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Bank of Zambia

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INSIDE THIS ISSUE

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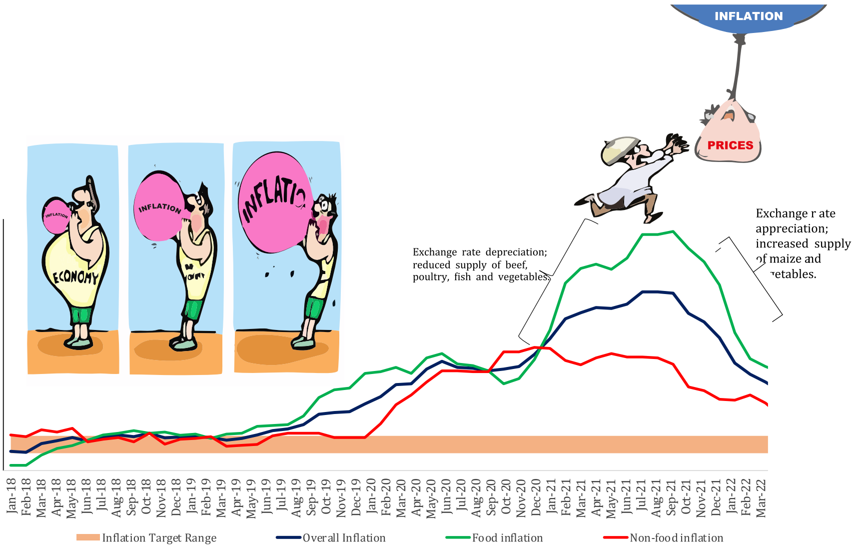
PRICE STABILITY - PRIMARY OBJECTIVE OF BoZ

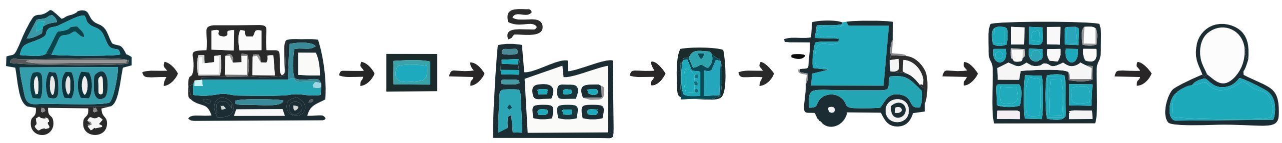


- Price stability => low inflation 6-8 percent
- Achieved by changing interest rates (policy rate) to influence consumption and investment spending decisions by households and firms in the economy (demand).
- Low and stable inflation=> facilitates long-term planning which in turn creates a conducive environment for innovation-driven business growth.

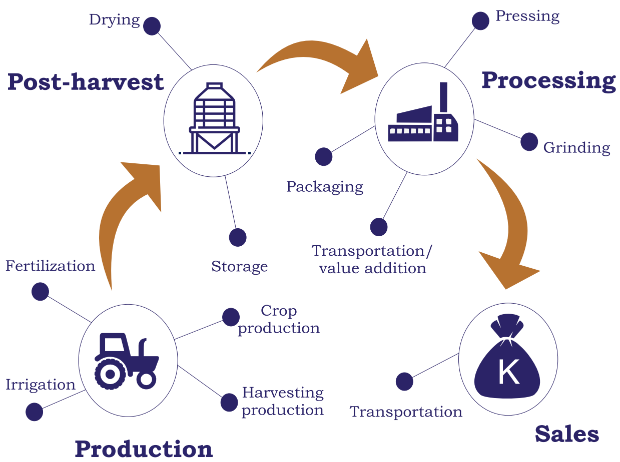
BENEFITS OF LOW INFLATION

Businesses plan better

Investment growth



Raw Materials · Suppliers · Manufacturer · Distributor · Retailer · Consumer



- Easier for businesses to plan
- Promotes innovation through technology
- Enables business transformation and growth
- Promotes value addition
- Preserves consumer purchasing power
- Supports long term growth

CONTENTS

ZAMBIA CELEBRATES 10YRS OF FINANCIAL EDUCATION CAMPAIGNS

2022 marks the 10th anniversary of the financial education campaigns in Zambia. In collaboration with other stakeholders, the Bank of Zambia has taken several policy measures to expand financial literacy, financial access and financial inclusion by adopting various incentives during this period.

REFLECTING ON THE 10TH ANNIVERSARY OF THE FINANCIAL LITERACY WEEK IN ZAMBIA

Financial Literacy Week (FLW) is a public awareness campaign which has been commemorated in Zambia since 2013.

THANK YOU, BETTY!

The Bank of Zambia has expressed gratitude to outgoing Financial Sector Deepening Zambia (FSD Zambia) Chief Executive Officer, Ms Betty Wilkinson, for her contribution in championing Zambia's financial inclusion agenda.

COPPERBELT POISED FOR GROWTH

Economic activity post 2015 on the Copperbelt Province has significantly increased due to actualised investments in the agriculture and mining sectors in Mpongwe, Lufwanyama and Chambeshi districts.

THE COMPLEXITY OF ECONOMIES A CASE FOR DECISIVENESS IN RESOLVING ECONOMIC IMBALANCES

Many people including some analysts, economic commentators, politicians, and economic agents tend to have a simplistic view of an economy. Yet the economy is such a complex system.

BIG DATA AT BoZ

The Bank of Zambia (BoZ) in fulfilling its mandate to achieve and maintain price and financial system stability generates and collects large amounts of data.

BoZ NODS 2022-2024
MEDIUM-TERM BUDGET PLAN

By Zambanker Reporter

The Bank of Zambia has welcomed Government's 2022-2024 Medium-Term Budget Plan (MTBP), which is aimed at transforming the economy by restoring economic growth and macroeconomic stability, attaining debt and fiscal sustainability as well as protecting the livelihood of the poor, the aged, and the vulnerable. Speaking during the first quarter Monetary Policy announcement and media briefing, Bank Governor, Dr Denny Kalyalya said the successful execution of this Plan is critical to the achievement of macroeconomic stability, including low inflation and a stable financial system.

The policies highlighted in the MTBP rest on the four Pillars outlined in the Presidential Address delivered during the First Session of the Thirteenth National Assembly that has set the policy direction for the Government and these are:

1) Economic Transformation and Job Creation;
2) Human and Social Development;
3) Environmental Sustainability; and
4) Good Governance

The Governor said the measures contained in, and across the pillars are not stand-alone, but are complementary and supportive of each other. 'The implementation of the measures, will therefore, require to be undertaken in a timely and holistic manner,' he said.

Highlights of pillars one and four

Economic Transformation and Job Creation

Economic transformation entails channeling of resources to activities with high productivity and returns both within and across sectors of the economy. Economic transformation will support economic growth which will facilitate job creation and increase employment opportunities. In view of the economic transformation agenda, GDP is projected to grow by 3.5 percent in 2022, 3.7 percent in 2023 and 4.4 percent in 2024. Strategic interventions will be undertaken in agriculture, tourism, mining, manufacturing, energy, Information and Communication Technology and transport sectors to transform the economy, achieve the desired growth levels and create employment opportunities.

Good Governance Environment

The Government commits to creating a good governance environment which primarily ensures that the general conduct of public affairs and management of public resources is done in an equitable, responsible, accountable and transparent manner. In this regard, the fight against corruption, strengthening the rule of law and ensuring sound public financial management as well as taking resources closer to the people through decentralisation will be the Government's governance priorities in the medium term 2022-2024.

i. Debt Management Strategy

The country faces an unsustainable debt position, using both solvency and liquidity thresholds. To pave the way for debt restructuring engagement with its creditors, and as a route towards attaining macroeconomic stability, the Government engaged and reached a Staff Level Agreement with the International Monetary Fund (IMF) in December 2021. A formal programme is expected to be reached within 2022, under the Extended Credit Facility, and will be a key anchor for the 8NDP reform agenda. To return to debt sustainability over the medium term, the Government will utilise the existing international framework, notably the G20 Common Framework on debt treatment, and will take advantage of any new frameworks that may emerge. This is in addition to implementation of other measures which include non-contraction of non-concessional debt as well as cancellation, postponement and scaling back of non-priority loan financed projects, in line with the Government's capital expenditure programme.

To ensure that the country does not return to unsustainable debt levels, the Government will develop a Medium Term Debt Management Strategy covering the period 2023-2025. For external debt, the focus will be on the use of concessional financial sources and other low-cost sources, mainly targeted for use on projects with high socio-economic returns. For domestic debt, the Government will ensure that the issuance of Government securities are primarily from the market. An additional measure to enhance transparency in debt management, including providing for Parliamentary oversight in loan contraction will be the revision of the Loans and Guarantees (Authorisation) Act so that it complies with Constitutional provisions.

ii. Monetary and Financial Sector Policies

Over the medium term, the Government will continue to pursue monetary and financial sector policies aimed at maintaining price and financial system stability which is critical to promoting sustainable growth. The Bank of Zambia will continue to rely on the forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the monetary policy stance. Decisions on the policy rate will continue to be guided by inflation forecasts, outcomes, and identified risks that include those associated with financial stability and economic growth.

Regarding the exchange rate, the primary objective will be to maintain a flexible system whilst mitigating excessive volatility. This is based on the recognition that excess volatility in the exchange rate can have adverse effects on output, inflation and the external competitiveness of the country.

To enhance monetary policy credibility, the Government will operationalise a new Bank of Zambia Act. The new Act will ensure the operational independence of the Bank of Zambia, in line the Constitutional (Amendment) Act No. 2 of 2016 and will be aligned to the SADC Central Bank Model Law, which was adopted by the Council of Ministers of Finance in 2009.

iii. Financial Inclusion

Financial inclusion interventions will focus on increasing access to finance for the rural population, women and children primarily through the promotion of digital financial services. Interventions will also include enhancement of financial consumer protection and capability by strengthening the regulatory capacity of financial sector regulators and the establishment of an external dispute resolution mechanism (Financial Ombudsperson). Further, the Bank of Zambia will, on a pilot basis, establish a Credit Guarantee Fund (CGF) which will leverage private sector participation to support the provision of affordable credit to MSMEs. The pilot will consider the need to encourage environmentally sustainable growth.

iv. External Sector Policies

Over the medium term, the Government will continue to pursue an open trade regime, anchored on a competitive and stable exchange rate as well as active participation in regional and global trade arrangements. This is with a view to enhancing external sector performance and ensuring current account sustainability. In this regard, focus will be on expanding export earnings from various sectors especially mining, agriculture, manufacturing and tourism including the easing of restrictions on exports of agricultural commodities. Further, the Government will take measures aimed at facilitating and formalising trade at key border posts such as Kasumbalesa with the aim of boosting earnings from non-traditional exports. These measures will help sustain a positive trade balance and contribute to the stability of the Kwacha.

