ZAMBANKER

Bank of Zambia

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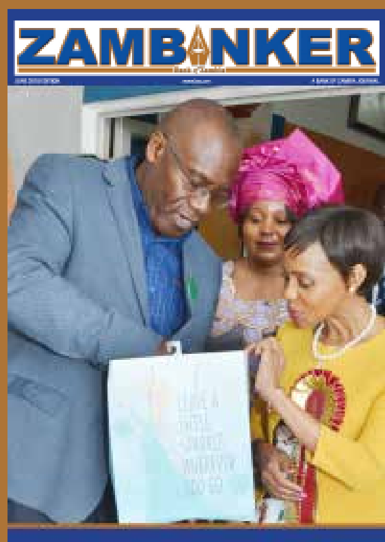
Bank of Zambia

HEAD OFFICE

Bank of Zambia, Bank Square, Cairo Road P. O. Box 30080 Lusaka, 10101, Zambia Tel: + 260 211 228888/228903-20 Fax: + 260 211 221764/237070 E-mail:pr@boz.zm Website: www.boz.zm

MISSION:
To achieve and maintain price and financial system stability to foster sustainable economic development.



ZAMBIA INDUSTRIAL COMMERCIAL BANK FINALLY OPENS

By ZAMBANKER REPORTER

The Zambia Industrial Commercial Bank Limited (ZICB) will officially open its doors to the public on 1st August 2018 – albeit with limited services that include account transfers, deposit and withdrawal services in its initial phase. The bank will progressively evolve into a fully-fledged digital bank before the end of the year with the addition of more innovative service capabilities to its new core-banking system. The new commercial bank, which was incorporated on 31st August 2017, has its genesis in the restructuring of the Intermarket Banking Corporation (Zambia) Limited (In Possession) (IBC) and has been serving the former IBC customers in a payout exercise supervised by the Bank of Zambia that commenced in November 2017.

The Bank of Zambia took possession of IBC on 29th November, 2016 after which it drew a restructuring plan which was implemented as follows: preparation of proposals, holding of public hearings, approval of restructuring proposal and implementation of the plan.

The Hearings, held in Lusaka and Ndola which were pursuant to the provisions of the Banking and Financial Services Act (BFSA) provided a platform for all interested parties of IBC, to express their views on the restructuring proposals of IBC by BoZ. The Deputy Governor-Operations Dr Bwalya Ng'andu, who is also Registrar of Banks, Financial Institutions and Financial Businesses chaired Public Hearing in Lusaka, while Director of Legal Services, Dr Leonard Kalinde chaired the Copperbelt Hearing.

During the Hearing in Lusaka, Dr Ng'andu, explained that the restructuring process involved complying with several administrative and legal requirements. For example, he stated, that following the takeover of IBC, the BoZ had to go through many processes including the following:

Dr Bwalya Ng'andu

1. Upon taking possession of a bank, the BoZ is required by the BFSA to prepare a statement of affairs of the assets and liabilities within 90 days from the effective date of taking possession. For IBC, the 90-day period expired on February 27, 2017.

2. Immediately following the possession of IBC, the Bank received a

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Dr Denny Kalyalya

BOZ POLICY RATE MAINTAINED AT 9.75%

By ZAMBANKER REPORTER

Bank of Zambia Governor Dr Denny Kalyalya has announced that the Monetary Policy Committee (MPC), at its May 14 – 15, 2018 Meeting, decided to maintain the Policy Rate at 9.75%. The MPC assessed that the Policy Rate at the current level was appropriate. This was also in line with the projections indicating that inflation will remain within the 6-8% target range over the forecast horizon despite the recent rise in inflation. In addition, the MPC considered:

- Higher than programmed fiscal deficits and rising public debt;
- Fragile economic growth evidenced by subdued credit growth to private enterprises; and
- The need to strengthen the resilience of the financial sector to domestic and external shocks.

In his presentation to the Media in Lusaka recently, the Governor pointed out that after trending downwards for seven consecutive quarters, annual overall inflation edged up in the first quarter of 2018, but remained within the 6–8% target range. Inflation rose to 7.1% in March 2018 from 6.1% in December 2017, driven mainly by the upward adjustment in fuel prices and the subsequent increase in transportation costs, as well as a seasonal reduction in supply of some food items, particularly vegetables and maize grain. He added that current projections indicated that inflation would rise above 7% during the second and third quarters of 2018, but decline thereafter towards the lower bound of the 6-8% target range over the forecast horizon. Real sector indicators showed a steady pickup in annual economic growth, although growth remains fragile. Weak credit growth to the private sector, mainly driven by higher than programmed budget deficits, high lending rates, and rising non-performing loans, was a key contributor to this fragility.

Inflation edged up, but projected to remain within the target range

After trending downwards for seven consecutive quarters, inflation edged up in the first quarter of 2018, rising to 7.1% in March from 6.1% in December 2017, but importantly, remained within the 6-8% target range. The upward adjustment in fuel prices and the subsequent increase in transportation costs were the key drivers of inflation. In addition, the seasonal reduction in the supply of some food items, particularly fresh vegetables and maize grain, contributed to the rise in inflation. The continued rise in prices of fresh vegetables pushed annual overall inflation to 7.4% in April 2018.

Inflation was projected to rise above 7% during the second and third quarters of 2018, but thereafter decline towards the lower bound of the 6-8% target range over the remaining six quarters of the forecast horizon. However, risks to this inflation outlook were skewed to the upside and included lower crop production in the 2017/2018 agriculture season, higher than programmed fiscal deficits and public debt, as well as faster than expected increases in crude oil prices. Anticipated higher copper prices were expected to moderate these inflationary pressures through the exchange rate channel. Despite these risks, inflation was projected to remain within the target range of 6-8% over the forecast horizon.

Interbank rate maintained within the Policy Rate Corridor

Following the reduction in the Policy Rate in February 2018 to 9.75% from 10.25%, the overnight interbank rate closed the quarter at 9.01% from 9.94% at end-December 2017 and was within the Policy Rate Corridor of 8.75% to 10.75%. To maintain the interbank rate within the Policy Rate Corridor, the Bank of Zambia conducted contractionary open market operations.

Demand for Government securities rebounded

In the first quarter of 2018, demand for Government securities rose, driven mainly by higher participation of non-resident investors on account of attractive yield rates and relative stability in the exchange rate. Subscription rates for Treasury bills and Government bonds averaged 92.9% and 144.2%, up from 81.9% and 108.8%, respectively.

Resident investors continued to be the major holders of Government securities. However, non-resident investors' holdings of Government securities continued to increase, albeit at a slower pace, rising

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2017 ECONOMIC OVERVIEW

The conduct of monetary policy by the Bank of Zambia (hereafter referred to as the Bank or BoZ) in 2017 was oriented towards keeping inflation low and stable. The target set by the Minister of Finance in his 2017 Budget address was to keep inflation at no more than 9.0%. In line with this objective, the Bank kept inflation within a range of 6-8%.

Annual inflation declined further to 6.1% in December 2017 from 7.5% in December 2016 from a peak of 22.9% in February 2016. The slowdown in inflation in 2017 was partly attributed to the lagged effects of the significant tightening of monetary policy in 2015 and 2016. In addition, increased supply of food items, especially maize grain and cereals contributed to the slowdown in inflation. Further, the relative stability of the Kwacha against other major trading partner currencies contributed to moderation of prices of imported items. Over the year, the Kwacha appreciated by 7.5% against the US dollar, driven mainly by the net supply of foreign exchange by mining companies and foreign investors in Government securities.

With inflation trending downwards and projections consistently indicating that inflation would remain well anchored within the 6-8% range, the Bank progressively eased the stance of monetary policy to support growth and minimise risks to financial system stability. By November 2017, the Bank reduced the Policy Rate to 10.25% from 15.5% in 2016 and lowered the statutory reserve ratio (SRR) to 8.0% from 18.0. The Overnight Lending Facility(OLF) was set at 600 basis points above the Policy Rate from 1,000 basis points.

In order to strengthen the monetary policy framework, the Bank narrowed the Policy Rate corridor to +/-1 percentage points from +/-2 percentage points. The significant reduction in the SRR was to provide a firm basis for the Policy Rate as a key signal for monetary policy implementation. Following an improvement in market liquidity resulting from the easing of monetary policy, the overnight interbank rate trended downwards and closed the year at 9.94%, well within the Policy Rate corridor, down from 15.78% in December 2016.

Broad money grew by 21.4%, driven mainly by expansion in credit to Government. Credit to private enterprises only increased marginally, following a pick-up of foreign currency denominated loans. Lending rates on foreign currency denominated loans were judged to be relatively lower than those for Kwacha loans. Despite a slight reduction, commercial banks' lending rates remained elevated, and thus too high to stimulate significant private sector credit growth.

Non-performing loans at 12.4%, also remained above the prudential threshold of 10.0% of risk weighted capital. Consequently, commercial banks continued to lock up funds in risk-free Government securities. This was in spite of yield rates on Government securities continuing to trend downwards, due largely to eased liquidity conditions. The stock of Government securities grew by 46.7% following the rise in Government domestic financing requirements, mainly on account of lower than programmed external financing. Preliminary data indicate that the fiscal deficit, at 6.1% of GDP in 2017 was below the target of 7.0%, reflecting constrained expenditure due to lower than programmed revenues and grants. However, the fiscal deficit for 2017 is likely to be revised upwards to above 7.0%. This follows the reconciliation of debt data which indicates a higher than projected draw-down of foreign loans to finance capital expenditures.

In spite of the rise in non-performing loans, the overall performance of the financial system, particularly the banking sector, remained satisfactory in 2017. This was largely on account of a strong capital adequacy position as well as satisfactory earnings performance and liquidity position.

The external sector performance in 2017 was favourable. An overall balance of payments surplus of US $85.5 million was recorded against a deficit of US $180.9 million in 2016, mainly on account of improvements in the financial account. The financial account surplus grew by 29.2% driven mainly by higher inflows in form of foreign direct investment. The current account deficit, however, widened largely on account of a rise in income payments in form of reinvested earnings which more than offset the favourable export performance. Growth in export earnings was driven mainly by higher copper exports following a rise in both realised prices and export volumes. Imports of goods, grew, albeit at a slower pace than exports, supported by a relatively strong Kwacha. The current account deficit was financed mostly by the financial account surplus that resulted from foreign direct investments and portfolio inflows.

Owing to the favourable external sector performance, the Bank made net purchases of foreign exchange amounting to US $381.5 million in 2017. The gross international reserves, however, declined to US$2.1 billion in 2017 from US$2.4 billion in 2016, mainly on account of external debt service. At US$2.1 billion in 2017, gross international reserves were equivalent to 2.9 months of import cover.

Global economic growth was stronger, at 3.7%, up from 3.2% in 2016, reflecting improvements in demand, higher commodity prices, accommodative monetary conditions in advanced economies, and improved trade and manufacturing output in Asia. In Sub-Saharan Africa, growth averaged 3.4%, up from 1.4%, attributed to the rise in commodity prices and improvements in electricity supply. Inflation in most Sub-Saharan African countries declined due to the pass-through effects of domestic currency appreciations, low food prices, and a pickup in electricity supply.

Economic activity in Zambia in 2017 picked up with preliminary data indicating that growth was healthier at 4.1%, up from 3.8% in 2016. The increase in growth was on account of strong performance in agriculture, manufacturing, accommodation and food services, transportation and storage, and electricity supply.

The Bank continued to implement the Strategic Plan covering the period 2016-2019 under the theme "Excellence in Execution" and achieved an overall completion rate of 47.5% against a target of 75.5%, representing an effective implementation rate of 62.9%.

Going forward, the Bank will continue to implement forward looking monetary policy and remains committed to achieving its primary objectives of price and financial system stability.

This report is an extract from the 2017 Bank of Zambia Annual Report.

1 2017 Budget Address by Minister of Finance, Honourable Felix Mutati, MP

SME CREDIT DEMAND UNMET

SMEs are a critical part of ensuring the success of world economies through job creation, innovation and contribution to gross domestic product (GDP). However, the survival and growth of SMEs continue to be at risk because of the difficulties they face in accessing finance through traditional financial institutions. The total unmet demand for credit by both formal and informal MSMEs is estimated at an annual finance gap of $5.2 trillion - 1.4 times more than the current credit supply to MSMEs.

This gap may continue to widen if alternative methods are not found. Banks often opt to work with high net worth or blue chip clients with well-organized information systems and near guaranteed revenue streams. This funding gap therefore represents a threat to economic growth around the world.

Luckily, apart from Government Agencies creating Development Finance Institutions to provide cheaper credit to MSMEs, Fintech companies have seen the opportunity and they are stepping into this gap. The Fintechs are providing alternative options for loans. Most of these are online peer-to-peer (P2P) or peer-to-business (P2B) lending platforms that have been reported to be fast, cost efficient, transparent and customer friendly. SMEs can get unsecured loans at reasonable rates and terms. Lenders can get good yields and manage risk. New Fintech companies are introducing innovative products.

While the peer-to-peer (P2P) platforms continue to face the risk of default, fraudulent practices or borrower's turning to banks, the growth prospects of this segment remain strong, especially in times when the banking sector continues to struggle with high fees and slow process for approving loans. Thus, well-regulated and transparent peer-to-peer platforms offer great opportunities as an alternative investment for loan providers as well as for borrowers – both in retail and small businesses. Crowd funding and peer-to-peer (P2P) platforms are regulated in several countries, including Malaysia and Canada among others, by securities and exchange commissions to ensure protection of investors and other parties.

Further, the use of Development Finance Institutions and proliferation of regulated P2P and other online platforms look like a winning solution for SMEs as they will serve as alternative sources and thereby create real competition to banks. This would lead to reduced interest rates levied by commercial banks and make more commercial banks innovative.

Generally, banks use a five C's credit system to gauge the creditworthiness of potential borrowers. The credit system is used to judge whether a borrower has the ability to service the loan without default. The five C's of the traditional credit assessment system include character, capacity, capital, collateral and conditions.

Character

This is the first C, and it is sometimes called credit history as it refers to a borrower's reputation or track record for repaying debts. This information is mostly obtained using the borrower's credit report obtained from a central processing organisation mostly referred to as credit rating agency/bureau (such as Transunion in Zambia and Credit Bureau Malaysia).

Though credit reports are supposed to contain detailed information about an applicant's track record of borrowing liens and bankruptcies, these reports may not contain complete or any credit information about an applicant who is an SME, making it difficult for the banks to create a credit score or get a quick snapshot of the creditworthiness of the SME seeking credit. As a result, the SME's application is turned down at this score not knowing that SME's are special institutions which should be treated differently from big corporations.

In fact, research has shown that most of the information held by credit reference agencies is about negative credit data as some financial institutions try to withhold the positive credit data to avoid competition from other service providers.

Capacity

The second measure used by the banks traditionally is 'Capacity'. This is used to measure a borrower's ability to repay a loan by comparing income against existing or recurring debts and assessing the borrower's debt-to-income ratio, among other traditional ratios based on historical performance.

In addition to examining income, banks look at the length of time an SME has been in business and stability of the business. Again, SMEs would miss out on an opportunity as they may be a startup or a borrower without properly maintained books of accounts (including audit reports). By their size, SMEs are not able to attract good professional staff to manage their books; until they are given a chance can they grow and hire the right skills.

Capital

The other traditional measure is 'capital' held by the borrower. Banks require an applicant to have a certain amount of capital to be assured that the borrower is serious, as a large contribution by the borrower decreases the chance of default. In the case of SME's, capital may not be there as they may be just startups without adequate capital even though their business idea may be brilliant. Banks are predominantly risk averse.

Collateral

Another area that continue to keep SMEs from accessing financing from banks is the 'Collateral' requirements imposed by banks to secure loans. Adequate collateral gives the banks some assurance that if the borrower defaults on the loan, they can repossess the collateral and liquidate the asset to recover the money invested. For example, car loans are secured by cars, and mortgages are secured by homes.

Conditions

The fifth factor considered by banks is the loan 'condition' which is also referred to as the purpose for which a loan may be used. If the bank is not convinced about the purpose or is outside their normal business line or values, it may decline the facility, e.g. refusing to finance anything that is not considered to be a green investment. This approach may not favour SMEs as they tend to discourage innovation in general. Therefore, there is need for banks to become more efficient in harnessing new ideas and innovations as the above traditional practices to assess MSMEs may continue to exclude them from accessing the loans.

According to a joint report by the World Bank and the SME Finance Forum, annual MSME finance gap in developing countries is estimated to be $5.2 trillion - 1.4 times more than the MSME credit available. This gap may continue to widen if alternative methods are not considered.

For banks, SME loans are seen to be too small and may bring administrative inconvenience to manage. As a consequence, these loans are not seen as economical by the banks.

This report is part of a presentation made by Deputy Governor-Administration, Dr Tukiya Kankasa-Mabula at the AFI Joint Learning Debate Program (High Level) on Micro, Small & Medium Enterprise Finance, Kuala Lumpur, Malaysia.

PRIVATE SECTOR - KEY TO INDUSTRIALISATION

By ZAMBANKER REPORTER

This year's Zambia International Trade Fair (ZITF) theme 'Private Sector – Key to Industrialisation' underscores the importance of the private sector in pushing forward industrialisation in Zambia. Zambia has acceded to the Southern Africa Development Community (SADC) Industrialisation Strategy and Roadmap 2015 – 2063 and Cabinet approved the first ever stand-alone National Industrial Policy this year. These documents are aimed at promoting a resilient manufacturing sector and deepening regional value chains that can generate decent jobs for the people.

The Bank, as always, participated in the ZITF sensitising members of the public on its role in the Zambian economy. A stable macroeconomic environment and improved access to credit are key ingredients in stimulating strong private sector led industrialisation. The mandate of the Bank of Zambia which is to achieve and maintain price and financial system stability to foster sustainable economic development resonated well with this year's theme.

Zambia's macroeconomic performance improved significantly in 2017 as evidenced by the achievement of low and stable inflation, relative stability in the exchange rate and a pickup in economic activity. Economic activity picked up, with growth estimated at 4.1% in 2017 compared to 3.8% in 2016 and 2.9% in 2015, driven by agriculture, mining, manufacturing, tourism sectors and increased electricity supply. Higher copper export earnings, supported by buoyant copper prices and a ramp up in production contributed to the strong improvement in the trade balance.

