe and unsound management and poor governance practices, the FSP shall be dealt with in accordance with the provisions of the Banking and Financial Services Act.

## **17.0 OTHER GENERAL CONDITIONS**

- 17.1 The imposition of any sanctions under these terms and conditions, including Mandatory Early Repayment, shall be without prejudice to the Bank's right to exercise its regulatory powers as provided for in the Bank of Zambia Act, and Banking and Financial Services Act.
- 17.2 The Bank reserves the right to determine access and can reject or accept an application by an FSP for any other reason it deems appropriate.