To maintain reserves at above 3 months of import cover, the Bank of Zambia will continue to add gold bullion to foreign reserves through the purchase of locally mined gold.

To aid formulation of external sector policies, the Bank of Zambia will strengthen the electronic Balance of Payments (e-BoP) monitoring system by extending its coverage to all BoP transactions and enhancing collaboration with other Government regulatory agencies. Measures will also be taken to address gaps in the coverage of external sector statistics, particularly the estimates of balances held abroad by resident enterprises and the capture of all export earnings and other financial account flows.

CABINET APPROVES BoZ REPEAL BILL

When enacted, the Bill will facilitate enhancement of the Bank of Zambia functions, transparency and accountability

By Zambanker Reporter

Cabinet approved for publication and introduction, the Bank of Zambia Repeal Bill, 2022 in the National Assembly. The main objectives of the Bill are:

- Repeal and replace the Bank of Zambia Act, No. 43 of 1996;
- Provide for additional functions, operations and management of the Central Bank;
- Provide the composition of the Board of Directors of the Bank and their functions;
- Provide for the establishment of the Monetary Policy Committee and the Financial Stability Committee and their functions.

The Bill was presented to Parliament for introduction. Parliament thereafter proceeded to adjourne sine die. Once Parliament resumes, the Bill will go through the First and Second Readings and a Committee stage where comments will be received from stakeholders before it is presented for the Third and final reading. Parliament is expected to resume sitting on 7th June 2022.

Below are the events that took place relating to the Bill:

i. Bank of Zambia Bill consultative meeting at Protea Hotel in Chisamba held from 9-10 February, 2022. Participants were drawn from the Bank, Ministry of Finance and Ministry of Justice. Purpose was to reach agreement on refinement of the provisions in the Bill.

ii. Stakeholder Consultation on 18 February 2022 at which the proposed provisions in the Bank of Zambia Bill were explained. The meeting was held at Twangale Park in Lusaka and participants included the following:

1. Securities and Exchange Commission;
2. Pensions and Insurance Authority;
3. Financial Intelligence Centre;
4. Zambia Revenue Authority;
5. Drug Enforcement Commission;
6. Zambia Police Service;
7. Bankers Association of Zambia
8. Association of Microfinance Institutions
9. Payment Systems Association;
10. Association of Bureau de Change;
11. Zambia Institute of Chartered Accountants; and
12. Zambia Statistics Agency.

iii. Internal Legislative Committee meeting held on 2nd March 2022 chaired by the Ministry of Justice at which the Bill was subjected to scrutiny by stakeholders.

iv. Cabinet Legislative Committee meeting held on 9th March 2022 chaired by the Ministry of Justice at which the Bill was subjected to further scrutiny by stakeholders.

AUTOMATED CONSUMER COMPLAINTS HANDLING SYSTEM ON CARDS

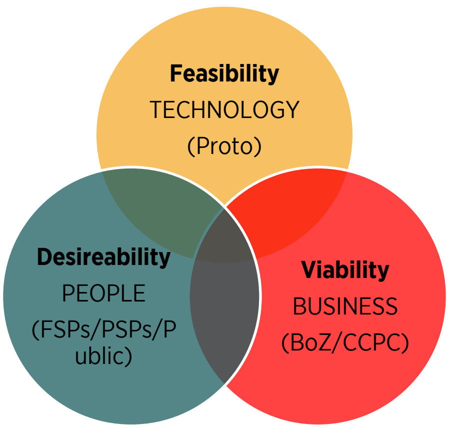
The Bank of Zambia, in collaboration with the Competition and Consumer Protection Commission (CCPC), is in the process of implementing an automated consumer complaints handling system that will be operating through multilingual chatbots and the application of artificial intelligence.

By Luka Mhango

The BoZ, working with the CCPC and Sinitic Africa Pty Ltd- the system developer have since signed a memorandum of understanding for the project. The system developer is a 100% owned subsidiary of Proto Research Inc (a Canadian based company) specialised in the development of artificial intelligence systems. The Proto solution will be tailored to BoZ/CCPC's complaints management process to maximise user uptake – both internally and externally (public) – as well as optimise user experience, including resolution. The African Development Bank Group is sponsoring the project.

The project is centered on three core areas that can be surmised in the diagram below.

The Bank has had limited capacity to effectively deal with complaints that are not resolved to the satisfaction of the consumer by the FSP and PSP. This is because the chain of events leading to resolution of reported complaints are, in some instances, not well documented thus making it difficult to verify completeness. Further, human data entry is inherently error prone and time-consuming resulting in a flawed consumer protection database. There is therefore a risk that consumer complaints may not be appropriately addressed and could at a macro level result in ill-informed policy making.



The current manual complaints handling system also has urban bias as most of the offices for financial service providers (FSPs) and Payment System Providers (PSPs) are located along the line of rail and provincial centers. This is exacerbated by the ongoing closure of brick-and-mortar offices in view of increased adoption of digital financial services. Consequently, the high cost of travel and lodging has discouraged dissatisfied consumers based in rural and far flung areas to seek help and redress from FSPs and PSPs. This situation negatively impacts the timely resolution of complaints.

The provision of a digital platform, monitored by the Bank, to enable customers submit their complaints will ensure timely and appropriate resolution. This will enhance consumer confidence in the financial sector and result in higher levels of financial inclusion. In addition, by automating manual processes and optimising data management, the application of artificial intelligence to internal and external dispute resolution has the potential to relieve many of the pain points in complaints aggregation, processing and analysis.

The solution will be deployed in English and seven official vernacular languages to ensure that the vulnerable segments use it. The core functional requirement will be to:

- Enable financial consumers to lodge in voice or text complaints through their mobile handsets (both feature phone and smart phone) via an app or SMS to their FSP or PSP.
- Enable the BoZ to address queries and complaints through the chatbot.
- Manage the structure and flow of automated conversations based on expertise and historical data.
- Use data and insights gathered through the chatbot for oversight and policy development purposes.

Implementation of the proposed solution through leveraging information technology and digital innovations will provide benefits to the Bank which include:

- Enabling the Bank to capture and categorise complaints.
- Facilitating real time tracking of progress on internal dispute resolutions by FSPs and PSPs.
- Helping the Bank to mine complaints data for signs of financial stress.
- Providing timely investigation and imposition of appropriate supervisory measures against FSPs and PSPs.

The consumer will be able to:

- Lodge a complaint at minimised cost without the need to travel to a brick-and-mortar structure.
- Receive a reference number for a lodged complaint to keep truck of the resolution process with an FSP or PSP.
- Escalate their complaint to the Bank in cases where the FSP or

PSP delays or does not resolve the complaint within a reasonable expected period.
- Realise that a complaint successfully lodged against a particular FSP or PSP will automatically be recorded on the Bank's database for reference purposes when need arises.

FSPs and PSPs will be able to:

- Capture and categorise complaints that would provide an incentive to create automated response solutions with minimal or without the need for human intervention.
- Supervisors of staff handling complaints will be able to monitor the resolution process of complaints.
- The system will prompt FSPs and PSPs to be proactive in the resolution of complaints and contribute to a satisfied customer base.
- It will provide an opportunity for FSPs and PSPs to suggest policy and regulatory review to the Bank based on data and statistics on consumer complaints.

The Bank together with CCPC and the System developer have had engagements with the FSPs and PSPs on this project by way of webinars and virtual meetings. The Bank, CCPC and the system developer will further extend awareness to the public through a devised communications plan which may include radio programmes, roadshows, distribution of flyers, Bank/CCPC websites, Facebook pages etc. The Bank envisages that the proposed solution will have the following key deliverables:

- The system will be operating through multilingual chatbots where consumers will have the options to use text and/or voice.
- The Bank will be able to collect data on customers' complaints and track their handling by FSPs and PSPs.
- The System will cater for the vulnerable segments by deploying it in local key languages and use of a digital platform at a significantly lower cost.

The Bank is hopeful that the project will be deployed by September 2022 when all data processing compliance issues and project outstanding activities have been addressed.

The author is Senior Analyst – Regulatory Policy and Research in the Non-Banks Financial Institutions Supervision Department

POLICY RATE MAINTAINED AT 9.0 PERCENT TO KEEP INFLATION LOW AND STABLE

By Zambanker Reporter

The Monetary Policy Committee (MPC), at its February 14-15, 2022 Meeting decided to maintain the Monetary Policy Rate at 9.0 percent. Key factors the Committee took into account in arriving at this decision include the sharp deceleration in inflation and its projected continued downward trend towards the 6-8 percent target range over the forecast period.[1] However, there are upside risks to the inflation outlook that include increase in crude oil prices, initial effects of implementing the transition to cost reflective electricity tariffs, possible lower crop production due to adverse weather conditions, lingering supply chain bottlenecks induced by the COVID-19 pandemic, and tightening of monetary policies in major economies.

Speaking during the MPC announcement and media briefing, Bank of Zambia Governor, Dr Denny Kalyalya said annual overall inflation declined sharply to an average of 18.9 percent in the fourth quarter of 2021 from 23.7 percent in the third quarter. This was largely driven by the appreciation of the Kwacha against the US dollar and the dissipation of base effects, particularly for meat and poultry products. As a result, both food and non-food inflation declined to 24.5 percent and 12.5 percent from 30.8 percent and 15.6 percent, respectively. In January 2022, inflation fell further to 15.1 percent from 16.4 percent in December 2021, largely as a result of improved supply of fruits and vegetables.

He said inflation is projected to continue trending downwards towards the 6-8 percent target range over the forecast period, averaging 13.2 percent in 2022 and 7.3 percent in 2023.

"Underlying this projection are mainly the catalytic benefits of securing an IMF programme, such as, access to budget support, reduction of the external debt burden through restructuring, and unlocking investments, as well as the positive impact of higher copper prices, mainly through the exchange rate. Further, the dissipation of base effects will contribute to the projected fall in inflation," he explained.