Annual inflation declined to 6.1% in December 2017 from 7.5% in December 2016 compared to a target of 9% after reaching a peak of 22.9% in February 2016. The slowdown in inflation was partly attributed to the lagged effects of the significant tightening of monetary policy in 2015 and 2016, relative stability of the Kwacha against other major trading partner currencies and improved supply of food items. The Kwacha appreciated by 7.5% in 2017 to K9.53 per US Dollar supported by increased supply of foreign exchange from mining companies and foreign investors in Government securities., During the first quarter of 2018, annual inflation edged upwards to 7.1% in March and subsequently to 7.4% in April 2018 on account of the upward adjustment in fuel prices and the subsequent increase in transportation costs, and a seasonal reduction in supply of some food items, particularly vegetables and maize grain.

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PRIVATE SECTOR - KEY TO INDUSTRIALISATION


Deputy Governor - Operations Dr Bwalya Ng'andu presenting a gift to the First Lady of Botswana Madam Neo Masisi when she visited the BoZ pavilion at the ZITF Ndola while Head - Communications Mr Kanguya Mayondi and Minister of Livestock and Fisheries Hon Mulenga Kampamba looks on.

In the last one year, the Bank of Zambia pursued accommodative monetary policy by successively cutting the Bank of Zambia Policy rate to 9.75% in February 2018 from 15.5% in February 2017 and maintained it at this level in May 2018. The statutory reserve ratio (SRR) was also lowered to 5.0% in February 2018 from 18.0% in February 2017. The accommodative monetary policy contributed to improve market liquidity conditions and helped to lower commercial banks' lending rates, which reduced by about 5.4 percentage points to 24.1% March 2018 from 29.5% in December 2016.

The fact that lending rates remain high despite the easing in the Monetary Policy stance is partly attributed to elevated yield rates on Government securities and rising non-performing loans in the banking sector.

In 2018, Government's major macroeconomic objectives are to:

- achieve real GDP growth of at least 5.0 percent;
- maintain single digit inflation in the range of 6.0 to 8.0 percent;
- maintain international reserves of at least 3 months of import cover;
- attain domestic revenue mobilisation of at least 17.7 percent of GDP;
- limit the fiscal deficit, on a cash basis, to 6.1 percent of GDP;
- limit domestic financing to no more than 4.0 percent of GDP;
- accelerate implementation of measures towards diversification of the economy;
- reduce the stock of arrears and curtail the accumulation of new arrears; and,
- Slow down the contraction of new debt to ensure debt sustainability.

The Bank of Zambia is committed to deliver stability in prices thereby contributing to the reduction in the cost of doing business. In addition, the Bank will continue to collaborate with stakeholders with the view to strengthening the resilience of the financial sector to domestic and external shocks.

NBFIs Granted Licence Approvals during the First Half of 2018

Name of Institution	Type of Institution	Date granted approval
Good Fellow Microfinance Limited	Microfinance institutions	10 January 2018
Big Deal Bureau de Change Limited	Bureaux de change	9 February 2018
MKB Bureau de Change Limited	Bureaux de change	24 April 2018
Perfect Link Bureau de Change Limited	Bureaux de change	24 April 2018
Total	**4**	

NBFIs Licences Cancelled during the First Half of 2018

Name of Institution	Type of Institution	Date licence cancelled	Reasons for Cancellation
DIPS Bureau de Change Limited	Bureaux de change	19 April 2018	Voluntarily ceased operations and wound-up.
Vedette Bureau de Change Limited	Bureaux de change	21 May 2018	Voluntarily ceased operations and wound-up.
A & I Bureau de Change Limited	Bureaux de change	13 June 2018	Voluntarily ceased operations and wound-up.
Total	**3**		

CREDIT MARKET MONITORING PROGRAMME REPORT PUBLISHED

By ZAMBANKER REPORTER

The Bank of Zambia (BoZ) has published the first Credit Market Monitoring Report that provides valuable insights into Zambia's retail credit markets, Bank Governor, Dr Denny Kalyalya has said. The report shows data collected through the Credit Market Monitoring Programme (CMMP) during 2016.

Speaking during his monthly meeting with CEOs of commercial Banks, Dr Kalyalya explained that the report gives an overview of Zambia's retail credit markets, with a focus on access to credit and debt stress. By presenting data on aggregate disbursements, credit book size and debt performance, the report assesses the state of Zambia's credit markets, with a view to promoting future market development.

The Governor said the central bank was expectant that the information in the report will also help market participants conduct peer analyses, update risk models and develop new products that better meet the needs of borrowers.

"The CMMP report will be a significant tool for monitoring how each of the FSPs is contributing to financial inclusion in Zambia. From the report, we will be able to obtain detailed and granular information on your individual participation in the credit market. This includes the extent to which each FSP is reaching the various segments of the population. Segments include the rural and urban, gender, youth, informal and formal," he said.

He explained that it was in the interests of commercial banks, at the individual level, to develop models for reaching the various segments of the population, particularly the traditionally financially excluded segments. The Credit Market Monitoring Report will be able to expose the parties that are not responding to the call for financial inclusion which is largely measured by the demand side.

For a further discussion on this topic, please see the feature article on page The report is available on the Bank of Zambia website.

IMPLEMENTATION OF IFRS 9: FINANCIAL INSTRUMENTS

By ZAMBANKER REPORTER

The Bank of Zambia has prescribed a transition period of three years over which to amortise the difference between accounting provisions under IFRS 9 and IAS 39 in order to lessen the impact on the financial condition of banks and non-bank financial Institutions, particularly on regulatory capital requirements, Bank Governor, Dr Denny H. Kalyalya has announced.

Speaking during a meeting with Chief Executive Officers of Non-Bank Financial Institutions at the Bank recently, the Governor explained that the International Financial Reporting Standard 9, Financial Instruments (IFRS 9) took effect on 1st January 2018 and replaced the International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 provides a complete shift in terms of accounting for loan loss provisions by introducing an 'expected credit loss model' compared to the current 'incurred loss model' under IAS 39. The accounting provisions under IFRS 9 will entail higher provisioning amounts compared to those computed under IAS 39.

In this regard, the Bank of Zambia issued an IFRS 9 Guidance Note No. 1, which provides guidance on how provisions under IFRS 9 will be treated for regulatory purposes. The Guidance Note also outlines transitional arrangements to ensure that the negative impact of the anticipated higher provisions at the time of adoption of the standard are moderated. We encourage you to familiarise yourselves with the guidance note, the Governor emphasised.

"Further, given that this will be a fundamental change in accounting for loan loss provisions, you are advised to ensure that your risk management systems are closely aligned with the requirements of the standard. This may require development of new, robust and resilient internal controls, systems, models and governance arrangements to ensure full compliance with the requirements of IFRS 9," he said.

[For a further discussion on this topic, please see the feature article on IFRS 9 in this edition].

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BOZ POLICY RATE MAINTAINED AT 9.75%

by 2.4% to K8.7 billion. This represented 17.1% of the total stock of Government securities. Longer tenors remained the non-resident investors' preferred securities due to their relatively higher real yield rates. Importantly, this also signalled their confidence in Zambia's growth prospects.

As at end-March 2018, the stock of Government securities stood at K50.9 billion, up from K48.4 billion at end-December 2017.

Generally, interest rates continued on a declining path, but lending rates remained elevated.

Commercial banks' average nominal lending rate declined slightly to 24.1% in March 2018 from 24.6% in December 2017. Excluding outlier rates, the average nominal lending rate declined to 21.4% from 21.7% over the same period. Nonetheless, at this level, lending rates were considered too high to support economic growth. Moreover, elevated Government deficits, high yield rates on Government securities, and rising non-performing loans continued to favour lending to Government by the banking sector thereby constraining private sector credit growth.

Outstanding deposit rates on wholesale funds remained high. The highest interest rate on these funds was unchanged at 25% in March 2018. However, the savings rate for 180-day deposits for amounts exceeding K20,000 declined marginally to 8.1% from 8.6%.

The weighted average yield rate on Treasury bills edged up to 15.9% from 15.0%, while that for Government bonds remained unchanged at 18.6%.

Private sector credit and money supply contracted

Growth in total domestic credit slowed down in the first quarter of 2018, growing only by 1.3% compared to the 4.9% registered in the fourth quarter of 2017. During the period, lending to Government expanded by 1.7% compared to 5.3% previously. On the other hand, credit to private enterprises contracted by 3.5% against an expansion of 8.3% in the fourth quarter. The contraction in Kwacha denominated loans largely accounted for this outturn.

Money supply contracted by 4.8% in the first quarter of 2018 compared to a growth of 8% in the fourth quarter of 2017. At end-March 2018, money supply was K51.5 billion, down from K54.1 billion at end-December 2017. The contraction in money supply was primarily attributed to a reduction in net foreign assets, mainly due to external debt service.

Fiscal performance

In the wake of the recent Debt Sustainability Analysis (DSA), the preliminary fiscal deficit of 6.1% of GDP for 2017 was likely to be revised upwards. In view of this, the 2018 Budget estimates were also likely to undergo some revisions. It should be noted that higher than programmed fiscal outcomes in 2018 would heighten risks to macroeconomic stability. As at May, 2018, preliminary data for the first quarter of 2018 indicated that the budget deficit, on a cash basis, at approximately 1.5% of GDP, was in line with the programmed target.

Global economic growth momentum continues

The global economic growth momentum continued and was projected to remain strong in the medium-term supported by accommodative global financial conditions and expansionary fiscal policy in the US. In 2018 and 2019, global growth was projected at 3.9% from 3.8% in 2017. Growth in Zambia's main trading partners was expected to pick up and positively contribute to the country's growth outlook and the narrowing of its current account deficit.

Current account deficit narrows

Preliminary data indicated that Zambia's current account deficit narrowed to US$139.2 million in the first quarter of 2018 from US$241.5 million in the fourth quarter of 2017. This was mainly attributed to lower earnings on investments relating to non-residents and a higher trade surplus. The trade surplus rose following relatively higher export earnings, which grew by 5.0% to US$2,550.9 million, driven by increases in realised copper prices and export volumes. Imports increased at a slightly slower pace of 4.9% to US$2,429.7 million. The current account deficit was financed by a drawdown of gross international reserves, which declined to US$1.8 billion at end-March, representing 2.1 months of import cover, from US$2.1 billion, equivalent to 2.9 months, in December 2017.

The Kwacha strengthened against the US dollar

The Kwacha appreciated against the US dollar by 2.4% to K9.7931 in March 2018 on the back of net supply of foreign exchange and a generally weaker US dollar. The major net suppliers of foreign exchange remained mining companies and non-resident investors in Government securities.

Domestic economic activity picked up and outlook remains positive despite challenges

Real sector indicators showed a steady pickup in economic activity in the first quarter of 2018 and economic outlook remained positive. The rise in economic activity was mainly attributed to the ramp up in copper production, robust growth in cement production, and the rise in tourist arrivals and electricity generation. For the year as a whole, real GDP was projected to grow by 5.0%, premised on expected expansion in mining, manufacturing, and tourism sectors.

Growth prospects, however, remained fragile in light of persistent contraction in credit to the private sector due to crowding out effects associated with high fiscal deficits, public debt and lending rates as well as rising non-performing loans. Going forward, hastened full implementation of the fiscal consolidation and structural measures in line with the Economic Sustainability and Growth Programme (ESPG) and the 7th National Development Plan (7NDP) is critically important to foster and maintain macroeconomic stability.

Dr Kalyalya said future decisions on the Policy Rate would be guided by inflation outcomes and forecasts, as well as fiscal performance. Further, the Bank would continue to closely monitor domestic and external sector developments and stand ready to implement appropriate measures to maintain price and financial system stability and ultimately support economic growth.

The next MPC Meeting is scheduled for August 20 – 21, 2018.

CONTRIBUTE TO ECONOMIC DEVELOPMENT, STAFF URGED

By ZAMBANKER REPORTER

The Bank of Zambia (BoZ) has urged its serving and former employees to explore opportunities in the real sector so that they can contribute to the growth of the Zambian economy. BoZ Regional Director Visscher Bbuku said there were a number of opportunities that one could explore in the real sector in the wake of economic liberalisation.

Serving and former employees who attended the Future Search Workshop in Ndola.

He said while a number of people were already engaged in various business activities, he had no doubt that even those who were still planning to get started could also make a meaningful contribution to the Zambian economy. Mr Bbuku was speaking when he officiated at an Entrepreneurship skills development and management of personal finances workshop held at Ndola's Protea Hotel.

The workshop was meant for employees who would be separating from the Bank in the near future and those who retired from the service of the Bank. He said BoZ valued both serving and former employees as others have made significant contributions towards the attainment of the Bank's objectives in their various capacities.

Mr Bbuku added that it was a well-known fact that life after formal employment came with diverse challenges which may be traumatising. "I am confident that this training will help you identify opportunities within those challenges. Normally when one separates from formal employment, there is loss of regular monthly income and associated benefits. There have been stories of former employees who separated from the Bank without adequate planning and ended up as destitute, this development obviously poses a great source of concern for us," he said.

Mr Bbuku hoped that such would not happen to any of the participants of the workshop and believed that one needed to adequately prepare for life after formal employment in order to sustain oneself as well as providing for the family. He said the Bank had decided to partner with Future Search to organise the workshop in order to mitigate against some negative effects that were associated with life after formal employment.

It was the policy of the Bank to ensure that employees who separated from the Bank were assisted in preparing for a new life.

He wished all the participants the best and urged them to grasp the concept that they were to be taught and share as much knowledge as possible.

continues from page 3

ZAMBIA INDUSTRIAL COMMERCIAL BANK FINALLY OPENS

ZICB has successfully implemented the payout exercise of the former IBC depositors that commenced on the 28th November 2017 and ended on 8th May, 2018. At the close of the exercise, a combined total of K50.1 million was withdrawn by about 5,930 customers in Lusaka and Kitwe. Customers of the former IBC who still had sufficient deposit balances after the close of the payout exercise had their accounts converted into new accounts under ZICB.

Dr Leonard Kalinde

proposal from the then shareholders to restructure the bank and restore its solvency and operations, premised on the shareholders injecting a substantial amount of cash. However, the process protracted for about six months and unfortunately did not materialize. Therefore, the BoZ dismissed this proposal.

Following the dismissal of the proposal from the then shareholders of IBC, the BoZ had to look at other options of proceeding with the restructuring of the bank to avoid placing it into compulsory liquidation. Consequently, BoZ engaged a group of large corporate depositors for a new restructuring proposal and finally managed to secure some agreements with the majority of the large corporate depositors. Further, to ensure solvency of IBC, the BoZ had to reach out to other potential investors who showed interest. Fortunately, the Industrial Development Corporation (IDC) expressed strong interest to take part in the restructuring process of IBC. The BoZ engaged IDC and this culminated into a new and viable restructuring proposal. The proposal has resulted in the incorporation of ZICB.

After the two hearing sessions, the BoZ finalised a Restructuring Plan (the “Plan”) which was sent to each depositor and other creditors who would not receive full payment under the Plan, giving them time to react to the Plan. The Plan was subsequently approved by the majority of the stakeholders and BoZ has since proceeded to implement the Plan by paying the depositors and other creditors in accordance with the Plan.

The Restructuring Plan was premised on the following principles:

- Minimising losses for all stakeholders including depositors, creditors and staff that a compulsory liquidation of IBC would present.
- Giving the new bank to be borne out of the restructuring plan a strong start and ensure its profitable operations.
- As far as possible, to ensure a fair and equitable treatment of all stakeholders.
- Give stakeholders flexible options under the plan.

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COMPLAINTS HANDLING, RESOLUTION FRAMEWORK ON

By ZAMBANKER REPORTER

Bank of Zambia (BoZ) Governor, Dr Denny Kalyalya has announced that the central bank is working on a Customer Complaints Handling and Resolution framework for all financial service providers (FSPs). The purpose of the framework is to provide a conceptual framework for banks and financial institutions for handling of customer complaints. It is expected that this framework will facilitate the formulation of an effective methodology for managing and monitoring customer complaints within the financial sector.

Speaking during a meeting with CEOs of commercial banks at the Bank recently, Dr Kalyalya said the BoZ recognizes that in the absence of strong financial consumer protection, the growth-enhancing benefits of expanded financial inclusion may be lost or severely undermined. In this regard, the Bank will, from time to time, and in line with its mandate, conduct broad market monitoring and initiate a variety of enforcement actions when necessary. Such market conduct supervision is aimed at building a culture where financial institutions treat consumers fairly.

“We believe timely resolution of consumer complaints by financial services providers shall help to build trust by consumers, improve customer relations and strengthen the brand image and reputation of the sector as a whole, he explained”.

Meanwhile the Governor reminded the meeting that all banks are required to comply with CB Circular No 19/2015, which introduced consumer protection measures. The consumer protection measures obligate financial service providers to disclose interest rates and all ancillary costs of a loan to a prospective borrower.

He stated that the borrower’s understanding of the credit agreement is signified by the borrower signing off the Key Facts Statement on Consumer Credit circulated by the BoZ, adding that ‘the BoZ shall therefore intensify its efforts aimed at reviewing Key Facts Statement and compliance with CB circular No. 19/2015 during on-site examinations.

Dr Denny Kalyalya

SEC RELIEVES BOZ, DEALERS

...as it exempts the Bank of Zambia from compliance with section 20 and dealers in Government Securities from compliance with section 77 (1) of the Securities Act No.41 of 2016 respectively

By ZAMBANKER REPORTER

The Securities and Exchange Commission (SEC) has given a greenlight to dealers in Government securities to conduct secondary trades on the Central Securities Depository System (CSD) and Electronic Trading Platform (ETP) operated by the Bank of Zambia. Previously, secondary trading of government securities could only take place on a regulated exchange like LuSE.

Under the Securities Act, secondary trading of Government securities falls within the regulatory ambit of SEC while the primary market falls within the exclusive mandate of Bank of Zambia. Secondary trading of Government Securities happens when a dealer sells to or buys such securities from another person and not directly from Bank of Zambia. A primary market means the market in which Government securities are issued or traded for the first time.