Meanwhile, the Governor said the movement in interest rates was mixed as overnight interbank rate increased while yield rates on Government securities and commercial banks' savings rates declined. On the other hand, commercial banks' average lending rate remained unchanged.

Consistent with the increase in the Policy Rate from 8.5 percent to 9.0 percent in November 2021, the overnight interbank rate rose, closing the quarter at 8.93 percent in December from 8.10 percent in September. However, it was contained within the bounds of the Monetary Policy Rate Corridor throughout the quarter.

He added that yield rates on Government securities trended downwards for the fourth successive quarter, falling to 13.0 percent and 21.9 percent in December from 15.6 percent and 23.9 percent in September for Treasury bills and Government bonds, respectively. The fall in yield rates is largely explained by sustained demand for Government securities.

"This is evidenced by the high subscription rates of Government bonds and Treasury bills at 185.1 percent and 120.0 percent, respectively. A major driver of strong demand for Government securities was improved liquidity conditions," he said.

The 180-day deposit rate, for amounts exceeding K20,000, reduced to 7.5 percent from 9.2 percent. However, commercial banks' average lending rate ended the quarter unchanged at 25.9 percent.

On the other hand, growth in Kwacha lending to the private sector moderated to 19.4 percent, year-on-year, from 35.9 percent in September. This was mainly on account of reduced disbursements under the Targeted Medium-Term Refinancing Facility as available funds were nearly exhausted. Over the same period, some corporates continued to convert foreign currency credit into Kwacha. This contributed to a further contraction of foreign currency credit by 31.3 percent compared to 30.8 percent in September. Lending to Government increased by 19.4 percent, year-on-year, in December compared to 26.1 percent in September. The slowdown is largely explained by reduced loans and advances to Government.

Similarly, the growth in money supply (M3)[2] declined further to 4.3 percent in December, year-on-year, from 11.2 percent in September as domestic credit decelerated and international reserves declined, driven by debt service and net Bank of Zambia foreign exchange sales to the market.

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[1] The forecast period or horizon is eight quarters ahead, that is, the first quarter of 2022 to the fourth quarter of 2023.
[2] M3 comprises currency in circulation, Kwacha deposits, and foreign currency deposits.

BOARD SETS TONE FOR COMPLIANCE, GENDER POLICIES

By Zambanker Reporter

The Bank of Zambia Board of Directors at its 346th sitting approved the Compliance and Gender (revised) Policies. The Compliance Policy is the main governing document on all compliance matters in the Bank while the Gender Policy is a high-level governance tool used to guide the Bank's gender mainstreaming programmes.

The Compliance Policy is aimed at guiding the Board, Management, staff and other stakeholders in the performance of their duties and conduct of internal and external relationships. In December 2013, the Board established the Compliance Framework that was aimed at providing a platform upon which the Bank would conduct its compliance function. Management has since identified a need to put in place a Compliance Policy that, amongst others, sets clear objectives, and outlines the various responsibilities for stakeholders in compliance matters.

Meanwhile there has been a lot of progress in the Banks gender mainstreaming agenda since the 2018 revision of the Bank of Zambia Gender Policy, which has necessitated this third revision. The Bank, in its 2016-2019 Strategic Plan developed and commenced the implementation of the Banks gender mainstreaming agenda. The 2020-2023 Strategic Plan built on the lessons learned and takes into account various initiatives that contribute to mainstreaming gender within the Bank and the financial sector. The revisions have been necessitated by the passage of time and the need to incorporate current issues in line with changes in the operating environment and the strategic direction of the Bank. The revised policy sets out a clear accountability mechanism underpinned by leadership for change.

The strategy on gender inclusiveness closely aligns with Government's agenda on improving women's access to financial services through the provision of suitable credit facilities.

The implementation of the Gender Policy will have a huge and direct impact on enhancing the Bank's Gender mainstreaming programme and staff capabilities towards the fulfillment and achievement of its strategic objectives.

The Board also approved the appointment of Mr Richard Chirwa to the position of Assistant Director-Examinations and Surveillance in the Non-Bank Financial Institutions Supervision Department effective 18 February, 2022. Prior to his appointment, Mr Chirwa held the position of Senior Analyst-Licensing & Enforcement in the same department.

ZAMBIA DIRECTION OF TRADE

By Kafula Longa

Zambia's net exports decreased to US$1.0 billion in the first quarter of 2022 from US$1.2 billion in the corresponding quarter in 2021 as imports surged. The continued easing of supply constraints in trading partner countries as well as the pickup in domestic economic activity supported imports, which rose by 48.2 percent to US$1.9 billion.

The top five source countries accounted for 68.6 percent of total imports with South Africa being the largest contributor at 28.5 percent. This was followed by China, United Arab Emirates and the United States of America. The major imports were nuclear, reactors and machinery equipment at US$234.3 million against US$226.3 million in the first quarter of 2021. This was followed by vehicle parts and accessories; inorganic chemicals and compounds; as well as mineral fuels, oils and products of their distillation.

Exports increased by 20.0 percent to US$2.9 billion largely due to copper earnings that grew by 21.1 percent to US$2.3 billion owing to stronger realised prices as well as a 12.4 percent rise in export volumes. Strong demand from China, low inventories as well as supply disruptions in Peru and Chile explained the rise in copper prices. Other notable export commodities were iron and steel; salt, sulphur, earth, and stone; as well as inorganic chemicals and compounds of precious metals.

BEWARE OF FRAUDULENT INVESTMENTS

TIPS

- Safeguard your money.

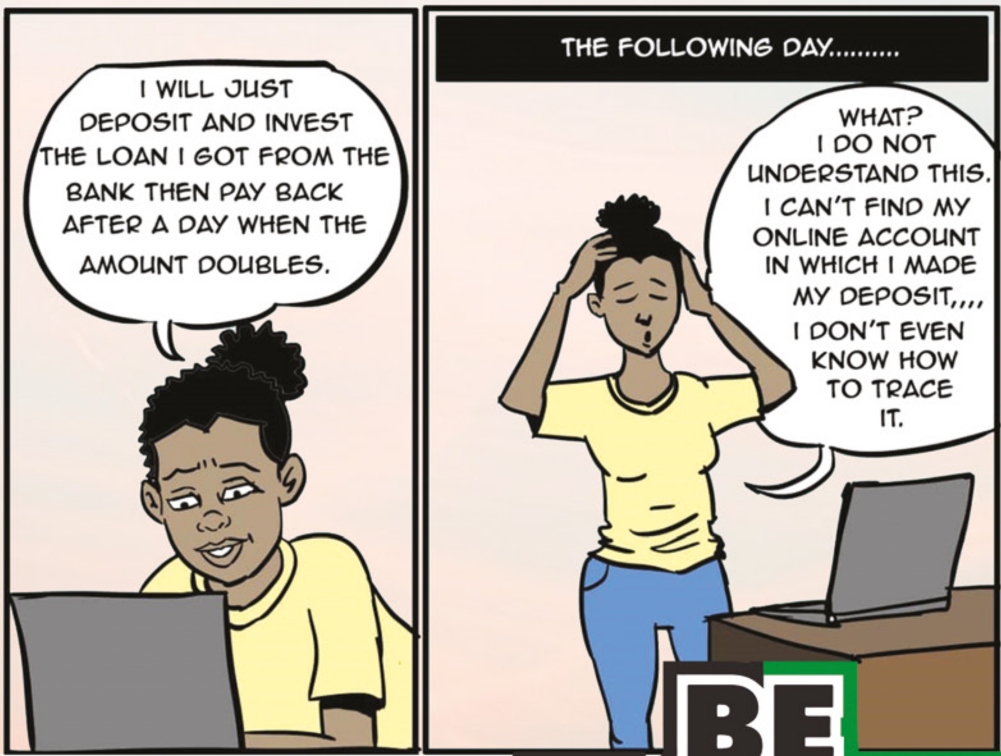
- Select investment products that you understand.

- Beware of fraudulent tactics used in emails, telephone calls, whatsapp messages and adverts to lure investors and steal your money. These include:

  - *A fake promise to double your money.*
  - *A fake promise of high interest rates (eg 30%, 50%, 100%) in a short time (3 to 9 months)*
  - *Be suspicious of sales tactics to deposit and invest your money in investment schemes or investment groups which are not regulated.*
  - *Always avoid and be suspicious of investments that depend on the recruitment of other members to bring in money.*

- Use a financial service provider that is licensed and regulated by Bank of Zambia (BoZ), Securities and Exchange Commission (SEC) and Pensions and Insurance Authority (PIA) to invest your money.
- Report all suspicious unlicensed financial service providers to BOZ, PIA or SEC.

Saving and Investment Amount	Expected Amount after 3 to 9 months
K500	K1,000
K1,000	K2,000
K 300	K1,000
K 700	K3,000
K2,000	K18,000
K5,000	K49,000



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Website : www.seczambia.org.zm

SECURITIES AND EXCHANGE COMMISSION
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Bank of Zambia

MOBILE MONEY, AGENT BANKING RESHAPE COMESA REGION

By Zambanker Reporter

Deputy Governor-Operations, Dr Francis Chipimo has said mobile money and agent banking have been key drivers to financial inclusion in the COMESA region, reaching millions of previously unbanked individuals, households and SMEs offering affordable, instant, reliable services on payments, savings, credit and insurance services among others.

Speaking during the fourth COMESA Business Council Digital Financial Inclusion Public - Private Dialogue, Dr Chipimo said the number of financially included in COMESA has more than doubled in the last decade, rising from 23% in 2011 to 32% in 2014 and further to 48% in 2017, with Digital Financial Services playing a key role.

This, he said, reflects the fact that a good number of COMESA member states had recorded significant growth in the uptake of digital financial services. The COMESA region has experienced a faster pace of financial inclusion and surpassed the Sub-Saharan Africa average.

He commended the COMESA Business Council and partners for the work done on the Digital Financial Inclusion program that aims at implementing a cost-effective payments platform for Micro, Small and Medium enterprises (MSMEs) and customers at the bottom of the financial pyramid in the COMESA region.

"We welcome the consultative approach that the COMESA Business Council has adopted in the formulation of a payment platform for MSMEs and retail customers, as evidenced by successive Public – Private Dialogue events that have been held. The input provided by stakeholders will not only help design a platform that addresses the various pain points while balancing the needs of various stakeholders, but it will also significantly improve our chances of success," he said.

A business model on the operation and implementation of a regional online payment platform for Micro and Small Medium Enterprises (MSMEs) in the COMESA region was created by the COMESA Business Council (CBC) as part of its digital financial inclusion plan for MSMEs. It is aimed at supporting the design, development and deployment of an integrated digital financial services infrastructure that is low-cost, interoperable, real time and fraud resistant. It is intended to serve (MSMEs) and the customers they transact with at the bottom of the financial pyramid.

The model was validated during the 4th Digital Financial Inclusion Public-Private Dialogue conducted by the CBC on 10th March 2022. The CBC had engaged a consultant to conduct the study on the business model design as well as the progress made so far in driving this regional agenda in the Member States.

Dr Chipimo stated that although there has been growth in digital financial services, the use of cash in the local economy, as measured by currency in circulation continues to be high. He said the continued high usage of cash as a settlement mechanism is indicative of low acceptance of digital financial service by merchants, including MSMEs.

"It is thus important that forums such as the one we are having today explore and resolve the reasons for such low merchant acceptance. Once we address merchant acceptance, we will then reduce the need for economic agents to resort to cash," he said.

He explained that while the Finscope survey had shown growth in the uptake of digital financial services in Zambia, there were still some challenges that must be addressed to fully exploit the potential of these digital payment systems, at both national and regional level.

"As we ensure that we fully exploit these tools, it is therefore imperative that cyber fraud incidences are addressed to ensure the gains made so far in financial inclusion are maintained and enhanced. We have at our disposal several tools to address this challenge including investment in secure systems and applications, consumer awareness, and, knowledge sharing," he said.

He added that low customer awareness of new and existing DFS products is still a major obstacle. He said half the population has low digital literacy, and adoption of DFS is skewed towards higher income population segments, resulting in key segments of society being left out of the financial system.

He also noted the importance of collaboration amongst stakeholders, who include regulators, financial sector players, Government departments and agencies and the wider community because the observed challenges require input from all stakeholders.

‘WE ARE COMMITTED TO FINANCIAL INCLUSION TARGET’

By Masauso Phiri and Milimo Munsanje

Deputy Governor-Administration, Ms Rekha Mhango, has affirmed the Bank of Zambia’s commitment to contributing towards the attainment of the Government’s target to increase the overall financial inclusion rate to 80% by end 2022, as espoused in the National Financial Inclusion Strategy. Speaking during the Stanbic Anakazi Banking Recognition Awards dinner, Ms Mhango explained that the BoZ has earmarked digital financial services as a key area of engagement. To this end, the Central Bank has been working with different stakeholders through various initiatives, including: increasing penetration of rural finance; creating an enabling regulatory environment for broadened access to financial services and products; and ramping up dissemination of financial inclusion information.

She said the Bank has also undertaken to collaborate with the Government and private sector players in promoting financial inclusion through; regulatory reforms and financial sector policies; promotion of customer-centric products, access points and delivery channels; affordability of financial transactions; technological innovations; financial infrastructure; and consumer protection and market conduct, whilst balancing these with financial stability and integrity.

The recent Zambia Finscope 2020 survey reports indicate progress towards the attainment of these targets. The survey found that overall financial inclusion has increased to 69.4% in 2020 from 59.3% in 2015.

She added that the BoZ recognises that women’s economic empowerment is one of the pre-requisites for promoting gender equality and sustainable development.

“We understand that in order to achieve women’s economic empowerment, there is need to enhance formal financial inclusion for women through equitable access to assets and services, leadership, commitment, and gender responsive policies for livelihood opportunities. The Bank also recognises that formulating workable strategies for empowering women to realise their full economic potential and contribute to and benefit from national economic growth is a priority,” she said.

The Bank recently reviewed the Gender Policy and Gender Strategy to take into account the progress made with regards to mainstreaming gender in the Bank, as well as the wider financial sector. The revised policy sets out a clear accountability mechanism underpinned by leadership for change. The strategy on gender inclusiveness closely aligns with Government’s agenda on improving women’s access to financial services through provision of suitable credit and finance facilities.

“We however believe that this enormous task of promoting financial inclusion lies not only on the Government, but the financial sector players as well. And so, we congratulate Stanbic Bank for leading the way in the Anakazi Banking women’s proposition that will encourage women to access sustainable financial services. Our congratulations too to the deserving women that will be recognised for pushing the barriers and delivering excellence,” she concluded.

Meanwhile, Stanbic Bank Chief Executive, Mr Mwindwa Siakalima said Stanbic will continue to do its part in eliminating the barriers and negative stereotypes women and girls face in society by not only celebrating women making shockwaves in their fields, but applauding them to also serve as examples to the generations that follow. ‘In this regard, we have created banking services like Anakazi Banking that support their personal and business growth ambitions.’ Anakazi Banking is a robust and rich platform that looks to provide women with increased access to finance, knowledge, and capacity building activities for entrepreneurs. Anakazi Banking Recognition awards focus on recognising women that have achieved over and above in various sectors, examples are Agriculture, Mining, Infrastructure, Arts, Entrepreneurship to mention but a few.

“We are awarding a total of 15 categories tonight and are extremely honoured to be graced by the presence of all the women that have gathered here to join us for this cause. This, ladies and gentlemen, goes to assure you of Stanbic Bank’s commitment to the economic and social development of this country as we ensure that women in Zambia succeed in business and are fully recognised,” he said.

The event was graced by Her Honour the Vice President Ms Mutale Nalumango, who was represented by Minister of Labour, Honourable Brenda Tambatamba. She commended Stanbic for their Anakazi Banking, which has provided capacity building programmes and continuous support to female entrepreneurs through access to finance, business linkages and networking opportunities.

ZAMBIA CELEBRATES 10YRS OF FINANCIAL EDUCATION CAMPAIGNS

By Masauso Phiri and Milimo Munsanje

2022 marks the 10th anniversary of the financial education campaigns in Zambia. In collaboration with other stakeholders, the Bank of Zambia has taken several policy measures to expand financial literacy, financial access and financial inclusion by adopting various incentives during this period.

This year, the Bank, together with other stakeholders launched the public awareness campaign for the Financial Literacy Week activities, which run from 21-27 March 2022 under the theme "Build your Future: Be Money Smart".

Speaking at the launch, Bank Governor, Dr. Denny Kalyalya said the commemoration would be observed with a number of activities in all the 10 provinces, including public exhibitions, debates, media programmes, an innovation challenge and visits to financial institutions and selected government agencies.

Dr. Kalyalya said the Financial Literacy Week will continue to focus on young people in primary, secondary and tertiary institutions to ensure that future adult generations are appropriately equipped to make sound financial decisions for their financial well-being.

He said the formulation and implementation of National Financial Inclusion Strategies have provided a robust framework that facilitates effective stakeholder engagement between the Government, financial sector regulators, financial service providers and the general public. "This collaboration has resulted in increased public awareness of available financial products and services across the country, thereby contributing to the increase in overall financial inclusion in Zambia from 37.3% in 2009 to 69.4% in 2020," he explained.

He observed that technology and innovation in the financial sector has played a major role in raising the level of financial inclusion in the country over the last five years. According to the FinScope 2020 Survey, while overall financial inclusion increased to 69.4 percent, from 59.3 percent in 2015, formal financial inclusion rose significantly to 61.3 percent from 38.2 percent.

Dr. Kalyalya commended the Working Group under the National Strategy on Financial Education Phase II for the organisation of the Financial Literacy Week. Working group consist of the following: the Ministry of Finance and National Planning Financial Education Team, financial sector regulators, (Pensions and Insurance Authority and the Securities and Exchange Commission), the Bankers Association of Zambia, the collaborating partners DSIK (the German Sparkassenstiftung) Zambia, Financial Sector Deepening Zambia among others.

REFLECTING ON THE 10TH ANNIVERSARY OF THE FINANCIAL LITERACY WEEK IN ZAMBIA

By Collins Muchupu

Financial Literacy Week (FLW) is a public awareness campaign which has been commemorated in Zambia since 2013. It is a localisation of the Global Money Week, which is an awareness celebration that takes place in different countries across the world in March every year. This annual event is celebrated in all the provincial capitals of Zambia to address the importance of financial education for individuals and businesses alike.

The campaigns are mostly targeted at creating awareness amongst children, youths and adults on the need to acquire knowledge and skills about personal financial management. Further, the target groups can have the confidence and motivation to make sound financial decisions and use appropriate financial services which improve their financial well-being, health and resilience. Citizens are then better able to contribute to national development through improved productivity, job and wealth creation. As such, the FLW provides an opportunity for children, youths and adults to:

- **Learn:** about financial products available, how to determine their authenticity and adapt to the constant changes by the Financial Services Providers (FSPs). Targeted groups are taught how to utilize financial services.
- **Select:** appropriate financial products and services based on their financial circumstances. This entails the identification and assessment of the products to maximize the benefits accorded by using the right products.
- **Secure:** their financial assets appropriately in order to sustain their livelihoods in times of drastic change. Target groups need to invest and continually safeguard their money, while FSPs need to be involved in ensuring that the vulnerability of clients is addressed. This includes providing adequate information on products and consumer literacy to avoid frauds particularly with innovations such as digitisation which exposes clients to cyber and other technology related risks.
- **Interpretation of the theme**
  This year, Zambia joined the international community across the globe in commemorating the 10th anniversary of the FLW, under the theme "Build your Future: Be Money Smart". The theme was anchored on the importance of planning for one's future by making prudent and well-informed financial decisions. It also relayed the importance of young people being empowered to be forward-looking and owning the responsibility for securing their financial future.
- **Monitory and Evaluation of Financial Education in Zambia**
  In 2012, Zambia launched its first ever National Strategy on Financial Education (NSFE) Phase I which clearly identified children, youths, adults, Small and Medium Enterprises (SMEs) and small holder farmers as target groups. The main goal was to have a financially educated Zambian population by 2030. In 2017 one of the key milestones achieved was the integration of financial literacy into both the primary and secondary school curriculum.

The NSFE Phase II was launched in 2019 and runs up to 2024, it builds on, and accounts for the lessons learned from implementing, NSFE Phase I, which covered the period 2012-2017. This strategy is segmented into four thematic areas that aim to target education for children, youths, adults and all age groups.