According to Gazette Notice No.588 of 2018 issued by SEC, which notice was also published in newspapers of wide circulation, dealers transacting in Government securities at or through the CSD and ETP operated by the Bank of Zambia are exempted from the application of Section 77 (1) of the Securities Act that prohibits the transaction of securities on a securities market not operated by a securities exchange.

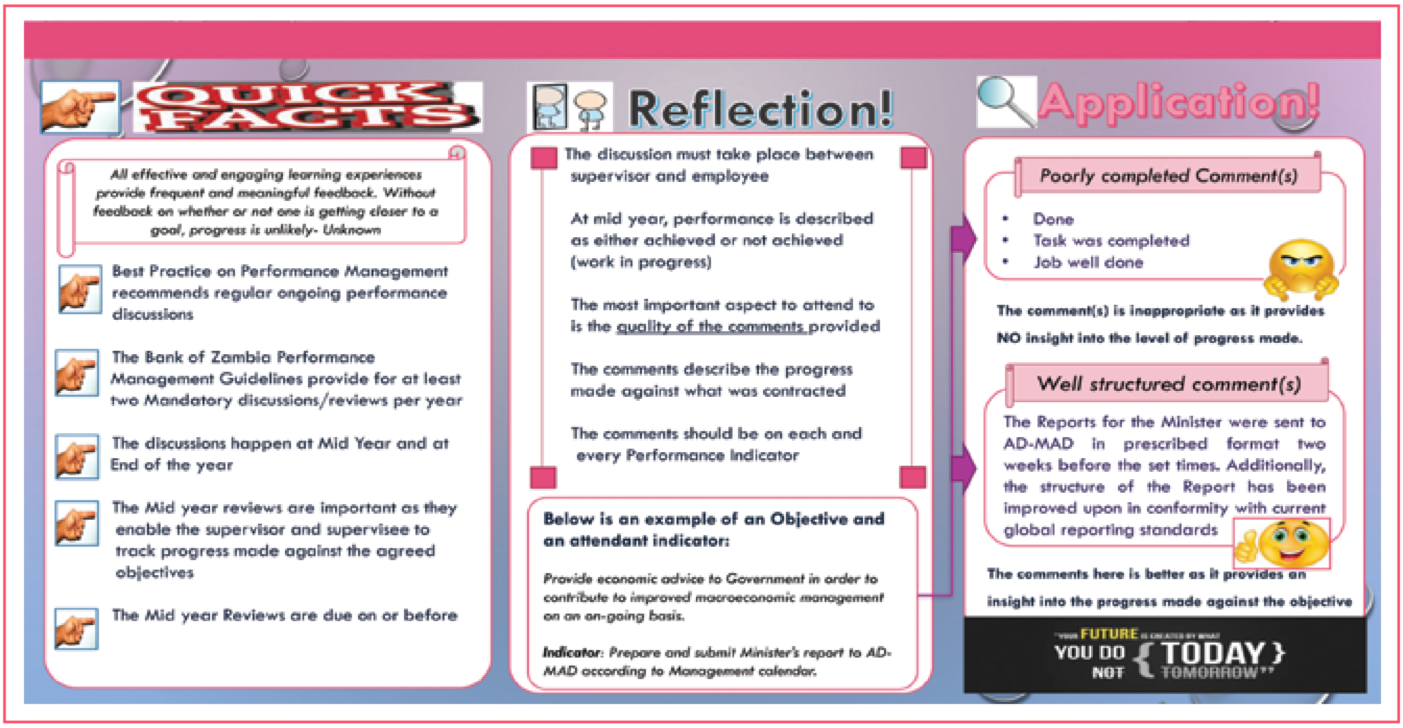
SEC also exempted the Bank of Zambia from complying with Section 20 of the Securities Act which requires a person operating a securities market and a clearing and settlement agency to apply for a licence to operate the securities market or a central securities depository.

This means that dealers in Government securities can now conclude their trades on the CSD and ETP a development which should result in improved efficiency and visibility in the secondary trading of Government securities in Zambia.

However, according to the exemption notice, any trade in Government securities on the CSD and ETP must be reported, on or immediately before close of business, to a regulated securities exchange. The Bank of Zambia is also required to furnish a copy of the said report to SEC before close of business.

The exemption notice also made it very clear that the exemption granted was purely for Government securities and as such, any dealer that transacts in any securities other than Government securities at or through the Central Securities Depository System and Electronic Trading Platform must follow the provisions of the Securities Act.

Performance Management



ZAPD CALLS FOR INFRASTRUCTURAL AUDIT OF ALL BANK BRANCHES

...as BoZ donates books

By ZAMBANKER REPORTER

The Zambia Association of Persons Living with Disabilities (ZAPD) has called on the Central Bank to undertake a country - wide infrastructure audit of all commercial bank branches across the country to ascertain their conformity and adherence to section 42 of the Persons with Disabilities Act of 2012 which states that all service providers are required to put in place "necessary facilities that make services available and accessible in a prescribed manner.

Regional Director Mr Visscher Bbuku handing over books, which the Bank reprinted, to the author Mr Bwalya Mwansa, a visually impaired member of ZAPD.

The Act entails that all public places should be designed, constructed and managed to enable people approach, enter, use facilities and amenities therein, egress from and evacuate buildings independently, in an equitable and dignified manner.

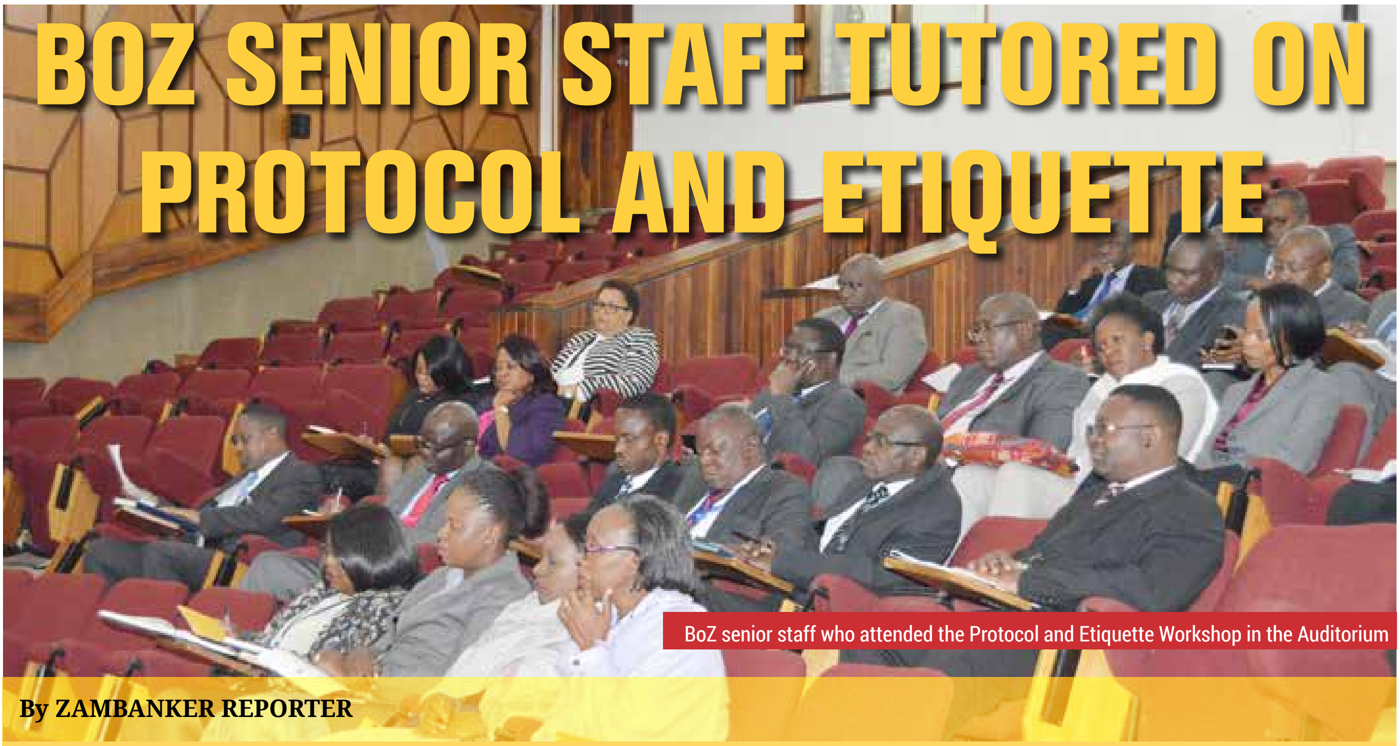
These sentiments were echoed by the Copperbelt Provincial Coordinator of ZAPD, Mr Anthony Mwansa during the handover of 1000 reprinted copies of the award winning book "Shalinsanga" authored by Mr Bwalya Mutale a visually impaired member of the Zambia Association of Persons living with disabilities.

Mr Mwansa was quick to point out that most of the commercial bank branches lacked some very basic requirements for the disabled and elderly. During their own independent audit, it was discovered that most banks, with very few exceptions, did not provide reserved accessible parking spaces, with most entrances having stair cases and/or poorly designed ramps. Automated Teller Machines (ATM's) were located in booths or placed too high up for independent use by wheelchair users or those with short stature. Mr Mwansa also added that the major risk of having ATM's which are inaccessible to the disabled and elderly has led to many, sharing their Secret Security Codes (Pin numbers) with either the guards stationed at the ATM's and relatives which should not be the norm. He implored Regional Director to quickly look into these anomalies and have them corrected for the benefit of all.

Speaking at the same event, the author of the book which was being donated Mr Mutale said he was happy that the Central Bank had favourably responded to his request for assistance to reprint his book titled 'Shalinsanga.' He further added that disability was not and will never be inability as he had shown through his book. Mr Mwansa further informed the gathering that the book had been equally approved by the Curriculum Development Center (CDC) in the Ministry of Education and had been recommended for use in Schools for grades Eight (8) and Nine (9) as a supplement reader.

Bank of Zambia Regional Director, Mr Visscher Bbuku handed over the book and was particularly happy to learn that ZAPD had already taken the initiative of accessing infrastructure flaws in some commercial bank branches and that he was more than willing to work closely with ZAPD coordinators to try and resolve the challenges that their members were facing. Mr Bbuku further added that with hard work and support from all stakeholders, persons with disabilities could continue to contribute extensively to the development of our great nation Zambia. Mr Bbuku praised the author of the book and urged him to stand tall and be an example to others with disability that nothing was impossible. He said the Bank was proud to be associated with the reprint of the book and challenged Mr Mwansa to get back to the drawing board and write even greater books for the benefit of all Zambians.

BOZ SENIOR STAFF TUTORED ON PROTOCOL AND ETIQUETTE



BoZ senior staff who attended the Protocol and Etiquette Workshop in the Auditorium

By ZAMBANKER REPORTER

The Bank has organised a workshop on protocol and etiquette for senior management staff at BoZ 8 and 7 levels in order to develop a common understanding on professional conduct.

Speaking at the official opening of the workshop, Deputy Governor Administration Dr Tukiya Kankasa – Mabula said senior management were expected to abide by a code of behavior that was reflective of their professional standing in the Bank and one that fosters the Bank of Zambia brand.

She added that the workshop was intended to teach senior staff some soft skills that would serve them well in their interactions with their superiors, subordinates as well as external stakeholders. The workshop touched on various pertinent issues such as time management, proper address, table etiquette, dress code and communication.

Most organisations or associations have certain standards that distinguish them from others. The BoZ Deputy Chief reminded senior staff that although they were all technically qualified, having technical competencies was not enough.

'How we act or behave towards each other reflects our life style, behaviour, thoughts, personality and how we live in society. And this is what we pass on to people we are providing leadership to,' she said.

Dr Kankasa Mabula

Dr Kankasa Mabula informed the senior staff that acting professionally plays a crucial role in one's personal growth both within and outside the bank.

MPC STANCE INTENDED TO SUPPORT GROWTH

By ZAMBANKER REPORTER

Deputy Governor - Operations Dr Bwalya Ng'andu has said that the stance taken by the Monetary Policy Committee (MPC) Meeting held on 14th and 15th May, 2018 was primarily intended to support growth and contribute to promoting financial stability and economic growth.

The MPC meeting of 14 and 15th May, 2018 decided to maintain the Policy rate at 9.75% and the statutory reserve ratio at 5.0%. In arriving at this decision, the MPC considered the recent increase and projected increase in the inflation rates, the fragile economic growth evidenced by subdues credit growth to private enterprises and the need to strengthen the resilience of the financial sector to domestic and external shocks.

Speaking during the Governor's meeting with Board Chairpersons of commercial banks which was hosted by Standard Charted Bank Plc, Dr Ng'andu said in the recent past, inflation was rising, accelerating by one percentage point to 7.1% in March 2018 from 6.1% in February, rising by 0.3 percentage points to 7.4% in April and 0.4 percentage points in May 2018. The BoZ Deputy Chief said this development was in line with the Bank's projections that indicate continued inflationary pressures in the second and third quarters of 2018. He however maintained that inflation is expected to remain within the target range over the medium term.

Zambia's economic outlook in the medium to long term looks bright, largely influenced by general positive global and regional prospects. Real GDP growth is also projected to rise to 5.0% in 2018 and 5.4% in 2019, up from the preliminary growth rate of 4.1% in 2017. Copper prices are currently around US$7,000 per metric tonnes. At this level, copper production is projected to rise to approximately one million metric tonnes in 2002 from 797,266 metric tonnes in 2017.

The Deputy Governor also informed the Board Chairpersons that it had come to the Bank's attention that commercial banks were routinely denying credit to customers whose names appear on the negative list of the Credit Reference Bureau (CRB), thereby turning the negative list into a blacklist which was being used as an automatic reason to denying customers credit. Dr Ng'andu said this development was both unfortunate and undesirable because it goes against the intention of setting up the CRB.

He further clarified that the information, both positive and negative, stored on the CRB was intended to provide credit history of a particular client upon which credit should be priced. He said the Bank of Zambia was going to issue a circular to provide clarity on this matter.

Speaking at the same function, Standard Chartered Bank Board Chairperson Dr Caleb Fundanga said his bank was honoured to host the meeting. He added that standard Chartered bank had over the 112 years of operating in the Zambian market continued to support Zambia's economic development and its heritage. He said standard Chartered bank enjoyed cordial relations with BoZ as well as all the other commercial banks. He pledged the bank's commitment to fully support the efforts of the BoZ Governor to enhance these relations.

'Over the years, the bank has continued to deliver tangible benefits to support the economy and indeed our communities. These benefits include human capital development, roll-out of digital banking solutions, such as our Standard Chartered Mobile App - the S2B digital payment platforms that has made payments to institutions like NAPSA and ZRA easier, mobile wallet which has helped in driving the financial inclusion agenda, financing the energy sector, empowering local entrepreneurs and facilitating trade,' he said.

Dr Fundanga said that the Standard Chartered bank community initiatives include, among others, their commitment to prevent blindness through their flagship Corporate Social Responsibility programme 'seeing is believing' and their partnership with Habitat for Humanity through the women's build initiative aimed at empowering underprivileged women-led households. He said all these initiatives help to cement their legacy while building a bright future for future generations of Zambia.

'Here for good is a philosophy which flows into everything we do across the continent. Every strategy, every action and every objective resonates with our commitment to be here for good, here for Zambia,' he concluded.

REMINISCING MY PROFESSIONAL JOURNEY

By ZAMBANKER REPORTER

In a nutshell, my professional experiences have enabled me to learn It always leaves me with a feeling that life is about being a perpetual student of society Life is about enquiring in an endless way; it's about asking the right questions to be able to discover what you don't know Consequently, applying what you learn in a utilitarian manner

Who is Edward Kapili?

First of all, I am incredibly delighted for the opportunity to feature in the Zambanker.

I am an ordinary gentleman born in Lusaka in the late 1970's, from a big family of more than 20. I am married to my beautiful friend, Tani, whom I met during the time when I was working for ZRA in Ndola. We are parents to 3 children, we are both charismatic Christians and live by the Christian core values. We congregate with the Pentecostal Assemblies of God (PAOG) Church and our marriage was blessed at Northmead Assemblies of God, here in Lusaka.

Sadly, my parents are late. My father, Mr Edward Kapili Snr. served in various senior executive portfolios in the then Namboard and was probably my earliest influence in the early stages of my life. It was under his tutelage that I laid the strong foundation that inspires me to this day. He was a stern disciplinarian, very strict and made it mandatory for his children to acquire an education.

I attended several primary schools, including Lusaka Boys Primary School, Kansenshi Primary School in Ndola, Mumuni Primary and Kasamba Primary. I did my junior secondary school at Matero Boys, a Catholic missionary school, and was then amongst the privileged few outstanding students who were selected at national-level to do my senior secondary at David Kaunda National Technical School(DK). My stay at DK was short-lived as I had to exchange places with another student from Hillcrest National Technical Secondary School in Livingstone, where I completed my senior secondary education.

Having performed exceptionally well, I was selected to the University of Zambia in the School of Natural Sciences(NS), but I opted out due to changing career aspirations. Instead, I went to the Copperbelt University where I obtained my Bachelor's degree in Business Administration. A few years after my undergraduate studies, I was competitively selected to participate on the British Council-sponsored Inter-Action Leadership programme, whose pinnacle was my attendance of the Pan-African Leadership event in Dakar, Senegal. I later obtained a professional certification as an Investment Advisor and Stock Broker from the Zambia Insurance Business College Trust(ZIBCT), where I was taught by a few BoZ staff among them Mr Felix Sinkala, Mr Joseph Munyoro and Mr Lazarous Kamanga.

After several unsuccessful attempts to secure a scholarship, I opted to sponsor myself and pursued my full-time post-graduate studies at the University of Leicester in England whilst on paid sabbatical leave from ZRA. I graduated in the top quartile of my cohort with a Distinction in my MBA Finance. I have continued to pursue a host of post-graduate professional certifications in business, banking & financial markets.

My pre-university career started off as a pupil teacher, but never got into class to teach as I was re-appointed to the position of Assistant Project

Mr Edward Kapili

Administrator a day I reported for work, at Christian Children's Fund, Inc. (CCF), the predecessor to ChildFund International (CFI). I also had an opportunity of representing CCF at Programme Against Malnutrition (PAM) as Relief Supplies Coordinator. Both my jobs at CCF and PAM exposed me to management of economic empowerment projects and incubated my leadership journey at an early career stage of life. I worked at CCF until the time when I was selected to go to University. During my undergraduate studies, I did several internships and work attachments in many organizations, among them Grant Thornton, an audit firm and Zambia Railways Limited.