Amid all the developments around financial education, financial institutions and regulators have been increasingly committed to the commemorations of FLW over the past 10 years and contributed to the achievement of some objectives in the NSFE. For instance, the number of financial service accounts designed for children has increased to more than 20 as at end 2020 compared to only 3 at the beginning of 2013.

- **Support of the FLW campaigns**
  As it has been said "If you want to go fast, go alone, if you want to go far, go with others", the successful commemoration of the FLW is attributed to the collective and continued support of the National Strategy on Financial Education All Ages Working Group as well as collaborating partners namely, the German Sparkassenstiftung Zambia (DSIK), Financial Sector Deepening Zambia and the Rural Finance Expansion Programme.
- **Conclusion**
  Based on the national agenda of having a financially educated Zambian population by 2030 which entails improved knowledge, understanding, skills, motivation and confidence for all Zambians to help them secure positive financial outcomes. FLW public campaigns remain one of the major mechanisms for achieving this aspiration. Going forward, a multi-stakeholder approach to providing financial literacy throughout the year, and not only during FLW would also facilitate widespread achievement of financial education and financial inclusion among all segments of the Zambian population.

The author is Senior Inspector-Regulatory Policy in the Non-Bank Financial Institutions Supervision Department.

DOMESTIC ECONOMY: 2019-2021

By Zambanker Reporter

Economic Growth

The domestic economy has registered weak growth over the past three years, with an average annual growth rate of 0.6 percent. This was also reflected in declining per capita GDP. Real Gross Domestic Product (GDP), which was positive at 1.4 percent in 2019, contracted by 2.8 percent in 2020, following the devastating effects of the COVID-19 pandemic on services, mostly wholesale and retail trade, tourism and arts, and recreation, as well as, the manufacturing and construction sectors.
Over the same period, the agriculture and mining sectors posted positive growth, aided by favourable rainfall for the former and higher prices for the latter, especially in the second half of the year. The energy sector also benefitted from the favourable weather as water levels improved in the major dams used for hydro-electricity generation, allowing for increased generation and for new generation capacity to come on stream. Information and communication technology sector, on the other hand, was boosted by increased demand for data and digital financial services.

In 2021, the economy grew by 0.5 percent in the first quarter, 8.1 percent in the second quarter and 3.5 percent in the third quarter. Overall, real GDP growth is projected at 3.3 percent in 2021. The growth in 2021 was due to favourable performance in the agriculture, energy, construction, and Information and Communication Technology sectors, based on performance in the first three quarters of the year. The mining sector was projected to record lower output relative to 2020, as open pit mines faced operational challenges due to heavy rains in the preceding season, coupled with reduced ore grades at some mines. Tourism activities were projected to remain low, on account of the resurgence in the COVID-19 pandemic which had led to low international tourist arrivals.

Debt Position

The stock of public domestic and external debt increased markedly over the period 2019 to 2021. At the start of 2019, the stock of domestic debt (Government securities and bonds), amounted to K58.3 billion which increased to K80.2 billion at end of 2019, K130.2 billion at the end of 2020 and K193.0 billion at end 2021. The increase over the period largely reflected increasing recourse to domestic financing, as access to external programme financing was impeded by the high debt levels and debt servicing requirements that resulted in the debt standstill from October 2020 amidst reduced fiscal space.

Central Government external borrowing amounted to US $12.99 billion as at end-September 2021 mainly attributed on account of disbursements on existing project loans. The proportion of commercial debt out of the total central Government external debt was 45.7 percent while multilateral (including plurilateral) and bilateral debt accounted for 24.2 and 30.1 percent, respectively.

The Government's stock of publicly guaranteed external debt was US $1.5 billion as at end September 2021. The bulk of the guaranteed debt relates to the state-owned power utility company, Zesco Limited.

Domestic Arrears

The audited and verified stock of Central Government domestic arrears, amounted to K76.6 billion as at end-September 2021 from K32.5 billion in the 4th Quarter of 2020. The bulk of the arrears are on fuel, electricity, personnel emoluments, VAT refunds, road projects, capital expenditure in health and education, pensions, compensation and awards as well as other goods and services.

Fuel arrears had significantly risen due to the price differential between landed cost of petroleum products and the pump price. The stock of fuel arrears as at end September 2021 stood at US $506.1 million. Pump prices were raised on 16th December 2021 to move towards cost reflective petroleum pricing.

Monetary and Financial Performance

Over the period 2019 to 2021, inflation was higher than the 6-8 percent target range. Inflation averaged 9.1 percent in 2019, 15.6 percent in 2020 and rose further to an average of 22.1 percent in 2021. In 2019 and 2020, the increase in inflation was mainly attributed to the depreciation of the Kwacha against the major trading currencies, and upward adjustments in energy prices (fuel pump prices and electricity tariffs). Upward pressures on food prices following the adverse impact of the 2018/19 drought and trade disruptions, that followed the lockdown measures taken in response to the COVID-19 pandemic in early 2020, also contributed to rising inflation. The higher inflation outturn in 2021, was also associated with a sustained increase in food prices and the depreciation of the Kwacha until the second half of the year.

The high inflation rates, coupled with the sustained depreciation of the Kwacha, and the sharp deceleration in economic growth, negatively affected the performance of the banking sector over the past three years. These factors, as well as the high yield rates on Government securities that raised the opportunity cost of capital, contributed to the high cost of doing business and weakened borrowers' ability to repay loans leading to a rise in Non-Performing Loans (NPL). The NPL ratio averaged 9.7 percent in 2019, and worsened to an average of 11.2 percent in 2020. In 2021, the NPL ratio improved on account of repayments and write-offs of some NPLs in 2020. As at end-November 2021, the NPL ratio stood at 6.3 percent and preliminary December numbers indicate that the ratio improved further to 5.8 percent.

External Sector Performance

External sector performance was favorable in 2021 after also deteriorating between 2019 and 2020. A balance of payment surplus was recorded largely attributed to the receipt of the Special Drawing Rights (SDR) from the general allocation by the IMF. The current account surplus, however, moderated to 7.7 percent from 12.6 percent of GDP in 2020 due to the strong rebound in imports and expenditure on transport services, especially in the third quarter, as economic activity picked-up and the exchange rate appreciated.

Gross international reserves declined to US$1.2 billion in 2020 from US$1.4 billion in 2019, largely on account of higher external debt service. The waning Balance of Payments support was another factor that contributed to the fall in reserves. However, the fall in reserves was moderated by Bank of Zambia purchases of foreign exchange from the market and mineral royalties directly from the mining sector since mid-2019. In June 2020, the mining companies also started channeling their other US dollars denominated tax obligations through the Bank of Zambia in an effort to shore up reserves. Further, in December 2020, the Bank of Zambia started purchasing locally produced gold to further strengthen the reserve position. As at end-December 2021, reserves stood at US $2.7 billion following receipt of Special Drawing Rights (SDRs) equivalent to US$1.33 billion from the IMF in August 2021.

The exchange rate of the Kwacha against the US dollar depreciated significantly to K18.28/USD in 2020 from K10.45/USD in 2019. Over the review period, and until the debt suspension in October 2020, the sources of foreign exchange liquidity in the market progressively reduced amidst a high rise in demand, mostly for debt service and the importation of agricultural inputs and clearance of fuel arrears. However, from May 2021, the Kwacha strengthened, and was trading at K16.67 per US dollar at the close of the year. The appreciation was mainly driven by significant portfolio inflows from non-resident investors in Government securities and positive sentiment following the receipt of SDR equivalent to US$1.33 billion from the IMF in August 2021 and the growing optimism that an IMF programme will be sealed in 2022.

Source: 2022–2024 Medium Term Budget Plan

THANK YOU, BETTY!

By
Silvia Siwale

The Bank of Zambia has expressed gratitude to outgoing Financial Sector Deepening Zambia (FSD Zambia) Chief Executive Officer, Ms Betty Wilkinson, for her contribution in championing Zambia's financial inclusion agenda.

Speaking during the 2022 Financial Literacy Week 10th anniversary reception in Lusaka, Bank Governor, Dr Denny Kalyalya said Zambia's milestones on financial inclusion could not have been achieved if not for the support of Ms Wilkinson.

The Governor stated that Ms Wilkinson enabled innovative and successful policy reforms, advocacy, and field project success in both the public and private sectors through regular engagements with ministers, the central bank, industry representatives, and leaders of development agencies, NGOs, think tanks, and communities to facilitate evidence-based innovation and change.

"We would like to acknowledge the work that Ms Wilkinson has done as Chief Executive Officer of FSD Zambia. Some of you may not be aware that we owe much of the capacity we have built in the financial sector to Betty," Dr Kalyalya said.

Meanwhile, Bankers Association of Zambia (BAZ) Chief Executive Officer Leonard Mwanza thanked Ms Wilkinson for her role in engaging traditional leaders and facilitating the setting up of savings groups or village banking groups across the country as well as broadcasting financial education programmes on community radio stations.

Ms Wilkinson has over 30 years of building, managing, and graduating high-performance national and multinational teams to produce sustainable results in collaborative ways. Her professional experience worldwide includes as Director in the Central and West Asia Department of the Asian Development Bank, Associate Director at the IRIS Center at University of Maryland leading multiple country programmes and ground-breaking research, and First Assistant Secretary of Finance and Planning in the Government of Papua New Guinea. Her graduate studies in Agricultural Finance at Cornell University followed a BA Honours in Business Economics at the University of California.

Her recent achievements include multiple financial innovations to achieve Sustainable Development Goal results across Africa; fully sustainable public-private partnership in weather-based index crop micro insurance for over 1 million smallholder farmers; partnership with traditional chiefs in Luapula provincial in inclusive growth for over 1.4 million citizens; radio soap opera for digital financial education, now in multiple languages being provided nationally; ground-breaking quantitative and qualitative gender and social norms research for inclusive finance; Covid-19 research and economic impact on women, rural families, smallholder farmers, and microenterprises; national digitisation of agricultural subsidies, school fees, and identity; and national financial education curriculum in grades 1-12 for 4.3 million children.

We caught up with her and this is what she said....

Does financial inclusion still matter?
Betty: More than ever, financial inclusion matters. While there has been good progress in Zambia and worldwide, the Ukraine war and rapid increase in refugees across the earth, damages caused by climate change, and the current global inflation and debt challenges make financial inclusion more important than before.

When you look at the objectives you set to achieve as Chief Executive Officer of (FSDZ), were these realised?
Betty: The interesting part of working in a market facilitation organisation

is that the objectives continue to change. We reached over 1.4 million Zambians directly and facilitated significant improvements in financial literacy, savings groups, insurance, agricultural finance, and policy support and reforms. We together developed a fantastic team of Zambian staff and managers within FSD Zambia. And there is still more to do, so I am proud to hand over to Mrs. Engwase Mwale the new CEO, who will continue the efforts to make financial inclusion universal.

Name some of the policies adopted and implemented by FSDZ that helped improve financial inclusion?

Betty: The work in mobile money policy and digital finance, insurance law, digital identity, conduct of two Finscope surveys and distribution of findings with the Bank of Zambia and ZamStat, and a range of client security engagements were critical, as is financial education policy and work. The decision of Government to provide financial education in the national curriculum for grades 1-12 which is in testing and early implementation, is a very significant step. Work to help with a payments and digital finance practitioners system and associations went well!

What has been the impact of your efforts?

Betty: FSD Zambia, its Zambian team, and myself can be very proud of a highly significant outreach of 8.4 million people including direct end clients and their households; market changes particularly to reach the poor, women, and rural households in insurance, mobile money, banks, and financial education; and much improved awareness of the importance of financial inclusion to a healthy and growing population and economy.

What are some of the local good financial inclusion examples?

Betty: The expansive growth of savings groups, particularly those supported by the Luapula Provincial Chiefs; climate risk insurance as a PPP between the insurance firms and the Government, linked to FISP; extensive gender research and application of results to the banking and other financial markets; outreach to very poor women to increase access to mobile money; agricultural finance to expand clients in climate-friendly agribusinesses such as honey; methods to smooth farmer income streams; microenterprise links to banks and retailers in new products, and radio delivery of financial education dramas in local languages.

Which one was your most exciting project?

Betty: This is hard to choose! Between financial education by radio drama across the country with the Bank of Zambia, introduction of market driven climate based risk insurance for over a million smallholder farmers, growth of savings groups to over 600,000 of whom 80% are women – especially in Luapula with the chiefs, expansion of mobile money and business associations, and so much better research knowledge and understanding of the advances and needs, it is all very exciting!

What is the missing piece to achieving the financial inclusion target in Zambia?

Betty: Rural areas and women are still the gaps. We need to work a lot harder to reach them with financial education, cell phones, help from the new Financial Ombud for service problems, and micro insurance.

What lessons can be learnt from your experiences?

Betty: Three lessons. First, make sure your funders understand that this process is slow and takes time and reliable funding to be self-sustaining. Second, engage with local leaders who have strong vested interests in ensuring integrity, long-term support to empower the poor, and careful use of resources. Third, do regular research to find out what is happening and what are the results of work done, and share research findings, with implications, widely.

Which major stakeholders did you collaborate with and what role did they play in improving financial inclusion?

Betty: The donors are always key; UK, Sweden, RUFEP, GIZ, and Comic Relief/Jersey Overseas Aid were remarkably helpful. In Zambia the regulators topped by the Bank of Zambia were critical in reviewing and revising policies and rules and in advising their findings in research and experience, with ZICTA, CCPC, PACRA, PIA. ZamStats was key as were certain ministries such as Finance, Commerce, Agriculture, and Cabinet Office. Private firms engaged with us both in their work as partners, and also as members of their industry associations such as BAZ, IAZ, TAG. Non-Government Organisations are key as they have immediate and daily engagement with the key end clients for financial inclusion and we are very grateful to groups like Barefeet for their hard work on financial education, outreach and advocacy.

What opportunities and outcomes could be realised from having an inclusive financial system?

Betty: When people understand and use money wisely, they grow out of poverty, improve their opportunities to grow businesses and have healthy, educated lives, and lower their stress levels and concerns. They can manage risk and emergencies better and help each other more effectively. Women and men can work better together to enable happier and healthier families and communities, and children can grow up seeing a future of better lives.

What are some of the challenges you encountered in your work?

Betty: Funding is always a challenge since we want 7 year money and mostly get 1-3 year money. The currency revaluation is a problem for us since we get grants in foreign currency. One has to be patient in this work and recognise that people move and we need to have deep sets of relationships so we can have progress over time.

Is this the end of your role in financial inclusion?

Betty: Never! This is a lifetime job and a deep passion so I will continue in it.

COPPERBELT POISED FOR GROWTH

AS MASAITI CRIES FOR BANKING SERVICES

By Lombe Mulanda

Economic activity post 2015 on the Copperbelt Province has significantly increased due to actualised investments in the agriculture and mining sectors in Mpongwe, Lufwanyama and Chambeshi districts. According to the Bank of Zambia Quarterly Survey findings, pledges as well as actualised investments in the mining and agriculture sectors during the period under review had social and economic impact on local communities through improved cost of living, job creation and poverty reduction.

Major projects in Mpongwe include Zambeef Crop Farm, Zamhatch Mill and Zamhatch Farm while Lufwanyama has emerald mining at Kageme and Grizzly mines with a large farm at Global Industries.

Out of the investment pledges and inquiries made during the reviewed period, investments by Zambeef Crop Farm, Zamhatch Mill, Zamhatch Chick Farm, Somawhe Estates, and part of the Multi-Economic Facility Zone (MFEZ) in Chambeshi have been actualised. Each project was obliged to empower locals by providing employment through the local participation beneficiation model designed by Zambia Development Agency (ZDA). The MFEZ was designed to be both a copper industrial processing hub and industrial trade hub.

The team, which was led by Mr Elvis Sindaza, established that the Copperbelt was destined to re-establish its position of being an industrial and trade hub. They noted that improvement was highly dependent on collaboration with all stakeholders securing both local and foreign markets, constructing and maintenance of roads, facilitation of access to affordable finance for MSMEs, helping committed investors actualise their investments through provision of the required operating environments as well as providing proper and effective guidelines to Financial Service Providers (FSPs) in the administration of the Targeted Medium Term Financing (TMTF) facility to empower the local investors.

However, challenges have been noted and these include, inter alia, limited banking services, export quotas, deforestation in some areas due to charcoal burning, shortage of appropriate skills, limited access to finance, high cost of finance, lower market prices relative to the cost of production, high input costs due to depreciation of the Kwacha against the United States Dollar (US$), financial services that were not tailored to the farming cycles, stringent conditions in accessing COVID-19 funds, poor road networks and high energy costs among others.

Team members from the Bank included Messrs. Elvin Sindala, Lombe Mulanda and Jackson Kampamba.

NEWS FROM AROUND THE WORLD

Cryptocurrency to be regulated in South Africa by the end of 2022

Crypto regulation is imminent in South Africa with formal guidelines expected to be introduced before the end of the year, say experts at South Africa's largest cryptocurrency exchange Luno.

"Globally, we have seen moves to regulate crypto and we anticipate the introduction of a clear South African regulatory regime likely by the end of 2022. Regulatory certainty will have a host of positive spin-offs for the crypto sector," said Marius Reitz, Luno's general manager for Africa.

In the US, where regulation allows for entry into crypto, firms like Fidelity, Goldman Sachs and JP Morgan are entering the crypto market and the Proshare Bitcoin ETF – the world's first Bitcoin ETF – saw record inflows into the fund, Reitz said.

In anticipation of local regulations, several asset managers are working behind the scenes to craft crypto products and solutions.

He noted that previous attempts to list a Bitcoin ETF on the local stock exchange have not been successful, but the listing of crypto instruments on the JSE would be a watershed moment that will allow asset managers to enter crypto.

"Regulation will also boost the number of formal partnerships between banks and crypto companies which will facilitate greater crypto adoption.

"Once regulation is finalised, financial advisors will be able to propose crypto products and services to clients. Luno is partnering with such businesses to ensure that customers can enter crypto investments through their trusted financial advisors."

Central banks bringing crypto closer

Louis van Staden, global head of payments at Luno, also expects to see the launch of more central bank digital currencies (CBDCs) in 2022.

"Nigeria has launched the e-Naira and South Africa is investigating a digital currency. CBDCs are significant because they represent a meeting point between how the technology can be leveraged and a comfortable space for regulators," he said.

The focus in the payment space is on seamless, fast and safe ways to buy and sell crypto. Van Staden believes that companies will be investigating ways to incorporate familiar tools like cards and mobile money in the crypto ecosystem.

"Open banking – where financial institutions share information about customers – is already quite prominent in the UK and Europe. It is quick and information can easily be shared across multiple institutions. Ultimately, systems that make transacting simpler are sure to gain traction."

Financial crime

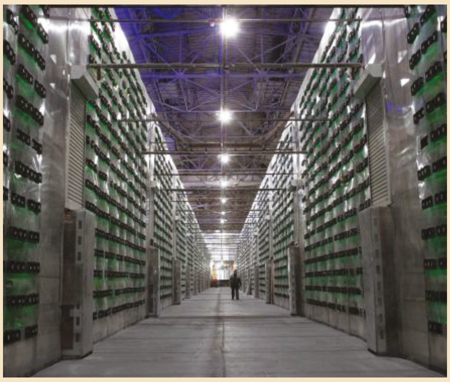
As crypto adoption grows, people are becoming more aware of the importance of keeping their crypto safe. Eva Crouwel, global head of financial crime at Luno, said that more customers are reporting irregularities more quickly and recognising warning signs as awareness campaigns gain traction.

She warned that cyber-related incidents such as ransomware and email interceptions have been on the rise since Cpvid-19.

"The shift away from being purely office-bound has its perks, but we are seeing significant vulnerability in corporations which leads to users being tricked into sharing corporate account information or money," she said.

"We expect to see higher incidents of financial crime across Europe in 2022. investment scams targeting vulnerable and high net worth people in France, Italy, Germany and those living in the larger cities in the UK are rife.".

- BusinessTech



Russia's central bank proposes ban on crypto mining and trading

Russia's central bank proposed a blanket ban on the use and creation of all cryptocurrencies within one of the world's biggest crypto-mining nations, citing the dangers posed to the country's financial system and environment.

Crypto bears the hallmarks of a pyramid scheme and undermines the sovereignty of monetary policy, the central bank said in a report Thursday. It also took aim at mining, which it said hurts the country's green agenda, jeopardizes Russia's energy supply and amplifies the negative effects of the spread of cryptocurrencies, creating incentives for circumventing attempts at regulation.