After my undergraduate studies, I had a stint with Standard Chartered Bank, where I participated in serving banking needs of unbanked members of staff at Konkola and Mopani Copper Mines. Later, I was employed at Finance Bank on their graduate management development programme, where I gained broad and cross-functional exposure in operational and strategic areas of banking. In order to enhance my skill-set, I resigned to pursue a career in revenue administration by joining the Zambia Revenue Authority(ZRA), were I served in various progressive positions in operating divisions including Direct Taxes, Customs, VAT, Domestic Taxes and Corporate Investigations, among others.

In my continued quest for professional growth, I resigned from ZRA to join the Bank of Zambia in the Banking, Currency and Payment Systems department, with my first posting being at the Regional Office as Assistant Manager-Banking, Back Office. I also had a coveted opportunity of being given extra responsibilities of serving as Regional Office Principal Risk Liaison Officer and also served on the BCM Technical Working Group & as BCM Steering Committee Member & Secretary.

I served diligently in all my roles at the Regional Office until my sabbatical leave to go for professional development programme in the USA, under the Fulbright scholarship scheme. Upon my return, I was transferred to take up my current appointment here at Head Office.

Mr Kapili with his niece Ruth (l) and daughter Norah Monsha (r)

YOU HAVE INDICATED HAVING UNDERTAKEN A PROFESSIONAL DEVELOPMENT PROGRAMME IN USA, BRIEFLY TELL US A BIT ABOUT YOUR EXPERIENCE?

In 2014, the BoZ HR Department invited suitably qualified candidates to apply for the Hubert H. Humphrey fellowship - an esteemed professional development programme under the Fulbright exchange scholarship scheme. I was humbled to have been the sole candidate selected to represent the Bank and the country as a Fellow on this programme. The programme takes motivated mid-career professionals from designated countries to the USA to get exposed to graduate-level study, leadership development, specialized courses and professional enrichment.

The fellowship involved participation on the main academic programme at the Questron School of Business at Boston University in Massachusetts, while also tapping into the academic exploits of the neighbouring MIT and Harvard Universities. My area of focus was Finance and Banking, with a specialisation in Financial Markets and Instruments.

The fellowship also provided me a rare opportunity to travel across the U.S.A. to attend specialised courses conducted by other institutions, among them being the Monetary Policy Formulation and Implementation, at the Federal Reserve Bank of New York; Bloomberg Market Concepts by the Bloomberg Institute within Massachusetts; Financial and Valuation Modelling offered by Wall Street Preps of New York; and Strategic Planning at the American Management Association in Atlanta, Georgia. The Fellowship augmented our academic programs with leadership development training.

The pinnacle of my Fellowship program was two Professional Affiliations (PAs) for work experience at the US local and international organizations, respectively:

- My local PA was with the Boston University Center for Finance, Law & Policy, during which period the United Nations sponsored us to carry out research related to 'payments systems development and oversight', particularly on remittances and how they can contribute to Financial Inclusion.
- My second and non-local PA was in Washington D.C., with the International Monetary Fund (IMF) in the Fiscal Affairs Department (FAD). Within the FAD, I was hosted in the Public Financial Management Division II, which covers technical assistance and analytical work in revenue administration, including the full cycle of public financial management, among others.
- Within the IMF, I was also attached to the Monetary and Capital Markets Department (MCM), to get exposed to global financial systems, effective monetary policies and foreign exchange operating frameworks, to enhance my knowledge in financial markets

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and instruments.

- During my time at the IMF, I was also co-opted to contribute and co-author a paper on a topic covering the relationship between central banks and Ministries of Finance, particularly the investment of public funds following the implementation of good public financial governance systems such as the TSA/IFMIS.
- I also had a rare privilege of being practically exposed during my short-term professional engagements with the following organisations, as part of my fellowship training program:
- Federal Reserve Bank of New York and Federal Reserve Bank of Boston;
- Fidelity Investments, Boston Headquarters;
- New York Stock Exchange;
- Bank of New York Mellon;
- BNP Paribus, New York.

Overall, I can say the Fellowship achieved its intended objectives as it enhanced my professional prowess and understanding of the functions of central banks, fiscal & monetary policy management, including financial markets. I would therefore encourage my colleagues to apply for this fellowship programme.

WHAT ATTRACTED YOU TO JOIN THE BANK

The strategic role that every central bank plays in contributing to the national development of any country cannot be over-emphasised. The Bank of Zambia is no exception to such an assertion.

Having had the kind of prior technical qualifications and knowledge from my previous engagements, the next best move in my career was to join the central bank. What this essentially did was to make me part of the team that contributes to such a noble cause and the satisfaction that comes with making a contribution to one's country's national development cannot be rivalled.

It all started when I completed my post-graduate studies and was given an opportunity to make a presentation in the Bank's Research division on the nitty-gritties of my MBA Thesis, which was an econometric assessment of post-liberalisation performance of Zambian Banks. Conversations I had with Dr Noah Mutoti and Dr Anthony Simpasa left me with the undying desire to work for this great institution and mingle with very well grounded and educated individuals. I had one unsuccessful attempt, but three years later I was offered employment by the Bank and I'm currently serving as one of the Senior Managers in the Banking, Currency and Payment Systems department. I am truly grateful for this opportunity!

WHAT WERE YOUR FIRST IMPRESSIONS OF THE GENERAL WORK ENVIRONMENT IN THE BANK?

Prior to joining the Bank, I had the impression that the Bank was more like an academic institution with highly qualified staff and that I would find academic competition, similar to what you find in higher institutions of learning such as universities.

Contrary to my earlier perception, although indeed I found that staff were highly qualified, there's a lot of team work. In addition, the camaraderie within the Bank is admirable. For example, Regional Office, where I started from, lives like one big family and this was augmented by the proper functioning Manager's Circle Club, which I joined and served as part of its executive committee up to the time I was transferred to Lusaka.

I was transferred during the week my new office (BCPS) had a scheduled team building event under the 'Calabash Team'. One cannot ask for more than this when it comes to helping me settle in a new role, kudos to the BCPS team for such a welcome.

IF YOU COULD CHANGE ONE THING ABOUT THE BANK, WHAT WOULD IT BE?

In order to increase operational efficiency and effectiveness in the Bank, it would be ideal to implement the full computerisation and automation of work processes and eliminate as much as is practically possible current manual processes, as the case is with the automation of the HRMS performance management system. It's quite ironic why we wish to manually replicate what has already been processed through a computerised system. As evidenced globally, computerised systems would enable employees work more efficiently and therefore contribute to the attainment of one of the Bank's current strategic objectives.

WHAT DO YOU WISH OTHER PEOPLE KNEW ABOUT BANK?

The Bank is modernising at break-neck speed and is embracing forward looking initiatives, in terms of technology. This is not to mention the desire to achieve diversity in the staff compliment that we wish to see in the near future.

During the BOZ 50th Anniversary Symposium held at the Regional Office, I reminisce the DGA having alluded to that, were she stated, "From having a majority of qualified economists in the early years, the Bank is now staffed by a highly-qualified compliment of lawyers, accountants, supervisors, regulators, financial analysts among others. Going forward this mix of qualified staff will enable the Bank to be much more proactive in keeping with the ever changing monetary and financial sector landscape. In addition, this will also ensure that the Bank continues to play a significant role in economic development."

WHAT IS YOUR PERSONAL WORK PHILOSOPHY?

I have adopted my personal mission statement from the mantra, 'To live, love, learn and leave a legacy.' I try as much as I can to live by this both in my personal and professional life.

My professional journey has been built on confidence, seizing opportunity, taking risks and initiative. As a Christian, I am inspired by two bible verses; the first is from Proverbs "Do not leave until tomorrow something you can do today"; and in 2nd Thessalonians 3:10, the Bible reminds us that if any would not work, neither should they eat.

I also believe that there are two different poles of behavioural campus and they point us to different destinations. Control leads to compliance, while autonomy leads to engagement. Control entails encouraging staff to do particular things in particular ways - i.e. to get them to comply. Very few leaders are more effective than a nice bunch of carrots and a threat of occasional stick. Ultimately, while complying can be an effective strategy for physical survival, it's an inferior one for personal fulfilment. Living a satisfying life requires more than simply meeting the demands of those in control

In a nutshell, that gives the synopsis of my personal work philosophies

WHO HAS INFLUENCED YOUR DECISIONS IN THE BANK AND/OR YOUR SOCIAL LIFE?

I feel greatly privileged to have so far worked under great luminaries. I reported in the Bank just about the same time that Regional Office had a new Director, Mr Chisha Mwanakatwe and one cannot ask for any better leader to start a career with in new place. This is not to mention the support I received from others such as Mr Fabian Hara and Mr Patrick Mulenga, whose leadership and humility leaves you questioning your own journey moving forward, not to mention the easy-going Mr Patrick Malambo, who once served as Assistant Director-Operations at Regional Office.

During the time when I served on the Bank's BCM Steering Committee. I had a rare privilege of learning from the leadership of the members of the Steering Committee, whose membership comprised mainly Directors from key departments such as Strategy and Risk, Information and Communications Technology, Procurement and Maintenance Services and Regional Office, under the leadership of the Deputy Governor Operations Dr Bwalya Ng'andu. The practical leadership lessons I learnt while sitting on this committee cannot be over-emphasized and will have an ever-lasting impact on my career.

Regional Office once supported my participation on a mentorship event organised by the Alchemy Women in Leadership in 2014, at the Top Floor in Lusaka. One of those who came to mentor us was, among others, our own Deputy Governor Administration Dr Tukiya Kankasa- Mabula, whose lessons she expounded can be life-changing once embraced.

Last but not the least my interactions with various personalities at head office and the leadership under which I am currently serving is having valuable insights about developing as a young leader, while learning remains a continuous process for me.

Mr Kapili with his wife Tani.

WHAT IS SURPRISING ABOUT YOU?

What would be surprising about me, I guess, would be my extra-curricular hobbies. I do play a guitar, a hobby I admired for a long time, but honed during my fellowship year in the US. I just need to do a bit more practising, before I can begin to showcase my talent. By the way, I also enjoy dancing.

Unusually, I am an ardent photographer, a hobby I have carried on since my secondary school days. I do it for fun and I continue to perfect the skill every day.

WHAT DO YOU THINK WILL CHANGE ABOUT BANK OVER THE NEXT FIVE YEARS?

In 5 years' time, I anticipate an increase in technological innovation in the Bank. Apart from technological innovation, I see increased diversity at C-Suite level as one of the major drivers of the Bank's success.

In 5 years' time, I see a lot of progress in processes being automated and

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efficiency levels being greatly improved.

I also foresee the Bank embracing workplace diversity at C-Suite level, with particular emphasis on gender, age and different occupational backgrounds. In view of the current strategic initiatives being undertaken by the Bank, I anticipate enhanced diversity, with a lot more women and millennials taking up leadership positions in the Bank.

In a nutshell, I foresee technological innovations and workplace diversity setting the medium to long term agendas for the Bank's success.

WHICH OF YOUR ACHIEVEMENTS ARE YOU MOST PROUD OF?

When fate and fortune provided an opportunity to venture into the United Kingdom (UK) to go and pursue my post-graduate studies as a self-sponsored student, I under-estimated the cost of living. England was a huge cultural shock! the weather, attending classes by the day and working part-time in the night 'for pocket money'. However, it was here that I honed certain skills, such as financial discipline, focus, perseverance. Albeit all the aforementioned challenges, I still triumphed by graduating as a top student with a distinction in my MBA, Finance, with my dissertation earning a place onto the British Library.

The UK experience gave me the tenacity to compete at a global level resulting in my recently being awarded the coveted Fulbright scholarship to go and pursue the Hubert H. Humphrey Fellowship in Finance and Banking in the United States of America (USA), as alluded to earlier. The pinnacle of my time in the US was the rare privilege of doing my Professional Affiliation for work experience at the International Monetary Fund (IMF), an opportunity I will forever live to cherish.

HOW DO YOU SPEND YOUR TIME OUTSIDE WORK?

In my spare time, I love to read motivational to non-fiction books and in recent years, I fell in love with aerobics. Whenever I get the chance to, I swing on the golf course and I also love cars and next on my bucket-list is motor racing!

And of course I spend a lot of time with my family. We entertain a circle of close friends at our small home and every Sunday morning we are in Church.

I also occasionally participate, both as a mentor and protégé, at events organised by the Alchemy Women in Leadership - a diverse community of inspirational professionals and entrepreneurs who are dedicated to share ideas and experiences to help young adults to not only accelerate their leadership journeys, but also to reach positive career, business and personal goals. It's something great to a part of.

ANY ADDITIONAL INFORMATION YOU WOULD LIKE TO SHARE?

I am very proud and delighted that I recently joined a team that pursues greatness and high performance in everything that we do and I am delighted to be part of such a team. A team that aims to provide a compelling value proposition, responding to customer needs, the feeling that we are positioning ourselves to achieve gives me a lot of pride moving forward.

YOUR LAST WORDS TO THE ZAMBANKER READER

I feel I have covered pretty much the full synopsis of my professional and personal life. However, I would love to hear and learn from anyone that's willing to have a chat.

BOZ QUIZ CONTINUES TO ATTRACT SHOWGOERS

By ZAMBANKER REPORTER

The Bank has continued assessing the public's general understanding of the operations of the Bank through quizzes. This year's Zambia International Trade Fair quiz was conducted over a four-day period and attracted 92 entries out of which 33 entries had correct responses representing a 36% success rate.

Head – Communications Mr Kanguya Mayondi thanked all trade fair goers who participated in the quiz which run from 28th June 2018 to 1st July, 2018.

The quiz covered various functions of the Bank. The Stand Director Dr Abel Shimba said that there was a lot of interest on the quiz this year as most visitors kept asking for it even after it had closed.

Dr Shimba revealed that most of the visitors that passed through the stand understood the role of the Bank in the economy as most of them left the pavilion having read and gone through the presentations that were displayed.

The Stand Director also expressed satisfaction with the cooperation that was demonstrated among the exhibitors.

'The visitors were well attended to. Each member of the team responded enthusiastically to the visitors queries,' he added.

The Trade Fair was held from June 27 to July 3, 2018 under the theme 'Private Sector - Key to Industrialisation.'

The quiz had 13 prizes, three grand and ten consolation prizes of K500, 000 each. The first prize was K2, 500,000 while the second and third prizes were K1, 500, 000 and K1, 000, 000 respectively.

Ms Angela Banda, a nurse of Ndeke in Ndola walked away with the first prize while Ms Nora Cynthia Lungu, a Police Officer at Kamfinsa Police Camp in Kitwe and Mr Joshua Mwansa a Student of Mass Media area in Lusaka won the second and third prizes respectively.

The ten consolation prizes went to Ms Mirriam Shantimba, Mr Nchima Kasongo, Ms Kambela Cheelo, Mr Mutuwa Mututwa, Mr Benzer Kanene and Ms Carol Muteke. Others were Mr Khondwani Mwansa, Ms Pamela Cheelo, Mr Almost Maseketo and Mr Julius Tembo.

The Bank of Zambia quizzes at exhibitions and trade fairs were introduced in 2003 with a view of sharing information on the role of the Bank of Zambia in the Zambian economy.

Participants were only allowed one entry. Members of staff and their immediate families were not eligible to enter the quiz. The Bank of Zambia will conduct a similar quiz at the 92nd Zambia Agricultural and Commercial show scheduled for Lusaka from August 1 – 6, 2018.

Questions that were posed during the 2018 ZITF together with the answers were as follows:

Q: What was the Annual Inflation rate in December 2017?

A: 6.1%

Q: What is the current Monetary Policy Rate?

A: 9.75%

Q: What are Government Securities?

A: These are debt instruments that the Government of Zambia uses to borrow money from the public. They can either be treasury bills or Government bonds.

Showgoers participating in a quiz

Q: What was the closing dollar/ Kwacha exchange rate in September 2014?

A: ZMW6.00

Q: Which banks are represented in all the 10 provinces?

- Atlas Mara, Barclays Bank, Indo Zambia and Zanaco

Q: Name the top three sectors that accounted for the most loans in the financial system as at 31 March 2018.

- Personal Loans,
- Agriculture, forestry fishing and hunting and
- Wholesale and Retail Trade

Q: Mention two reasons for supervision and regulation of financial institutions

- To ensure safety and soundness of financial service providers and entire financial system
- To provide an efficient and competitive financial system, to Maintain the integrity of the nation's payments system;
- To protect consumers from abuses by the financial service providers

Q: What was the total deposits for non-bank financial institutions in 2016?

A: ZMW1,165 million

Q: Mention three qualities of an effective National Payment System.

- Efficient, Safe, Secure, Reliable, Cost effective

Q: What is a mutilated currency?

A: Damaged or unfit banknote (destroyed, torn)

Some of the participants in the quiz who did not win any prize said that although the quiz had some questions that were difficult, one needed to read in order to get the answers right. They alluded to the fact that it was a wise way of making people know about the operations of the Bank.

PHOTO FOCUS

BoZ staff who participated in the 2018 Zambia International Trade Fair (ZITF).

Senior staff with Deputy Governor – Operations outside the ZITF BoZ pavilion.

Deputy Governor - Operations Dr Bwalya Ng'andu presenting a gift to the First Lady of Botswana Madam Neo Masisi when she visited the BoZ pavilion at the ZITF Ndola while Head - Communications Mr Kanguya Mayondi and Minister of Livestock and Fisheries Hon Mulenga Kampamba looks on.

(l-r) Head - Communications Mr Kanguya Mayondi, Senior Economist and Stand Director Dr Abel Shimba, Former BoZ Senior Director - Supervisory Policy Mr Chisha Mwanakatwe and Senior Economist - Foreign Reserves Management Mr Chiba Lumponge listening to a presentation by Senior Inspector Mr Owen Mooka.

Head - communications Mr Kanguya Mayondi conferring with Deputy Governor - Operations Dr Bwalya Ng'andu while Standard Chartered Bank Board Chairperson Dr Caleb Fundanga listen in. This was at a meeting for Chairpersons of banks hosted by Standard Chartered Bank.