"Potential financial stability risks associated with cryptocurrencies are much higher for emerging markets, including in Russia," the central bank said.

Russia already bans the use of crypto to make payments and the central bank in December prohibited mutual funds from investing in it. Thursday's report called for individuals and businesses that flaunt the rules to be held to account, citing estimates that put Russian's crypto trading turnover at about $5 billion a year.

Proposals would not apply to assets held abroad by Russians, Elizaveta Danilova, the central bank's financial stability department head, said at an online briefing Thursday, adding that people with offshore exchange accounts will be able to trade crypto. While any ban would first need to be passed into law before taking effect, speaker of the lower house of parliament Vyacheslav Volodin said this week that creating a regulatory framework will be a priority in the State Duma's spring session.

Russia is home to a thriving mining industry, which has become an increasingly important center after China labeled crypto-related transactions illicit financial activity and vowed to root out mining of digital assets. Crypto mining is energy-intensive, requiring a large degree of computing power.

Russia became the world's third biggest crypto miner last year, after the U.S. and Kazakhstan, according to Cambridge University data released in October. The largest facilities are located in the country's north and in Siberia, where the temperatures are low and there is access to cheap power. BitRiver, Minespot and BitCluster are among the biggest companies that provide services in the industry.

"We hope that this proposal will be discussed with the industry," co-founder of BitCluster Vitaliy Borschenko said by phone. "The central bank's main concern is that cryptocurrency won't be traded in Russia and crypto mining poses no risks in this regard."

The central bank's position on mining could face some resistance among lawmakers. Russia should regulate and tax mining, but it shouldn't be banned given the country's competitive advantages, Vladimir Gutenev, the head of the Duma's industry committee and a member of the ruling United Russia party, told Interfax news agency. Meanwhile, neighbor Kazakhstan — which also saw an influx of crypto mining after China's ban, has been roiled by political unrest and an energy squeeze — making it an unlikely spot for Russian miners who might seek a new home.

The news drew little reaction in the crypto market, with Bitcoin climbing as much as 4.2%, in step with a rise in tech shares.

"Bitcoin mining is certainly growing faster than whatever it is losing in these announcements. A good way to say it is the currency is more mature at this point," David Tawil, president of ProChain Capital, said by phone. "Today, we've progressed far beyond this."

Separate Push

The central bank's hard line against crypto dovetails with the position of Russia's powerful security services, which also back a compete ban domestically to prevent it from being used to fund the country's opposition, according to two people familiar with the issue. More than 7 trillion rubles ($92 billion) of assets are held in about 17 million cryptowallets in Russia, they said.

The Federal Security Service, or FSB, lobbied Governor Elvira Nabiullina for a blanket ban as the hard-to-trace payments are increasingly used by Russians to donate to undesirable organizations, including media resources that have been labeled "foreign agents," said the people, who asked not to be identified because the information is not public.

Opposition and media funding accounts for an insignificant fraction of crypto use in Russia but the security services are worried that it is a growing problem, they said.

A spokesperson for the FSB didn't respond to requests for comment.

"As for the FSB, the Bank of Russia has been saying for a long time that we consider the risks of cryptocurrencies to be high," Danilova of the central bank said Thursday. "This is our position. But at the same time, we are pleased if other organs share it."

- Bloomberg

Finclusion raises $20M to build out credit-led neobank offering across Africa

The digital banking space in Africa is taking shape as neobanks on the continent grow in numbers like their global counterparts. Venture capital bets from institutional investors in this class of fintechs is massive, and in the latest development from Africa, it seems individual investors' appetites are increasing likewise.

Finclusion Group, a fintech that uses AI algorithms to provide financial services to African customers via an array of credit-centric products, has raised $20 million in debt and equity pre-Series A financing.

Investors in the round include Andela and Flutterwave co-founder Iyin Aboyeji (who invested via his VC firm Future Africa), LendInvest founder Christian Faes and ComplyAdvantage founder Charlie Delingpole.

Others include Amandine Lobelle, Jai Mahtani, Sudeep Ramnani, Jonathan Doerr, Richard Aseme (RCA Ventures) and Klemens Hallmann, among others. They join the likes of Manuel Koser, Alexander Schuetz, Christian Angermayer and Leo Stiegeler, investors in the company's previous round.

Finclusion's debt financing, which makes up the larger share of the overall round, was provided by local currency funds in Eswatini and South Africa. It follows the $20 million debt facility supplied by emerging markets debt provider Lendable last September.

The fintech intends to grow existing operations in South Africa, Eswatini, Kenya, Namibia and Tanzania and expand into Mozambique and Uganda.

According to a statement by the company, the expansion, facilitated by the recent financing, is part of Finclusion's strategy to "drive financial inclusion within market segments that have traditionally been underserved across the African continent, with a current focus on southern and eastern Africa."

Since its inception in 2018, Finclusion has built consumer-facing credit products to close the credit gap in countries where it operates.

There's SmartAdvance, where Finclusion, via employer partnerships, offers solutions for employees' financial well-being. Its wage streaming product provides payroll loans and future wage loans where employees can take loans off the back of their salary, deduct from their payroll and lend through employer relationships.

The Africa-focused fintech has disbursed over $300 million worth of loans to more than 240,000 customers up until this point. Following the Lendable debt capital raise in September, the group has recorded an uptick in monthly disbursements, increasing 140% over the last 18 months. Finclusion's loan book also grew 30% from December 2020 to December 2021.

Despite this growth, Finclusion only has 28,000 customers with active loans outstanding, almost 10% of the total customers the company has served since 2018.

"This is one of the reasons we are going into a neobank strategy to maintain old and new users rather than effectively churning them out," said chief executive Timothy Nuy to TechCrunch on why the credit provider is transforming into a neobank now.

Nuy affirmed that it had always been Finclusion's intention to become a neobank. Leading with a credit-led approach — which several digital banks across Africa such as Carbon and FairMoney have adopted — was a great customer acquisition tool for the company, he said.

African customers are in dire need of credit. But from a long-term perspective of a company offering just loans, it can be hard to compete with other lenders that provide deposits and investments, financial services that any lender, backed with years of customers' credit history, can efficiently cross-sell.

Finclusion, taking a cue from other credit-first neobanks, has started diversifying its offerings. Nuy said the company has an insurance product and plans to offer savings products, cards and buy now, pay later offerings via a merchant network in a bid to form a pan-African neobank.

So far, the well-funded digital banks on the continent are either in a single country or, at most, two countries. Carbon operates in Nigeria and Kenya; FairMoney has customers in Nigeria and India; Kuda, a deposit-led neobank worth half a billion dollars in its last round, only serves customers in Nigeria; and Patrice Motsepe-backed TymeBank focuses on South Africa.

A pan-African approach doesn't necessarily mean more customers (Finclusion, despite its presence in five countries, has fewer customers than the aforementioned digital banks). Still, Finclusion's strategy is pretty ambitious compared to other digital banks' play-it-safe model.

"I think there's a lot of similarities, often between regional markets. Many things we do for South Africa will work the same way as in Nairobi. A lot of what we do there, we can use it in Kampala and Dar es Salaam with some adjustments," said Nuy on how Finclusion operates across multiple markets.

"Rolling it [digital banking] out across multiple countries, if you have the operational experience, isn't difficult. I think that's where we have an edge that we can build towards a pan-African play quicker than others. And I think that experience is something that really sets us apart right now."

-Agence France-Presse (AFP)

THE COMPLEXITY OF ECONOMIES:
A CASE FOR DECISIVENESS IN RESOLVING ECONOMIC IMBALANCES

By Francis Ziwele Mbao (PhD)

Many people including some analysts, economic commentators, politicians, and economic agents tend to have a simplistic view of an economy. Yet the economy is such a complex system in which markets, institutions, agents, and other elements that make up the ensemble are highly connected and interdependent. The non-economic systems such as social, political, biological, and ecological are part of the other elements in the ensemble. The economy is a complex system because it is driven by a network structure that is held together by rules. One may, therefore, not be able to judge the ensemble with some measure of certainty merely based on their understanding of the behaviour of one or two elements that are part of this ensemble. In my arguments, I may be a little bit technical (with language) in some paragraphs just to help another group of the Zambanker readers with a highly technical background (such as engineers, physicists, and mathematicians) who may thus be able to comprehend things fast if they are presented in their language. We are in the era of not leaving anyone behind.

The simplistic approach to viewing an economy by many is probably due to the way economics is taught where assumptions, for example like the popular one related to holding other things constant (ceteris paribus), are imposed when communicating ideas that ensure understanding of how one variable or sub-system is likely to respond to changes in another variable or the sub-system. This is done for a good reason, which essentially aims at simplifying the complex behaviour of the system when something within the system suffers change. In essence it aims at making things manageable and analytically tractable. In real life, however, when these things (variables/sub-systems) are interacting, there is no ceteris paribus, and things are not that linear. Therefore, when one thinks of the likely outcomes in an economy following shocks to variables/sub-systems may have to set aside the framework (as it is usually presented in a classroom set up) which is based on timeless constrained optimisation to identify possible outcomes (unless the system is very stable over an extended period, that is, there is no randomness).

Things in an economy are not static but rather very dynamic, and randomness is a big issue in economics and finance. For example, who knew by November 2019 that COVID-19 was going to be such a big disruption to economies globally in 2020? And more recently, who knew by October 2021 that Russia was going to invade Ukraine in February 2022 leading to a spike in commodity prices and affect households beyond Ukraine (but also benefits commodity export-led countries although with a risk of experiencing the Dutch disease)? Beware of randomness in life and the markets.

The behaviour of the elements making up an economic system is captured by different variables. These economic and financial variables interact in such a way that a shock on one variable affect other variables much more with a lag. Thus, as a system, economic variables are also affected by the outcomes of other variables. For example, a fiscal shock that hit the Zambian economy in 2013 when fiscal deficit increased from something in the neighbourhood of 1.2 percent of gross domestic product (GDP) to above 6.0 percent of GDP had its effect observed persistently in other variables after three years. For instance, external debt that was never an issue after debt forgiveness, thanks to the Highly Indebted Poor Countries (HIPC) initiative by the International Monetary Fund (IMF) and the World Bank, started haunting Zambia again. With this, came a problem of external debt service's impact on foreign reserves that eventually made it difficult for the authorities' ability to smoothen foreign exchange rate volatility through foreign exchange market interventions from the sale side. Foreign exchange interventions are necessary also in complementing monetary policy actions in economies with financial markets that are not deep like ours. The burden of foreign debt service also affected general Government operations with most line ministries and spending agencies grossly being underfunded since a substantial amount went towards foreign debt service. As a result, Government service delivery increasingly became poor.