(l-r) Director - Non-Bank Financial Institutions Supervision department Ms Freda Tamba, Assistant Director - Financial Markets Mr Douglas Kalamatila and Director - Board Services Ms Namwandi Ndhlovu at a meeting for Chairpersons of commercial banks.

Deputy Governor - Operations Dr Bwalya Ng'andu responding to queries at a one of the ZITF Forums at Mukuba Hotel.

BoZ Employees (l-r) Mr Philippe Masengo, Mr Timothy Kalenga and Mr Ackson Tembo after the Intercompany Relay

Guests at Governor's meeting with Chairpersons of commercial banks hosted by Standard Chartered Bank.

Standard Chartered Bank Board Chairperson Dr Caleb Fundanga presenting his remarks at a meeting hosted by his bank.

Director - Legal Services Dr Leonard Kalinde responding to a query raised by the chairpersons of banks.

Director - Economics Dr Francis Chipimo conversing with Stanbic Bank Board Chairperson Dr Austin Mwape at a meeting for Chairpersons of commercial banks hosted by Standard Chartered Bank.

One of the (BCPS) teams during their team building exercise.

BCPS staff preparing to engage in teambuilding exercises.

The Board and Senior Management with his Royal Highness - the Paramount Chief Mpezeni of the Ngoni speaking people at Ephendukeni Palace in Chipata

The Board and Senior Management in a Meeting with the Eastern Province Chamber of Commerce and Industry

FINANCIAL SECTOR ANTI-COMPETITIVE BEHAVIOR: WHAT SAYETH THE NEW BANKING LAW

By LUNGISANI ZULU

18th May 2018 marked the beginning of a new chapter for the financial sector in Zambia. This is the date when the Banking and Financial Services Commencement Order Statutory Instrument No. 38 of 2018 was signed. The import of the statutory instrument was to mark the end of the Banking and Financial Services, 1994 and the beginning the Banking and Financial Services Act No. 7 of 2017.

The 1994 banking law has been in existence for quite some time and a new broom in the 2017 statute is expected to sweep better. There are many progressive changes brought about by the new banking code, but in this paper I focus on the provisions regulating anti-competitive behavior by financial service providers, what has been continued from the previous law and new enhancements made.

First things first, what does the term anti-competitive behavior even mean? And why is it even a bad thing?

Any category of agreement, decision or concerted practice which has as its object or effect, the prevention, restriction or distortion of competition to an appreciable extent in Zambia amounts to anti-competitive behavior. This means financial service providers should not engage into any behavior which negatively affects competition in the financial sector.

Anti-competitive behaviours is harmful to the economy as a whole and to consumers in particular. Economists always tell us about the law of supply and demand which anchors a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand. If more is supplied than desired, the price will be lower but if more is desired than supplied, the price should be higher. Consumers benefit from lower prices and better quality when there is more competition.

Anti-competitive behavior unfortunately does not permit the market forces to operate and dictate the prices. It harms consumers by eliminating competition among suppliers and reduces competitiveness in the long run thereby negatively impacting on the overall performance of a country's economy.

So what does the new Banking and Financial Services Act No. 7 of 2017 say about anti-competitive behavior by financial service providers?

Like its predecessor, the new banking code prohibits financial service providers from engaging in collusive conduct in respect of the rate of interest to be levied on a deposit; the rate of interest or charge levied on a credit facility; the amount of a charge for the provision of a financial service; the provision of, or refusal to provide, banking or financial services to a person and the division of markets by allocating customers.

Engaging in any of the above mentioned anti-competitive conduct is a criminal offence and a financial service provider found guilty is liable to a fine not exceeding three hundred thousand penalty units or to imprisonment for a term not exceeding three years, or to both.

Of course the prohibition of collusive conduct does not mean that financial service providers should not talk to each other or collaboratively work together. After all, two is better than one, and banks may need to genuinely work together to finance a project without the intention of restricting competition. So the new banking code has continued exempting the following activities from the definition of collusive conduct. These are the syndication or agreement for the provision of banking or financial services to a person by two or more financial service providers; the underwriting or distribution of security by a bank or financial institution or a group of persons, including a financial service provider and the exchange of statistics or audit information, the development and use of systems, forms, methods, procedures and standards, the use of common facilities, joint research and the development. These activities do not amount to collusive conduct.

However, any form of collateral contract is prohibited under the new banking code. A collateral contract is one where the financial service provider compels a person to contract for another service with the financial service provider or another person as a condition for receiving a banking or financial service from the financial service provider.

This far, nothing is much different from the old law. But there is a telling introduction to anti-competitive regulation under the new law.

Under the new banking law, anti-competitive behavior is not only a criminal offence which attracts a fine and imprisonment but constitutes an ‘unsafe and unsound’ practice. A financial service provider that enters into an agreement, or makes a decision or engages into a concerted practice whose objective or effect is to prevent, restrict or distort competition to an appreciable extent in the financial sector shall be considered to have engaged in an unsafe and unsound practice.

This expands the range of punitive sanctions that the Bank of Zambia may impose on a financial service provider who is found to have engaged into anti-competitive practices. Some of the supervisory actions available include making directions to the financial service provider to take remedial action; issuing regulatory statement or measures to be taken to improve the management, financial soundness or business methods of a financial service provider; requiring the board or senior officers to execute an agreement on implementation of a remedial action; performing or appointing an agent to perform a special examination of the financial service provider at the cost of the financial service provider and taking possession of a financial service provider. Taking possession may itself result in more disastrous consequences for the financial service provider.

These supervisory powers are in addition to other sanctions under the Competition and Consumer Protection Act, 2010.

It is therefore safe to conclude that the Banking and Financial Services Act No. 7 of 2017 has broadened the provisions for regulating anti-competitive behavior in the financial sector in Zambia. The beneficiaries are, of course, the consumers of financial services but ultimately, competitiveness in the financial sector leads to a stable financial sector which benefits the whole economy.

THE IMPLEMENTATION OF IFRS 9 BY THE BANKING SECTOR IN ZAMBIA

By RAPHAEL KASONDE, FCCA, FZICA

Background

The implementation of the new international financial reporting standard on financial instruments, the International Financial Reporting Standard 9, Financial Instruments, or simply IFRS 9, has come with a lot of hype, all over the world. IFRS 9 is expected to be a game changer, especially when it comes to the measurement of financial assets, and banks and other financial institutions are the most affected. The most significant aspect of the measurement of financial assets is the 'impairment' requirements, an accounting principle describing a diminution in the value of a financial asset and thereby leading to impairment losses or provisions. Consequently, IFRS 9 will have a direct bearing on the banks' pricing, economic capital, operating profit and the overall risk strategy.

The International Financial Reporting Standards (IFRS) is a set of international accounting standards developed by the International Accounting Standards Board (IASB) which gives guidance on how financial and accounting transactions should be reported in financial statements. In Zambia, the Zambia Institute of Chartered Accountants (ZICA) is mandated through the Accountants Act to develop, promote and enforce internationally comparable practice standards. In this regard, ZICA has adopted the IASB's standards, and for all publicly accountable entities (this includes listed companies, public interest entities such as banks, and Government-owned enterprises), it requires that they use full IFRS when preparing their financial statements. Further, in February 2018, ZICA issued an Advisory Note 2/2018 (IFRS 9 Financial Instruments) wherein preparers and auditors of financial statements are required to follow the provisions of IFRS 9 in its entirety. In addition, for banks and financial institutions, the Banking and Financial Services Act requires that their financial statements must comply with the accounting standards promulgated by the ZICA.

IFRS 9 is a specific standard applying to the various aspects of accounting for financial instruments, including their recognition and derecognition, classification and measurement, among others. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For an institution such as a bank, most of the items appearing on its asset side of the balance sheet such as balances with other financial institutions, Government securities holdings and loans, are all examples of financial assets. A financial liability, is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. Examples of financial liabilities would include customer deposits, balances due to other financial institutions and other borrowings, which are all on the liability side of its balance sheet.

For banks and financial institutions, the vast majority of instruments that will be required to have a loss allowance for impairment are loans. Therefore, the rest of this article will focus on the loss estimation for loans. It must be noted however that IFRS 9 also deals with impairment measurement for securities (such as corporate bonds, Government Bonds and Treasury Bills) as well as off-balance sheet instruments (such as financial commitments and guarantees).

What are the major changes to accounting for impairment under IFRS 9?

IFRS 9 which took effect for accounting periods beginning on or after 1st January 2018 replaces the International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 provides a complete shift when it comes to accounting for impairment losses by introducing an 'expected credit loss model' as opposed to the 'incurred loss model' under IAS 39.

Under IAS 39, provisions for credit losses are measured in accordance with an incurred loss model, which results in credit losses being recognised only once there has been an incurred loss event. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised. As a result of this approach, during the global financial crisis debates, IAS 39 was heavily criticised, as a "too little, too late" standard.

IFRS 9 replaces the existing incurred loss model with a forward-looking expected credit loss (ECL) model. Entities will now be required to consider historic, current and forward-looking information (including macro-economic data) to estimate credit losses. This will result in the earlier recognition of credit losses as it will no longer be appropriate for entities to wait for an incurred loss event to have occurred before credit losses are recognised! In addition, because of the forward looking approach, the credit losses under IFRS 9 are significantly higher than those computed under IAS 39.

According to the Financial Stability Institute, the IASB intended to make the following changes in modifying the credit loss estimation methodology from IAS 39 to IFRS 9:

- eliminate the threshold (within IAS 39) that required a credit event to have occurred before credit losses were recognised and implement a methodology that measures expected credit losses (ECLs) and changes in ECLs.
- distinguish between instruments exhibiting a significant increase in credit risk and those that are not.
- recognise 12 months of ECL for performing loans without a significant increase in credit risk in order to reduce overstatement of interest revenue on those loans.
- recognise a lifetime of ECLs for loans with either a significant increase in credit risk or those that are credit-impaired.
- better reflect the effective return and changes in credit risk.
- improve the cost/benefit of providing financial information for smaller or non-complex financial organisations by eliminating the requirement for individual assessments.
- In a recent article, Risk.net contends that IFRS 9 presents a unique opportunity for alignment between risk and accounting functions, which if grasped could usher in great economies of scale, streamlined reporting and a keener understanding of accounting, regulatory and capital impacts across business silos.
- Accounting for impairment losses under IFRS 9: A Brief Overview
- There are three different approaches to applying the impairment requirements under IFRS 9 as follows:
- The 'simplified approach' which is applied to trade receivables, contract assets and lease receivables;
- The 'general approach' which is applied to all financial assets classified at amortised cost or fair value through other comprehensive income for debt as well as issued loan commitments and financial guarantees that are within the scope of the new requirements; and
- The 'purchased or originated credit impaired approach' which is applied to all financial assets that are credit impaired at initial recognition.
- The general approach involves a three stage approach and introduces some new concepts such as 'significant increase in credit risk', '12-Month expected credit losses' and 'lifetime expected credit losses'. Under the general approach, an entity must determine whether the financial asset is in one of three stages, in order to determine both the amount of ECL to recognise as well as how interest income should be recognised. These three stages are as follows:
- Stage 1 - When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs).
- In determining whether a significant increase in credit risk has occurred since initial recognition, a bank is to assess the change, if any, in the risk of default over the expected life of the loan (that is, the change in the probability of default, as opposed to the amount of ECLs).
- Stage 2 is where a loan's credit risk has increased significantly since initial recognition. When a loan transfers to stage 2, entities are required to recognise lifetime ECL but interest revenue will continue to be recognised on a gross basis as in Stage 1.
- Stage 3 - If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

The following example illustrates how interest income is recognised under each of the three stages:

Example 1: Recognition of interest income under the three stages

Stage 1/2 = EIR on gross amount Loan A		Stage 3 = EIR on net amount Loan A	
	CU		CU
Gross loan receivable	1 000 000	Gross loan receivable	1 000 000
Allowance of impairment	(45 454)	Allowance of impairment	(45 454)
Amount disclosed in Statement of Financial Position	954 546	Amount disclosed in Statement of Financial Position	954 546
Interest revenue at 10% (1 000 000 x 10%)	100 000	Interest revenue at 10% (954 546 x 10%)	95 455

***EIR** = Effective Interest Rate

Story continues on page 30

Story continues from page 29

ECLs reflect management's expectations of shortfalls in the collection of contractual cash flows. Twelve-month ECL is the portion of lifetime ECLs associated with the possibility of a loan defaulting in the next 12 months. It is not the expected cash shortfalls over the next 12 months but the effect of the entire credit loss on a loan over its lifetime, weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on loans that are forecast to actually default in the next 12 months. If an entity can identify such loans or a portfolio of such loans that are expected to have increased significantly in credit risk since initial recognition, lifetime ECLs are recognised. Lifetime ECLs are an expected present value measure of losses that arise if a borrower defaults on its obligation throughout the life of the loan. They are the weighted average credit losses with the probability of default as the weight. Because ECLs also factor in the timing of payments, a credit loss (or cash shortfall) arises even if the bank expects to be paid in full but later than when contractually due.

Institutions must consider many factors to determine which loans are low risk versus those that have significant increased credit risk. Evaluation is not to be limited to lagging indicators, such as delinquency, other types of technical default (for example, the borrower's inability to meet financial ratios or milestones in loan covenants) or bankruptcy filing. Loans that are not delinquent may be impacted by adverse trends and other deteriorating factors, which would support categorising these loans as having significant increased credit risk rather than low credit risk. Some examples of leading indicators include:

- deteriorating macroeconomic conditions that are expected to continue where possible further decline may result in increasing defaults for certain sectors of the loan portfolio;
- declining sales for a borrower or group of borrowers within a certain business line may indicate increasing defaults for those loans;
- increasing mortgage interest rates may precede increasing mortgage loan defaults; and
- closure of a local major employer may result in increasing defaults for individuals and other businesses in that location.

IFRS 9 recognises that implementing these requirements can be complex in practice and, therefore, entities are permitted (and in some cases are required) to apply a simplified approach to trade receivables, contract assets and lease receivables. Under the simplified approach, there is no need to monitor for significant increases in credit risk and entities will be required to measure lifetime expected credit losses at all times. However, impairments will still be higher because historical provision rates will need to be adjusted to reflect relevant, reasonable and supportable information about future expectations.

IFRS 9 recognises that implementing these requirements can be complex in practice and, therefore, entities are permitted (and in some cases are required) to apply a simplified approach to trade receivables, contract assets and lease receivables. Under the simplified approach, there is no need to monitor for significant increases in credit risk and entities will be required to measure lifetime expected credit losses at all times. However, impairments will still be higher because historical provision rates will need to be adjusted to reflect relevant, reasonable and supportable information about future expectations.

The Bank of Zambia's approach to implementation of IFRS 9

In July 2017, the Bank of Zambia's Director of Bank Supervision, Ms. Gladys Chongo Mposha hosted a workshop with participation from ZICA, the Bankers Association of Zambia (BAZ), Managing Directors and Chief Finance Officers (CFOs) of commercial banks and their external auditors to chart the way forward with regard to the implementation of IFRS 9 by banks in Zambia. Before hosting this meeting however, the BoZ had a number of bilateral engagements with a number of banks as well as auditing firms over the matter.

The main outcome of the workshop was the formation of a Banking Industry Working Group on the Implementation of IFRS 9 (the 'Working Group') to be chaired by ZICA and BAZ to act as the secretariat. Other members of the Working Group were BoZ, commercial banks' CFOs and banks' external auditors. The main objectives of setting up the Working Group were to speed up the implementation of IFRS 9 across the industry, create a knowledge sharing platform for the industry and to aid in tackling the common issues together.

Further, through this Working Group, it was expected that ZICA as the regulator for accounting standards will deal with all accounting related issues and BoZ with all the prudential related issues within its jurisdiction. The Working Group is still in operation until the full implementation of IFRS 9.

The Bank of Zambia's prudential guidance on the implementation of IFRS 9

In line with the Bank of Zambia mandate, the Bank's Deputy Governor – Operations, Dr. Bwalya K.E. Ng'andu issued CB Circular No. 11/2017, The Implementation of the International Financial Reporting Standard 9, Financial Instruments, By Financial Service Providers, dated 29th December 2017. Attached to this Circular is the Bank of Zambia IFRS 9 Guidance Note No. 1, prescribing how accounting provisions under IFRS 9 will be treated for regulatory purposes and also outlining transitional arrangements to ensure that the negative impact of the anticipated higher provisions at the time of adoption of the standard are moderated. Further, it was the expectation of the BoZ that FSPs would adequately prepare themselves to ensure a smooth transition from the accounting requirements under IAS

39 to IFRS 9, as it came into effect for accounting periods beginning on or after 1st January 2018. The two key elements of the Guidance Note are as follows:

1.For determining the required provisions for loan losses under the Banking and Financial Services Act, the minimum shall be the higher of:

a. Provisions stipulated by the Banking and Financial Services (Classification and Provisioning of Loans) Regulations; or

b. Accounting provisions in accordance with the requirements of IFRS 9.

2. Under the transitional arrangements, financial service providers (FSPs) will be granted a three-year transition period in which to amortise, on a straight-line basis, the IFRS 9 transitional adjustment amount.

The BoZ has allowed a static approach (a one-off calculation) for FSPs to compute the IFRS 9 transitional adjustment amount ('adjustment amount'). In order to calculate this adjustment amount, an FSP shall compare primary capital using the opening balance sheet (i.e., January 1, 2018) based on IFRS 9 accounting provisions with primary capital at the closing balance sheet (i.e., December 31, 2017) based on IAS 39 accounting provisions. The decrease in qualifying primary capital (net of tax effect) arising from the differences in IFRS 9 and IAS 39 methodologies is the adjustment amount.

The adjustment amount is allowed to be added back to primary capital as follows for each year during the three years transition period:

Year 1	3/4 of adjustment amount
Year 2	2/4 of adjustment amount
Year 3	1/4 of adjustment amount

Let us consider the following example to illustrate how the IFRS 9 adjustment amount will be applied:

Assume that a bank's accounting provisions before implementing IFRS 9 was K10,000 (i.e., based on IAS 39 methodology) and that immediately after implementing was K30,000 (i.e., based on IFRS 9 methodology). The impact of the adoption of IFRS 9 on the bank's primary capital amount would be a reduction of K20,000 (ignoring tax effects). The K20,000 would be the IFRS 9 transitional adjustment amount, and using the straight-line amortisation, the bank would add back the following amounts to primary capital:

Year 1 (2018) – K20,000 x 3/4 = K15,000
Year 2 (2019) – K20,000 x 2/4 = K10,000
Year 3 (2020) – K20,000 x 1/4 = K5,000

Because it follows a straight-line amortisation, no portion of the adjustment amount would be added back to primary capital after Year 3 onwards to allow the final K5,000 to go through as well.

Conclusion

The implementation of IFRS 9 will lead to the timely recognition of, and provision for, credit losses and thus contributing to the promotion of a safe and sound banking system in Zambia. IFRS 9 which replaces the existing incurred loss model under IAS 39 is a forward-looking expected credit loss model. Under this model, entities will now be required to consider historic, current and forward-looking information (including macro-economic data) to estimate credit losses. This will result in the earlier recognition of credit losses as it will no longer be appropriate for entities to wait for an incurred loss event to have occurred before credit losses are recognised. In addition, because of the forward looking approach, the credit losses under IFRS 9 are significantly higher than those computed under IAS 39.

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MOVABLE PROPERTY SECURITY BASED LENDING IN ZAMBIA

By BANJI MILAMBO

In April 2016, the Government of the Republic of Zambia enacted the Movable Property Security Interest Act. The objective of the Act is to facilitate access to credit secured by movable property. The premise in this regard, is that lenders, referred to as "secured creditors" would be more comfortable to provide loans secured by movable property if the lenders' rights over the collateral are assured.

The Act provided for the establishment of a Registry wherein lenders can register and perfect their security interest in a tangible or intangible movable asset. In simple terms, the process may typically involve the following steps:

A. A person applies for a loan from a lender. This could be a bank financial institution or any person that provides credit or credit like facility;

B. The lender evaluates the application with consideration to the five C's of credit.

- **Character:** The credit history or borrower's reputation or track record for repaying debts. This information appears on the borrower's credit reports.
- **Capacity:** which measures a borrower's ability to repay a loan by comparing income against recurring debts as well as the borrower's employment history.
- **Capital:** which is the contribution the borrower puts toward a potential investment.
- **Collateral:** which gives the lender the assurance that if the borrower defaults on the loan, the lender can repossess the collateral.
- **Conditions:** which refers to how a borrower intends to use the money, the interest rate and other conditions.

C. Where the loan is approved or granted, the lender registers his or her interest in the collateral provided by filing a "financing statement" on the movable property security registry which is hosted by the Patents and Companies registration Agency (PACRA). A financial statement is simply a form that is completed containing the details of the loan transaction and the description of the collateral pledged.

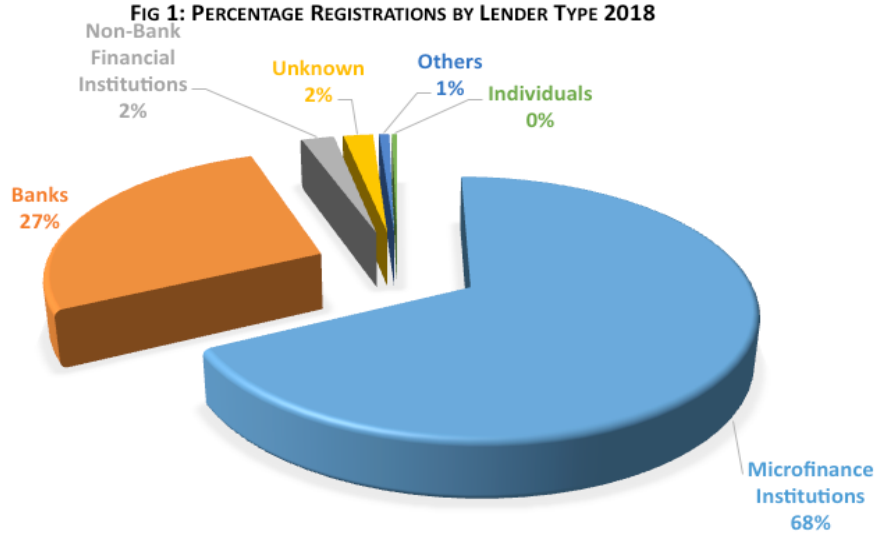
By registering the security interest on the Movable Property Security Registry, the lender or secured creditor is legally acknowledged as having priority rights over the collateral pledged. This means that in the case of a loan payment default, the lender who has registered his or her security interest on the Movable Property Security Registry will be protected at law for taking enforcement action on the asset even if other persons have an interest in the asset.

The protection provided under the Movable Property Security Interest Act is intended to motivate lenders to engage lending secured by movable property without fear of ambiguity as to their rights versus competing rights on property used as collateral.

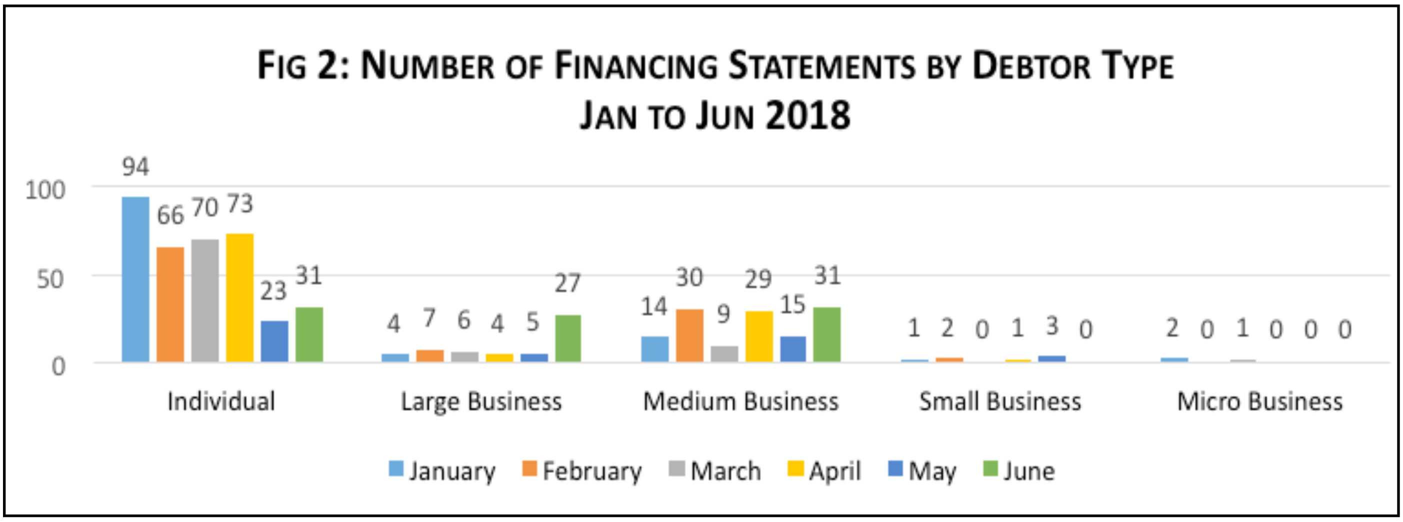
Following the enactment of the Movable Property Security Interest Act and the subsequent establishment of the Movable Property Security Registry, a total of 1,272 financing statements had been registered as at 31 December 2017. The Movable Property Security Registry allows for persons to conduct a search on the status of an asset as part of the loan evaluation process. As at December 2017 a total of 374 searches were conducted.

An analysis of the registrations indicates that as at end December 2017, the majority of registrations were made by microfinance institutions. Out of a total of 1,410 registrations, a total of 953 (67.6 percent) were made by microfinance institutions. The distribution of registrations by lender type is depicted in Figure 1 below:

FIG 1: PERCENTAGE REGISTRATIONS BY LENDER TYPE 2018



The single most common type of movable property registered during the period January to June 2018 were motor vehicles at almost 30 percent of a total of 11,894 assets with the majority of debtors being individuals as depicted on figure 2.



The introduction of the Movable Property Security Act and the registry form part of the initiatives at enhancing the credit infrastructure in particular and the financial infrastructure in general. It is expected that with the development of the infrastructure, credit provision will be more efficient and increase so that the volume of credit, particularly to small and medium scale enterprises will increase over the medium to long term.

The foregoing will require participation of all relevant stakeholders in the utilization of the credit infrastructure as well as the roll out of complementary initiatives such as building capacity in asset based lending, development of appropriate insurance and secondary markets. The Movable Property Security Registry reforms is just one significant component to a multifaceted approach to enhancing financial inclusion.

MEASURING ACCESS TO FINANCE – CREDIT MARKET MONITORING

By RICHARD CHIRWA AND MARVIN ILUNGA

Over the last two decades, financial inclusion has increasingly become a central object at global and national level. In Zambia, the quest for financial inclusion is manifest in the various initiatives that have been undertaken from independence, through the socialist oriented policies and initiatives of the earlier republics and the market-oriented strategies of the more contemporary era. The quest for increased financial inclusion in the more recent past can be seen through the efforts under the Financial Sector Development Plan (2004-2012) and even more recently with the launch of the National Financial Inclusion Strategy in November 2017 and the Bank of Zambia Strategic Plan.

Both the National Financial Inclusion Strategy and the Bank of Zambia Strategic Plan set out ambitious objectives of increasing financial inclusion from the 59.3 percent in 2015 to at least 80 percent by 2022. The attainment of this objective requires, amongst other things, concerted efforts by stakeholders in the supply of financial services, provision of financial education and capacity building on the demand, supply and regulatory side. It requires deliberate efforts at leveraging on internal and external knowledge and experience through collaboration with local and international bodies with experience, knowledge and insight on enhancing financial inclusion. It also requires a mechanism for monitoring the progress towards the attainment of set objectives. As is the case with a road trip where the traveller will need observable milestones to confirm the movement towards a destination, financial inclusion requires

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MEASURING ACCESS TO FINANCE – CREDIT MARKET MONITORING

monitoring of progress towards the set objective.

Thus far, the country has relied significantly on the FinScope surveys conducted by FinMark Trust. The country is likely to continue to rely on the FinScope Surveys. However, there has been a recognition of a need to develop a national mechanism for financial inclusion measurement. A significant step in this regard is the establishment of the mechanism for measuring activity in the credit market.

In January 2016, the Bank of Zambia rolled out the Credit Market Monitoring Programme (CMMP). The purpose of the CMMP is to be a repository of qualitative and quantitative data that should provide basis for evidence-based policy formulation in the financial sector. It facilitates the measurement of credit activity, monitor important financial sector trends, identify problems and assess the impact of any regulatory interventions in the credit market. Data from the CMMP is also intended to assist credit providers in performing peer analyses, updating their borrower and market risk models and developing new products and delivery channels that better meet the credit needs of the market.

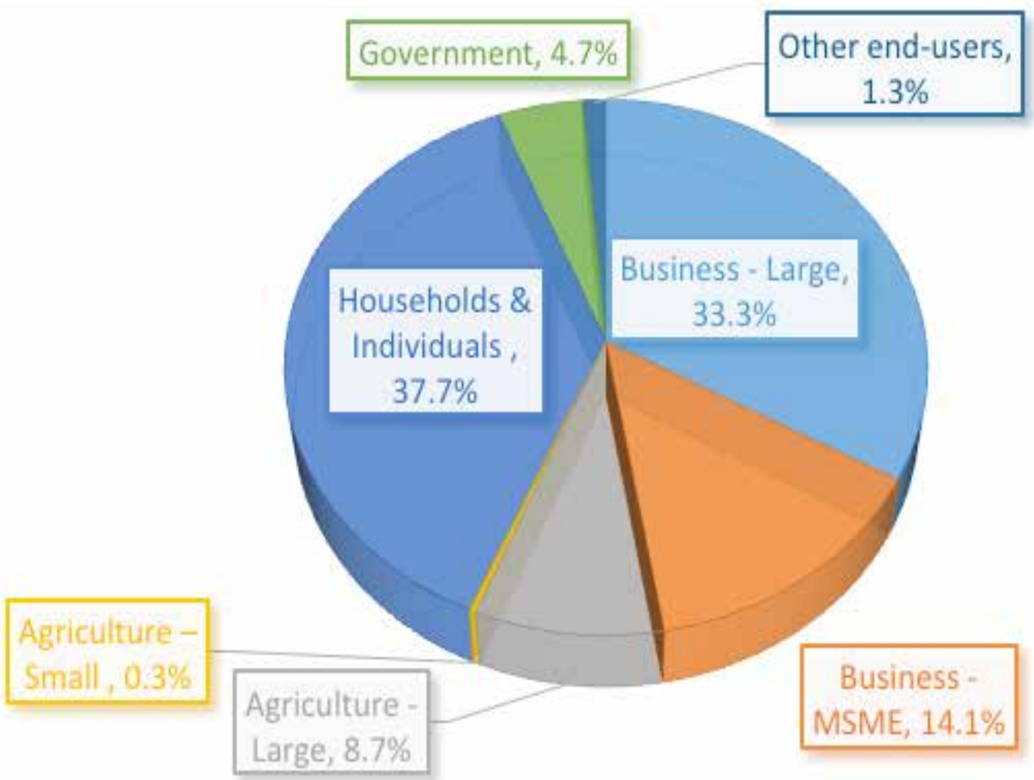
The programme has facilitated a systematic capturing, analysis and dissemination of credit data across the following main dimension:

- Product-type
- End-user category;
- Access to credit by priority credit services end-user categories (Women and youths);
- Type of Institutions providing credit; and
- (v) Geographical distribution of credit.

A demonstration of the usefulness of the CMMP is made through a focus on access to credit, particularly by priority end-users who include women and borrowers in the rural parts of the country.

Sectoral Distribution of Credit: Credit disbursement data from the CMMP indicates that 'household and individuals' accounted for the largest proportion of credit disbursements by both number and value. Households and Individuals accounted for 96.7% of the total number of loans disbursed and 37.7% of the total value of credit disbursed in 2017 with the agriculture end-user categories receiving the lowest proportions of credit disbursements.

Figure 1: Sectoral Credit Disbursement



Source: CMMP

Provincial Distribution of Credit: Credit disbursement was concentrated in Lusaka and Copperbelt provinces. In 2017, these two provinces accounted for 75.0% of total credit disbursements by value and 66.6% of the total number of loans disbursed (2016: 78.5% and 57.0%).

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TOURS FOR SCHOOL GROUPS

Bernadette Mwiinga

By BERNADETTE MWIINGA

The Bank of Zambia has, through its Human Resources Department continued to provide tailored and non-tailored free educational programmes for different types of school groups ranging from secondary schools to universities and other institutions at tertiary level in order to not only explain its operations but also to allow the learners choose their career thoughtfully as part of its Community Involvement Programme.

Education tours have further been found to be important for the teachers to clarify, establish, co-relate and coordinate accurate concepts, interpretations and appreciations and enable them to make learning more concrete, effective, interesting, inspirational, meaningful and vivid. There is also an aspect of engagement as well where students are asked to collect data then carryout an assignment on a project based on what they learned during the visit.

The lectures are given by specialists from the bank, who provide in-depth analyses and informed perspectives on specific topics. While the main theme of the presentation is agreed beforehand, participants are encouraged to ask any questions they may have during the session and to exchange views with Bank staff.

Most of the time, facilitators are drawn from operational departments such as Economics, Financial Markets, Bank Supervision, Non-Banks and Banking, Currency and Payment Systems. Presentations are conducted by each department and in some instances departments are merged and presentation made by one facilitator. All department where facilitators are drawn from play a vital role by ensuring that topics discussed benefit the audience. The objective is to ensure that all attendees get to know and appreciate the Bank's role is in its entirety. Human Resource department being the host, facilitates all events to ensure that the meetings are successful.

Three education tours were held in 2017 and these were from the Copperbelt University February 2017, Chikankata Secondary School in June 2017 and Inkpot girls secondary school in June 2017. Canicius Secondary School was also recently hosted on 21 February 2018. The events have all been graced by Assistant Director – Human Resource Administration and Organisation Effectiveness, Mr Martin Chasha.

Statistics for the pupils and students hosted by the Bank are as follows:

School	No. of Boys	No. of Girls	Both Boys & Girls	Teachers/ Lecturers	Total
Copperbelt University			28	2	30
Chikankata Secondary			60	3	63
Inkpot Secondary		15		3	18
Canicius Secondary	66			3	69

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Rural and Urban Credit: By value, credit disbursements to rural end-users increased to 12.5% in 2017 from 10.7% in 2016. In terms of the number of credit agreements, the proportion of credit disbursements to rural districts increased to 24.6% in 2017 from 21.0% of disbursements in 2016.

It is evident from the foregoing that most rural population remains underserved in as far as credit services provision is concerned.

Women's Access to Credit: Notwithstanding some improvement observed in the access to credit by women between 2017 and 2016, the level was still low (Figure 4). Out of the total value of credit disbursements in 2017, 12.5% was to women compared to 10.5% in 2016. While there has been a marked rising trajectory in total credit disbursements, credit to women has not shown a similar trajectory over the last two years.

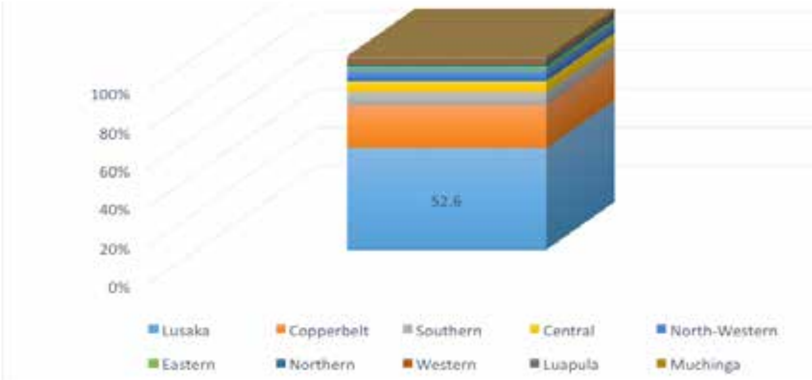
It is therefore, evident from the above statistics that there is need for greater effort to contribute to further narrowing the financial inclusion gender gap. This gap also provides a major business opportunity for financial services providers to tap in. Research has shown strong case for particular focus for serving women by banks and financial institutions such as the fact that: "financially and economically, women are organised differently to men. Financial institutions, however, have missed this key aspect. Women understand the financial language through informal networks such as Chilimba in Zambia and Charmers in Kenya. Therefore, the alternative to financing women is to simplify credit and financial language so that the missing middle can be addressed easily", as was reported at the 3rd African Women's Economic Summit (AWES), held in Lusaka in July 2014.

Conclusion

Overall, the CMMP Data collected for the past two years has revealed that credit disbursements are concentrated both in terms of end-users and geographic distribution. The CMMP presents stakeholders in the credit market with a powerful tool for monitoring, analysis and policy formulation. It is anticipated that players in the financial sector, especially credit providers will utilise the CMMP Data and reports based on this data to identify and fill in financial service gaps that are clearly evident. The detailed CMMP Data and Reports can be accessed on the Bank of Zambia Website – **www.boz.zm.**

The authors of this article are employees of the Bank of Zambia in the Non-Bank Financial Institutions Supervision Department.

Figure 2: Provincial Distribution of Credit Disbursements

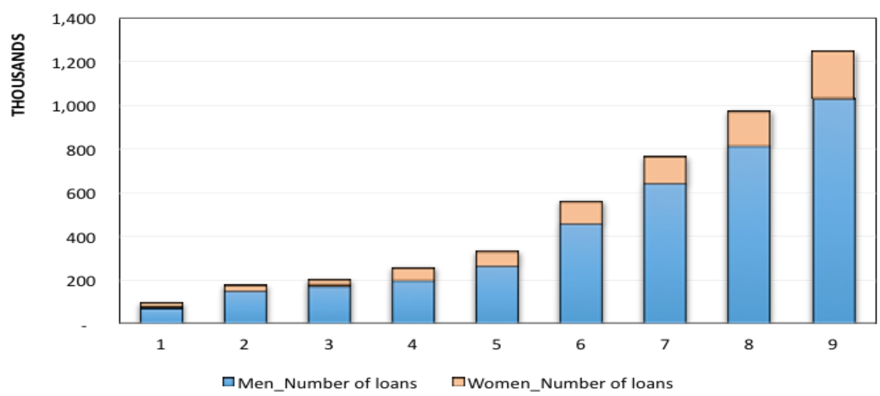


Source: CMMP

Figure 3: Credit Disbursement to Rural and Urban Areas

Source: CMMP

Figure 4: Credit Disbursement to Men Vs Women – Number of Loans



Source: CMMP

Figure 5: Credit Disbursement to Women – Kwacha

Source: CMMP

FORMATION OF WOMEN'S SAVINGS GROUPS INCREASE

Part of the Empowered & Enlightened Ladies Savings Group (EELG) 1 Zambia

Marjory C Mumba

By MARJORY C MUMBA

A few years ago I attended a conference that was organized by the Bank of Zambia which was centered around 'Women's access to finance'. At that conference, a study that was carried out by International Capital Corporation (Mozambique) LDA on the topic, 'Women's access to financial services in Zambia' and co-sponsored by FSDZ, GIZ, Making Finance Work for Africa, German Cooperation and the Bank of Zambia, was presented. One of the panelists who represented Plan International shared how they were working with women in the rural areas to promote savings under the concept - Village Banking. In this concept, both men and women meet every month to save and the money is locked up in a safe which has two keys and each is kept by one of the Executive members. If an individual would like to borrow money, the request is brought before the group, debated and the loan is either given or denied. At the end of the cycle this money is shared out depending on one's savings.

This initiative got me thinking and I thought that this would be a good way in which I could enhance the culture of savings within my area of influence. During this same period, I was Chairperson for the choir at my parish and in most incidences, when members were asked to contribute money towards an event or a fundraising project, the young girls complained that they had no money. I therefore decided to introduce the concept of 'Village Banking' to the ladies in the choir,

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Empowered & Enlightened Ladies Savings Group (EELG) 1 UK

with a few amendments to the way it was conducted. Our first meeting, where we were approximately 15 ladies, was held in the Church hall. We discussed the concept and began our first Ladies Savings meeting. In this meeting I introduced a Spreadsheet and a Constitution that was borrowed from another organisation. We decided to call the group 'Empowered and Enlightened Ladies Group (EELG). The group met every month to save and the ladies needing money would borrow at an agreed fee, and at the end of the meeting, no money was left on the table. The cycle for this group went on for a year and the money saved (with interest made from lending) was shared out. At the last meeting (end of the saving cycle), which is called a 'Share out' meeting, I found that the group membership had doubled and trebled by the end of the second and third cycle, respectively. The group was divided into two and that was the birth of the second Ladies Saving Group. At the same time other groups started emerging and asking for my assistance to help set them up. To date, there are over 12 ladies Savings groups country wide, including others in the UK, US and South Africa. I continue to mentor most of these groups at their inception and guide them through the process of managing themselves.

It has become evident that savings in these groups has increased tremendously and there is now need to invest these funds into bigger projects. Linking these groups to investment opportunities would not only empower the ladies in a big way but also grow the communities that they live in. A number of these women have since opened commercial bank accounts in order to be able to transact with their savings, bringing about financial inclusion.

Challenges faced in the Ladies Savings Group

1. Non-compliance to some of the rules in the Constitution.

2. Having to take legal action to ladies failing to pay back borrowed monies.

3. Having to exclude friends who have not been compliant to the rules of the group at the end of the cycle.

4. Limited investment opportunities to excess funds not borrowed within the group.

Benefits of the Ladies Savings Groups

Despite challenges faced, the Ladies savings groups have proved to be very popular among women. Most of the ladies in the various Saving groups have been able to purchase land, property, grow their businesses, pay school fees, etc as a result of this initiative. A number of the ladies have also opened up new bank accounts in order to make easy transfer of funds. Funds raised in these groups range from a total of K250,000 to over K1 million at the end of the saving cycle. The Ladies Savings groups are now looking towards investing into bigger projects, as their portfolio has since increased massively.

The author is an Assistant Director – Change Management and Innovation in the Strategy and Risk Management Department

NEW FRONTIERS OF FINANCIAL INCLUSION: LEVERAGING SAVINGS GROUPS

By CHIPILI LUMPA MWABA AND MUSAPENDA J PHIRI
(FSDZ) with additional input from Musapenda J Phiri (Bank of Zambia)

Financial sector development is part of the private sector development strategy to stimulate economic growth and reduce poverty by facilitating the efficient and effective operation of the financial sector. It concerns overcoming barriers or "costs" incurred in the financial system which include the cost of information, enforcement and transactions. A well-functioning financial sector is a powerful engine of economic growth as it generates local savings, which in turn lead to productive investments in local business.

One of the Savings Group during one of its meetings.

In addition, financial sector development leads to improved livelihoods of the people by enabling and broadening access for the poor and vulnerable groups, facilitating risk management by reducing their vulnerability to shocks, and raising investment and productivity that generates higher income. It also assists the growth of small and medium-sized enterprises (SMEs) by giving them access to finance. Thus, initiatives to broaden and strengthen the financial sector are a priority in many countries. In Zambia alike, the Government has prioritised the development of the financial sector and has expressed its commitment through the National Financial Sector Development Policy launched in November 2017, to provide strategic guidance and act as an overall framework for developing the financial sector. As part of the broad range of reforms, the Government also launched the National Financial Inclusion Strategy (NFIS) whose primary objective is to 'achieve universal access to and usage of a broad range of quality and affordable financial products and services' through multiple stakeholders including the public and private sector.

The FinScope study 2015 revealed that 59% of Zambian adults are financially included. The recently released National Financial Inclusion Strategy (NFIS) affirms Government commitment to increasing financial inclusion to 80% by 2022. The anticipated increase in financial inclusion to be reached in the next 4 years is therefore 21%. While we leaped from 37.3% financial inclusion in 2009 to 59%

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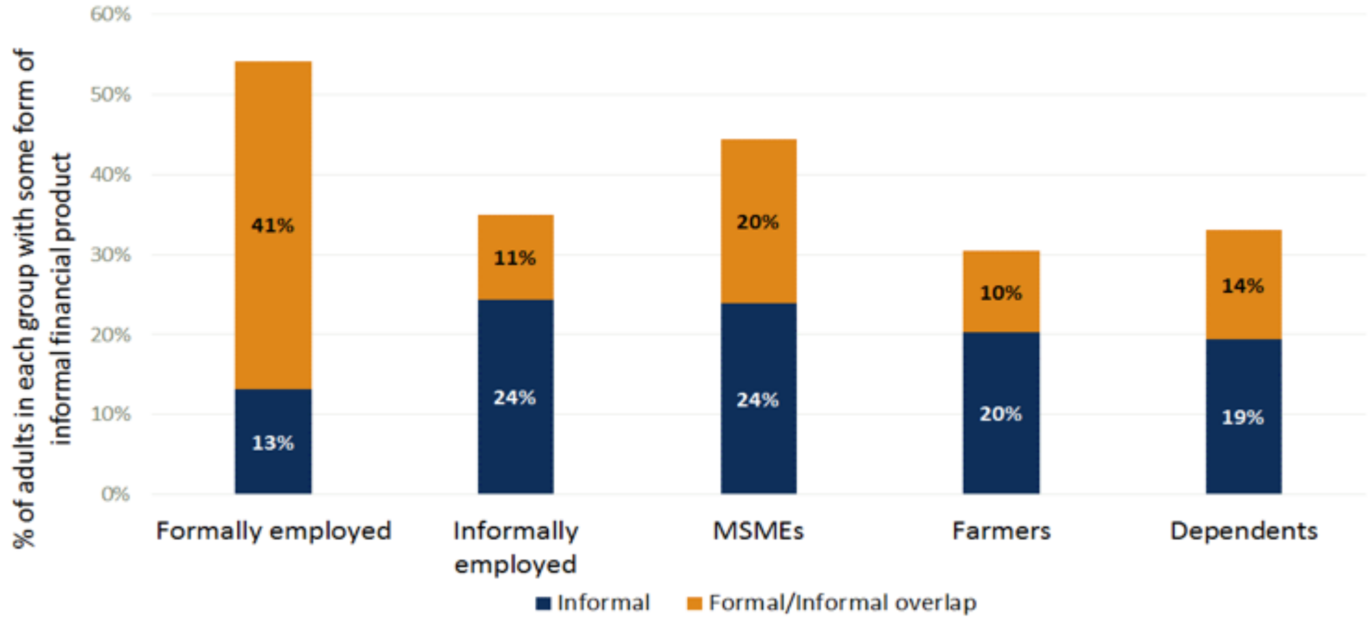
in 2015, reaching the next 21% of Zambians may require significant new strategies and investments by the financial sector. Success in formal financial inclusion has so far been driven by digital financial services. Unfortunately, households and individuals financially excluded, currently, are often the hardest to reach. They live in the most remote districts, with little or no access to cell phone networks and formal financial service branches.

So how will we do it? How possible is it to reach an additional 21% by 2022?

FinScope 2015 revealed that out of the 59% financially included, 20% use informal financial service mechanisms. Informal financial services, such as savings groups, are playing a significant role in efforts to expand financial inclusion, especially in rural areas and for women. Finscope 2015 also showed that usage of informal financial services cuts across all market segments, regardless of source of income or type of employment status. Interestingly, Zambians who are formally employed surpass all other market segments in terms of usage of informal financial services, as shown in figure 1 below:

Figure 1: Informal use and overlap with formal financial service usage



Emerging evidence shows us that the initial entry to financial inclusion in Zambia is through participation in Savings Groups (SGs). Savings Groups are defined as an informal financial service in Zambia. They are a first step in learning to save money as part of a group, to borrow carefully and intelligently, and to experience the benefits of risk management products such as social funds.

Savings Groups are more prevalent in rural areas where households and individuals have no access to formal financial services , but they exist even in formal offices in Lusaka and other big cities in the country.

Savings Groups are self-selected groups of people (typically 10-25) who meet regularly (weekly to monthly) to save money and borrow from group savings. Groups establish a Constitution with rules on savings, borrowing, social fund, and the interest rates and fees to be charged on loans and group operations. Members can save varying amounts and borrow up to three times their savings, payable over a period of one to three months. Savings group members often borrow to invest in businesses, smooth income and support livelihoods. Social funds are fixed, agreed-upon small contributions made at each meeting by every member. Social funds are effectively an informal insurance mechanism, used for risks identified and prioritised by the members themselves. Amounts from the social fund are generally provided either as an interest-free loan or as a grant. After a 9 to 12 month cycle, group members are paid all their individual money saved, plus interest earned from the loans, disbursed in proportion to savings. This is referred to as a ‘share-out’, after which members may choose to start another cycle. Currently there are over 600,000 members of savings groups across Zambia, with the potential to grow this market to over 2 million adults.

Findings from studies undertaken in 2017 by Financial Sector Deepening Zambia (FSDZ) is that Zambians want to learn how to use money more effectively. Research showed that 78% of community members joined these groups to save, 68% joined savings groups to access a loan, and 42% joined to have somewhere to turn to when they needed money. The process of repetitive cycles of about a year helps build experience and trust. As savings groups mature and go through multiple cycles with share-outs at the end of each year, loan utilization rates increase from 62% of members in their first cycle to as much as 91% of members by their third cycle.

Savings group members also learn how insurance works by contributing to the group’s social fund and using it during emergencies such as medical, funeral or social challenges as defined by the group in their Constitution. This is an important lesson on preparing for risks and managing them, by paying in advance and pooling money to help manage problems as they arise.

One of the key findings from the study conducted by FSDZ in 2017 is how savings group members use their share out funds. 60% of members invested in a business, 33% paid school fees and 17% purchased household assets.

This shows that Savings Groups are important in supporting entrepreneurial behaviour and business growth, as well as helping families with education of their children.

Savings groups serve women and rural households very effectively in a way that formal financial institutions have been unable to achieve effectively. They are also an important mechanism for closing the financial inclusion gap between men and women. Monitoring and research studies show that more than eighty percent (80%) of savings group members in Zambia are women.

An analysis of the gender gap in the usage of financial services shows that while over 43% of men use both formal and informal financial services, approximately 33% of women use both forms of financial services implying that there is a gap of about 10%. Interestingly though, is that more women use informal financial services at 24% as against 18% for men. Estimates from various partners, such as Savenet and FSDZ, involved in supporting savings groups, are that there is up to K500m (or approximately US$50m equivalent) in annualized savings that are in the informal sector – spread across 20,000-plus groups countrywide. This therefore is a great business potential for financial service providers to offer some form of linkage banking as well as related digital financial services in order to make such funds available to the formal sector as well.

It is therefore widely recognised by several key partners leading initiatives in supporting savings groups in Zambia such as, Africare,

A 'Share-out' session.

Catholic Relief Services, Care International, Caritas, Churches Health Association of Zambia, Habitat for Humanity, PLAN International, Volunteer Services Overseas, WE Effect, World Vision, and Zambia Land Alliance, among others, that savings groups play a critical role in financial inclusion. Coginsant of this, public authorities including Government Ministries, the Rural Finance Expansion Programme and indeed the Bank of Zambia have offered to provide technical support and supervisory knowledge to ensure that the avenues for financial inclusion are not limited and that the champions in this area work in tandem towards the national financial inclusion strategic target of 80% (from 59%) by 2022.

Through various market facilitation interventions, FSDZ for instance, has contributed to the formation of over 5,700 savings groups members with more than 126,000 members across the country. They are also working with various partners to advise banks, insurance companies and microfinance institutions to discover how to link with savings groups to provide joint services. This may be particularly the case in holding group savings in the last three months when they are not lending; conversion of social funds to microinsurance and helping experienced members to open bank accounts and move money into the formal sector.

A few financial service providers and mobile network operators are already beginning to look into this market (both in the rural and urban areas including workplaces), although initially on a pilot basis, but it may not be long before we see innovative products and services on our doorsteps (and palms for our mobile phones).

NOTE: The authors are specialists in the financial inclusion space in Zambia. Chipili Lumpa Mwaba works for Financial Sector Deepening Zambia and is the Informal Finance Project Manager there while Musapenda J Phiri who is based at Bank of Zambia is the Assistant Director for the Financial Sector Development Division.

NEW FACES

By ZAMBANKER REPORTER

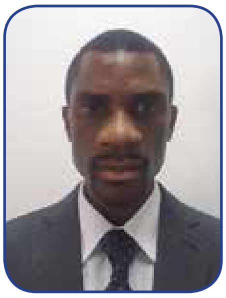
The Bank of Zambia has recruited five members of staff in the second quarter of 2018.

Departments that benefited from the recruitment include Human Resources, Internal Audit, Financial Markets and Information and Communications Technology (ICT) Departments.

Mrs Siphiwe Mwaba joined the Bank on 2nd May, 2018 as Manager – Shared Services and Compensation in the Human Resources Department. She holds a Master's degree in Human Resource Management from the University of Lusaka and a Bachelor of Arts degree in Public Administration from the University of Zambia. Before joining the Bank, Mrs Mwaba worked for Parmalat Zambia Limited as Manager - Human Resources. She is a member of the Zambia Institute of Human Resource Management (ZIHRM).

Internal Audit Department received two new faces who joined as Internal Auditors. The two auditors are Mr Agripa Mwanza and Mr Kalonga Chaambwa.

Mr Agripa Mwanza joined the Bank on 2nd May, 2018 as an Internal Auditor. Mr Mwanza holds a Bachelor of Accountancy Degree from the Copperbelt University and an MBA in Finance from the University of Zambia. He is a Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA) and is currently studying for a Certification in Risk Management Assurance (CMA) with the IIA. Mr Mwanza worked for Zambia Revenue Authority as an Internal Auditor before joining the Bank. He is a member of the Information Systems Audit and Control Association (ISACA), Zambia Institute of Chartered Accountants (ZICA) and is the current Membership Chairperson of the Institute of Internal Auditors (IIA).



Mr Bobby Kalonga Chaambwa joined the Internal Audit team on 9th May, 2018. Mr Chaambwa holds a Master of Arts Degree in Business Administration (MBA) from the Heriot Watt University in Scotland, Association of Certified Chartered Accountants (ACCA), is a Certified Information Systems Auditor (CISA), a Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), an ACL Certified Data Analyst from ACL International and is an affiliate of the Zambia Institute of Chartered Accountants (AZICA). He also holds a ACI Operations Certificate from the ACI Financial Markets Association. Before joining the Bank, he worked for Zambia National Commercial Bank (Zanaco) as an Internal Auditor – business and IT processes. Mr Chaambwa is a member of the Institute of Internal Auditors (IIA), Zambia Institute of Chartered Accountants (ZICA) and Information Systems Audit and Control Association (ISACA). He is currently pursuing the CSX qualification (Certified Cybersecurity Practitioner) with ISACA.

Mr Sydney Phiri joined the Financial Market team on 4th June, 2018 as an Economist – Domestic Statistics and Records Management.

Mr Phiri holds a Master of Arts Degree in Economics as well as a Bachelor of Arts Degree in Economics, both of which are from the University of Zambia. He worked for Clinton Health Access Initiative as a Senior Research Coordinator before joining the Bank. He is a member of the Economics Association of Zambia.

Information and Communications Technology (ICT) received one new employee during the period under review. Mr Kasonde Kembani joined the ICT team on 18th June, 2018 as a Soft Engineer – Application. Mr Kembani holds a Bachelor of Science degree in Computing from the University of Greenwich, a Higher National Diploma in Information Systems Management from the British Computer Society – the Chartered Institute and is a Microsoft Certified Professional. Mr Kembani also has a PRINCE2 Project Management qualification from Axelos. He worked for the Examinations Council of Zambia as a Senior Applications Developer before joining the Bank. He is a member of the British Computer Society – the Chartered Institute for IT, the Information and Communications Technology Society of Zambia, the Engineering Institute of Zambia and the Zambia Monitoring and Evaluation Association.

SEPARATIONS

By ZAMBANKER REPORTER

Seven (7) members of staff have separated from the Bank through Voluntary Early Separation Scheme (VESS), statutory retirement and medical discharge in the second quarter of 2018.

Two of the seven former employees who separated from the Bank were from Banking, Currency and Payment Systems (BCPS) Department and the other two were from Financial Markets Department. One was from Finance Department, one from Security Division and the other one from Non-Bank Financial Institutions Supervision (NBFIS) Department.

Those who left from BCPS Department are Mr Mathew Pandala and Mrs Margaret Mambwe. Mr Pandala worked in the Banking, Currency and Payment Systems Department as Manager - Currency Processing at the time of his separation. He separated from the Bank through retirement on 22nd May, 2018 after working for 32 years. He joined the Bank on 21st April, 1986.

Mrs Margaret Mambwe separated from the Bank through VESS on 30th June, 2018 after working for almost 27 years. She was Assistant Manager – Currency Processing at the time of her separation. She joined the Bank on 19th November, 1991.

The Financial Markets Department lost two employees in the names of Mr Ranford Chirwa and Mr Emmanuel Angomwile. Mr Ranford Chirwa separated from the Bank through VESS on 31st May, 2018 after working for close to 24 years. He was an Assistant Manager - Liquidity Forecasting at the time of his resignation. He joined the Bank on 3rd November, 1994.

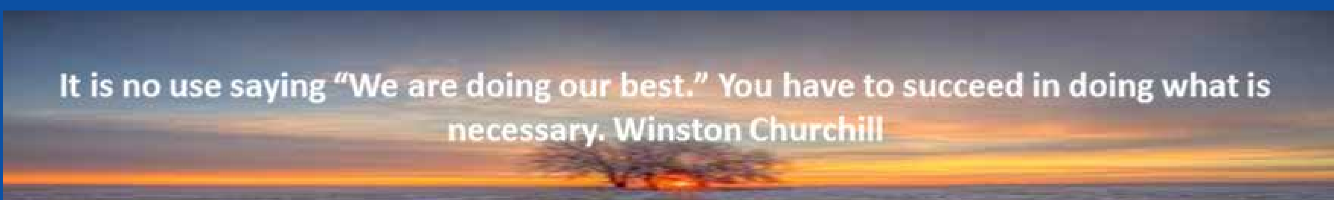
Mr Emmanuel Angomwile separated from the Bank through VESS on 15th June, 2018 after working for close to 16 years. He was an Analyst – Foreign Markets in the Financial Markets Department at the time of his separation. He joined the Bank on 20th September, 2002.

Mr Gabriel Banda separated from the Bank through VESS on 31st May, 2018 after working for slightly over 26 years. He was an Assistant Accountant – Payroll in Finance Department at the time of his separation. He joined the Bank on 27th January, 1992.

Mr Abton Ng'ombe separated from the Bank through medical discharge on 15th May, 2018 after working for 23 years. He was a Senior Inspector – Regulatory Policy, Licensing and Liquidations in the Non-Bank Financial Institutions Supervision Department at the time of his separation. He joined the Bank on 20th March, 1995.

Mr Ackim Tembo separated from the service of the Bank on 31st May, 2018 through VESS after working for close to 22 years. He was a Security Officer - Operations in the Security Division at the time of his separation. He joined the Bank on 9th September, 1996.

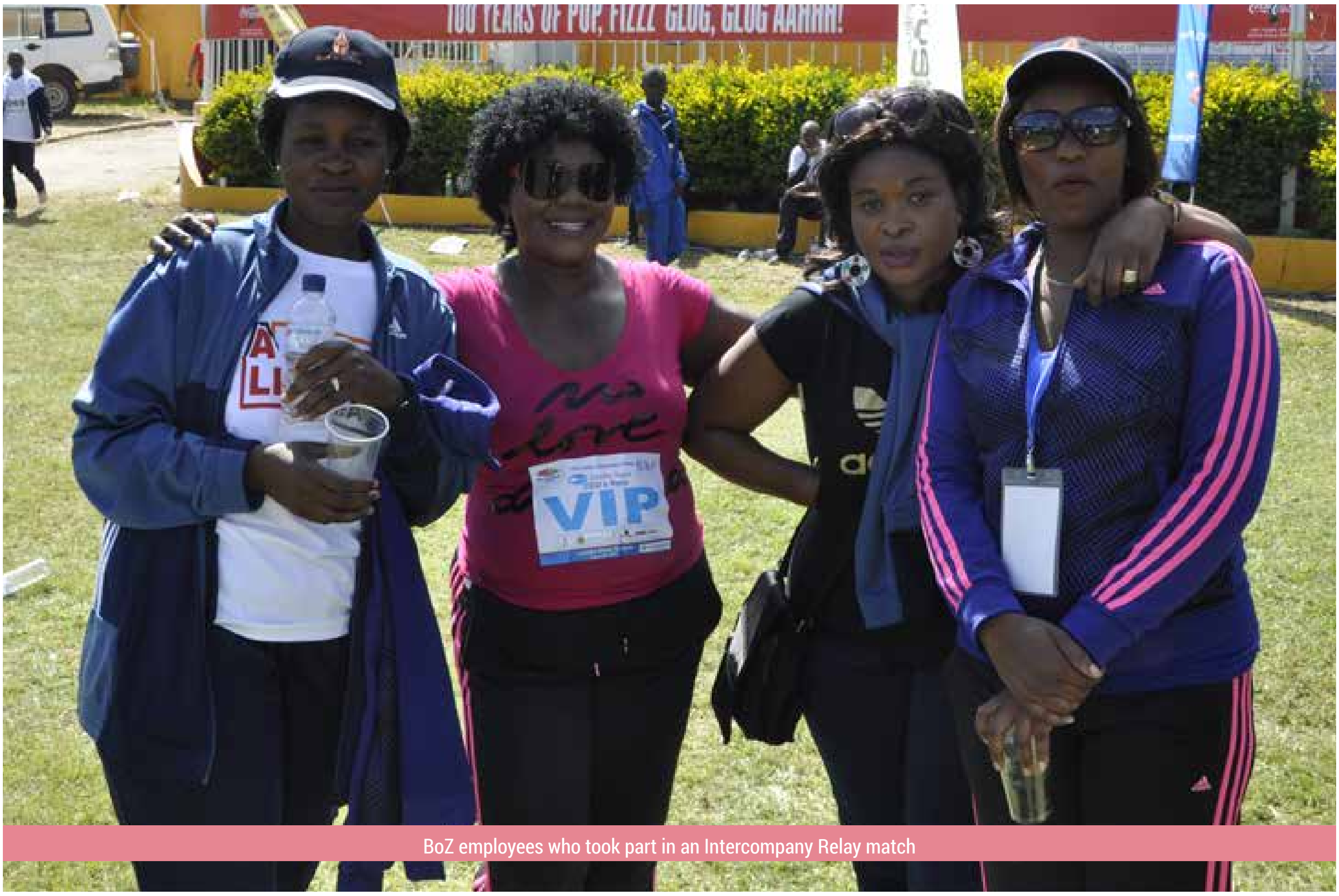
Don't lower your expectations to meet your performance. Raise your level of performance to meet your expectations. Expect the best of yourself, and then do what is necessary to make it a reality – Ralph Marston



BOZ WINS AWARDS AT THE 2018 INTER-COMPANY RELAY

By ZAMBANKER REPORTER

The Bank of Zambia Regional Office and Head Office won the second and third prizes, respectively, in the Overall Regulatory Bodies Relay match which was held in the Lusaka Showgrounds on 23rd June, 2018.



BoZ employees who took part in an Intercompany Relay match

The 2018 Intercompany Relay (ICR) was held under the theme '20 years of promoting wellness and athletics - By acting together, we can win.' More than 200 organisations and other Government institutions participated in different sports disciplines. Bank of Zambia Regional Office came second in the Overall Regulatory Bodies relay match which Head Office came third.

Other categories were the Bank participated were the Executive 100 meters race where Dr Musonda Simwayi and Mr Kedrick Zombe came first in the same race but different groups.

Mr Vernon Siputuma and Mr Dismus Ndakala both of Regional Office came first and second respectively in the individual 5km walk race.

The Intercompany relay was initiated in 1999 by the Zambia Amateur Athletics Association (ZAAA) to raise funds for the development and promotion of athletics in the country while at the same time promoting an integrated approach to health response and wellness. ICR brings together corporate, civil and government leaders.

The Bank of Zambia has been participating in these athletics for over 10 years. The Bank's participation is part of Management's commitment towards a healthy workforce.

The 10km relay was the main race which required participating organisations to register a team comprising eight individuals. Each individual had a leg of approximately 1.2km to run before handing over the relay baton to the next member. The Bank featured two teams of eight each, one from the Head Office and the other from Regional Office.

A 5km health walk aims to give people who cannot run and those with medical conditions an opportunity to participate in the Intercompany relay.

K2 and K5 Banknotes - New Features

BANK OF ZAMBIA

Enhanced K2 Banknote

Securicoat™ Securicoat™ 1) Tactile Marks for the Visually Impaired on both edges

1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt.

2) Securicoat™ varnish feature

Hold the note in front of you and tilt it backwards: on the central part, you can see an image of a DOVE.

3) Securicoat™ varnish feature

Hold the note in front of you and tilt it backwards: on the central part, you can see a text: K2.

Enhanced K5 Banknote

2) Securicoat™ 3) Securicoat™ 1) Tactile Marks for the Visually Impaired on both edges

1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt.

2) Securicoat™ varnish feature

Hold the note in front of you and tilt it backwards: on the central part, you can see an image of a 'DOVE'.

3) Securicoat™ varnish feature

Hold the note in front of you and tilt it backwards: on the central part, you can see a text: K5.

For further information on the banknotes, please contact the Bank of Zambia Head Office or Regional Office.

Head Office: Bank of Zambia, Bank Square, Cairo Road, PO Box 30080, Lusaka 10101, Zambia. Tel: +260 211 228888/228903-20 Fax: +260 211 221764

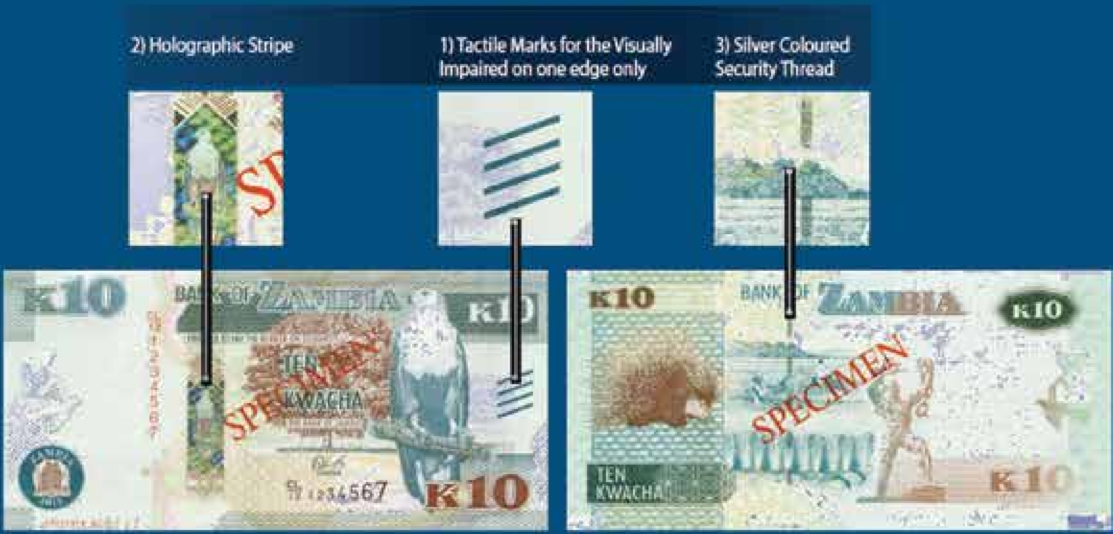
Regional Office: Bank of Zambia, Buteko Avenue, PO Box 71511, Ndola, Zambia. Tel: +260 212 611533-52 Fax: +260 212 614251

E-mail: pr@boz.zm Website: www.boz.zm

K10 Banknote – New Features

BANK OF ZAMBIA

Current K10 Banknote



1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt

2) Security Thread

The security thread on the front of the note changes colour from red to green when the note is tilted and the image of a fish eagle and the text "BOZ 10" can be seen

3) Security Thread Text

On the back of the security thread on the back of the note the line of text "BOZ 10" can be seen reading from the top to the bottom of the note

Enhanced K10 Banknote

1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt

2) Security Thread

The security thread on the front of the note changes colour from red to green when the note is tilted and the image of a fish eagle and the text "BOZ 10" can be seen

3) Security Thread Text

On the back of the security thread on the back of the note the line of text "BOZ 10" can be seen reading from the top to the bottom of the note

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K20 Banknote – New Features

Current K20 Banknote

1) Tactile Marks for the Visually Impaired on one edge only

4) Position of the current iridescent ink

1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt.

2) Security thread - RollingStar® Cube

The security thread is embedded in the paper and has a colour changing surface, showing also the denomination and the letters "BOZ". By tilting the banknote, the dynamic light effect of rolling cubes gets visible.

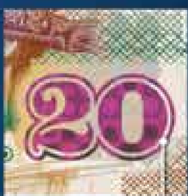
3) SPARK® Live

Dynamic geometrical pattern which changes in form and size when tilting the note. The colours also change from magenta to green.

Enhanced K20 Banknote

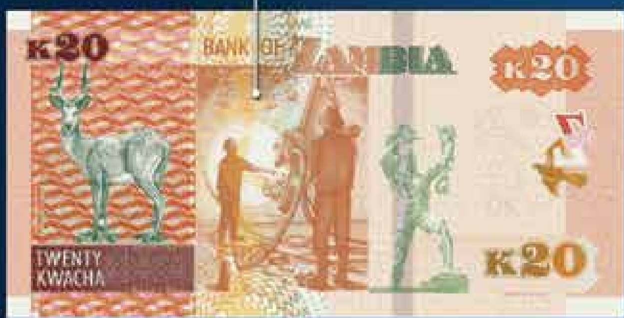
2) RollingStar® Cube

3) SPARK® Live



1) Tactile Marks for the Visually Impaired on both edges

4) New position of the iridescent ink



1) Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt.

2) Security thread - RollingStar® Cube

The security thread is embedded in the paper and has a colour changing surface, showing also the denomination and the letters "BOZ". By tilting the banknote, the dynamic light effect of rolling cubes gets visible.

3) SPARK® Live

Dynamic geometrical pattern which changes in form and size when tilting the note. The colours also change from magenta to green.

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K50 and K100 Banknotes – New Features

Bank Of Zambia

SPARK® live

Dynamic geometrical pattern which changes in form and size when tilting the note. The colours also change from gold to green for K50 and green to blue for K100

Gold Iridescent Band

A gold iridescent band representing doves runs from the top to the bottom of the banknote.

Tactile Marks for the Visually Impaired

Run your fingers along the edges of the banknote: the tactile marks can be clearly felt

Security thread RollingStar® Cube

The security thread is embedded in the paper and has a colour changing surface, showing also the denomination and the letters "BOZ". By tilting the banknote, the dynamic light effect of rolling cubes gets visible.

Watermark with Highlight

A 3-dimensional image of a fish eagle's head, two highlighted elements, the denominational value, and a small fish eagle's head are visible when the bank-note is held against the light.

Windowed Holographic Security Thread

The holographic windowed security thread shows the text "BOZ 50" / "BOZ 100" and a "bird in flight". The holographic effect can be recognised on the reverse side of the banknote. The text is readable against the light on both sides of the banknote.

Tactile Intaglio Elements

"K50 / K100", a tree, a fish eagle, and other elements are printed in intaglio with high tactility and can be felt by running one's fingertips over the banknote.

Perfect See-through Feature

The two elements of the see-through register, printed on the front and reverse side of the banknote, form the motifs of a "bird in flight" and "BOZ" when the banknote is held against the light.

Tactile Intaglio Motifs with Microtext

A leopard / buffalo, the denomination in words, an integrated microtext, and other elements are printed in intaglio with high tactility and can be felt by running one's fingertips over the banknote.

Denominational Value on the Reverse Side Tactile Intaglio Element

The denominational value in the upper right-hand corner on the reverse of the banknote is printed in intaglio with high tactility and can be felt by running one's fingertips over the banknote.

PEAK® Pixel

A coloured latent image on the front of the banknote shows a "fish eagle's head / BOZ" with tactile embossing and colour shift effects which are visible when the banknote is tilted and turned.

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