The huge fiscal deficit did not only need enormous foreign financing but also massive domestic financing. Domestic financing was being done through two means. One of them is the accumulation of domestic arrears (delay or failure to pay suppliers of goods and services to Government) and the other is an increase in borrowings from the domestic market. Both actions have had a negative effect on GDP growth and thus partly contributed to the slowdown in GDP growth recorded after 2012. The accumulation of domestic arrears has had a cascading effect on private sector workers (who were either laid off or had their salaries delayed because Government could not pay its employers for the services or goods provided), lending institutions (whose exposure to Government workers and suppliers resulted into non-performing assets), and other businesses in the supply chain (who in turn could not honour obligations to other economic agents). This has had a bearing on aggregate demand and may have resulted into the persistent negative output gap largely being experienced by our economy. Negative output gap is an economic phenomenon in which an economy is characterised by output that is below the country's installed production capacity. The effects of one shock can really affect many other variables if not controlled in time.

The issue of domestic borrowing stated above caused a well-known issue of crowding out private sector's funds and rising lending rates, which were latter compounded by rising inflation as the fiscal shock effects got transmitted to other variables in the system. The private sector needs to borrow to finance its working capital needs or expand/ maintain its plant and equipment if they have insufficient cash reserves. However, if Government is also after the same funds, lenders will prefer to loan Government because as a sovereign entity it is deemed as one that will surely pay its debt even if it takes long to do so. This made corporate finance become even more expensive during the period, partly contributing to a slowdown in GDP growth as production may have been scaled down. Even so (a bit of a digression here and kindly bear with me), it may not be a good corporate finance decision to finance business expansion with domestic acquired debt in an environment where things are not looking up because it may not provide a good return to shareholders/investors in the business. Debt financing is only suitable in an environment where things are looking up because this provides a better return to equity as lenders whose claim on business is fixed (since debt is a fixed income instrument) will not benefit from the growth that ensues. Equity financing may therefore be the optimal option in an environment where things are not looking up because it will be less costly in view of high risks that characterise turbulent environments. In this regard, it is important for businesses to build cash reserves during good times which can be used in the downturn. This is especially cardinal for small and medium enterprises (SMEs) that may not have a long-standing banking privileged relationship with their bankers.

The examples given above, although not exhaustive in highlighting the effect of the fiscal shock of 2013 on other macroeconomic and financial variables in Zambia, show how interactable bad outcomes can be in an economy if authorities do not act decisively in dealing with shocks. Shocks create imbalances in an economy. Imbalances are points of weakness in the economic system. Economic variables in their interaction as a system are supposed to co-move on a long run path (a condition economists have come to call cointegration) where each variable's deviation from such a path is minimal. This way, the economic system remains stable. However, shocks on variables tend to deviate the affected variable(s) from the long run steady state (more on this concept later) path and thus create some weakness in the system (more on this issue later).

Economic and financial variables are also affected by feedback mechanism, a case where some initial behaviour is reinforced along the time horizon. In economics and finance, a shock on one variable can be very persistent, a phenomenon acknowledged both in time series econometrics and statistical mechanics. In the latter, persistence is related to how far past observations for a given variable are non-trivially correlated with distant future counterparts. A similar view is held in econometrics; a value for a given variable at some point in time is almost closer to the immediate past observation with an increase in one period followed by another increase in the next period (and the opposite is true). This pattern is followed in the absence of a disruption. The problem of feedback mechanism which is ubiquitous in economics is that it may require policy intervention each time the variable shows tendency of persistence in deviating from the steady state path since a shock on one variable is transmissible to other variables in the system (as stated earlier when describing the effects of fiscal deficit on other variables). Economic and financial imbalances should be resolved as quickly as possible by bringing the source variable to a steady state and thereby safeguard the integrity of the whole system.

The other aspect that makes an economy a complex system is that the interaction among economic variables is influenced by a memory function that connects them (i.e., the issue of cointegration or co-movement stated earlier). The economic and financial variables have an order that facilitates their integration with each other in the system. Admittedly, the point I want to put across is a bit more technical, but it is important to know that it is non-trivial when it comes to the issue of economic management in dealing with economic and financial imbalances decisively. The view held among many economists is that these economic and financial variables have an integer order of integration, although new evidence shows that most of such variables have a fractional order of integration instead. Most models, particularly the structural models (the work horses for central banks and other forecasting entities), used in forecasting macroeconomic and macrofinance data are based on the assumption of integer order of integration. Forecasting is an integral part of economic management and therefore the process involved should be with minimal imperfections. Technically, the structural models used in forecasting are essentially difference or differential equations. The problem, however, is that derivatives of integer order type of processes are determined by properties of differential functions (in advanced calculus) only in the infinitesimal neighbourhood of the chosen point (i.e. very-very close time interval if considered in the physical space (time) and therefore deemed to be of very short memory type of function). Applying this principle to economics simply means that economic agents have very short memory, they cannot remember decisions made in the past and therefore do not incorporate them into new decisions. However, things do not work like that in real life as economic agents' past decisions are usually incorporated in current and future decisions subject to the state conditions obtaining at the time of making the decision.

Structural models by virtue of being integer order type of integration are devoid of this long memory function. Long memory processes are instead fractionally integrated as evidenced by slowly decaying autocorrelation functions (and may thus need their equations to be based on fractional calculus and not one ideal for integer order). The reality, in view of this, is that forecasts made with structural models may inherently be associated with very high forecasting errors (the difference between the forecasts and realisations). This is common for longer forecasting horizons. It can also be possible for short horizons during turbulent times. Structural models are therefore good at forecasting in stable environments, that is in spaces where things are relatively stationary. A stationary process in statistical mechanics is one that has short memory while a persistent process (which is usually fractionally integrated) is the kind that has long memory as stated before. The dilemma with this is that structural models built with an assumption of stationarity (short memory) are fitted with the data that has long memory since new empirical evidence shows that most of macrofinance and macroeconomic data have long memory. This may be the source of forecasting errors that characterise structural models for longer forecasting horizons, and short horizons during periods of heightened volatility. Econometricians have, nonetheless, found a way of getting round the problem of poor forecasts for long horizons by using quarterly data instead of monthly data for medium term (three year) forecasts (as this shortens the number of data points over a three-year period), and incorporating lags to capture some persistence in the structural models. Whichever the case, some information is lost, and this may be crucial in characterising the future sample paths (i.e, the forecasts) for the variable(s) of policy relevance.

This notwithstanding, now there is an increased reliance on simulation and calibration-based approaches over traditional econometric methods in building models for forecasting. Even then, simulation and calibration-based models do not fully reflect the real economy (admittedly, not all models are perfect, but some models are useful). Currently, machine learning type of predictive models are increasingly being used by some central banks under the big data analytics in forecasting. Ongoing research on economic models within the realm of continuous time approach grounded on fractional calculus holds hope in enriching the suit of models (that are truly fit for purpose) in forecasting macroeconomic and macrofinance data given that the issue of fractional integration (long memory) is ubiquitous for most financial and economic data.

The implication with the issue of the memory function characterising macroeconomic and macrofinance data and being used in structural models is that economic managers should force the economic system, as much as possible, to be in the steady state condition for structural models (currently founded on integer order of integration) to provide forecasts that may not lead to policy regrets given the problem of long memory in most of the data in economics and finance. In this regard, imbalances in an economy should not be allowed to linger for a long time. I must state that even if structural models based on fractional calculus were to come into service, the need to deal with imbalances will still be critical given the way impulses from one variable are transmitted to others.
In view of the economy being a complex system as highlighted in the preceding paragraphs, achieving, and maintaining a steady state condition is non-trivial. The term steady state has been referred to a few times in the preceding paragraphs. Let me at this point state something about it (as earlier promised) in terms of what it means in economics. The steady state condition is one where economic and financial variables are relatively stable such that economic agents can optimise and markets clear. Optimisation is an action that enables one to get the most out of every available opportunity. This could be welfare maximisation, cost minimisation, profit maximisation or any utility maximisation from economic virtues one may think of. It is very hard to plan and get the most out of every available opportunity in an unstable economic environment. Market clearance on the other hand refers to outcomes where orders in the markets are largely satisfied. Outstanding orders in the markets should not take long to satisfy. There should not be too much uncertainty or surprises in the market.

An economy may not get to the steady state condition on its own since economic systems are constantly hit by shocks that in many cases are likely to lead to the problem of feedback mechanism. This is in addition to the issue of the transmission of the effects of these shocks to other variables through the memory function. The economy must be forced to be in the steady state condition through appropriate policy actions. In each economy there is an optimal steady state path for its variables and hence, policy interventions should aim at making these variables fluctuate around the steady state path. For example, economies have defined the optimal steady state path for inflation. In this regard, most developed economies have an inflation target of two percent while developing economies have a target range varying between two and eight percent. The level of inflation targets or range is what authorities in each economy regard to be optimal in delivering economic growth that will maximise welfare or conversely, minimise human misery (poverty). You need a certain level of inflation to support the desired level of economic growth in an economy. Given the complex nature of economic systems, the desire by central banks to prevent inflation from upsetting the economic system if left uncontrolled means that policy interventions should aim at delivering realised inflation to be in the infinitesimal neighbourhood of the adopted point target of inflation or to be in the epsilon neighbourhood of the preferred inflation digit for those targeting an inflation range.

An infinitesimal neighbourhood in statistical mechanics or real analysis (in mathematics) is one where two or more elements (in this case the realised inflation and the point inflation target) are really very close to each other. The epsilon neighbourhood on the other hand is one defined by a small positive real number within which real values (in this case realised inflation figures) should lie above or below a chosen point. That small positive real number (the epsilon) defines the upper and lower bound of the chosen point (that is if you decide to give a compact form to your targeted inflation digit). As monetary policy aims at forcing realised inflation converge to some limit (target point) either in the infinitesimal neighbourhood or the epsilon neighbourhood the idea is to achieve stationarity in the realised inflation series. I must state here that the inflation range targeting is adopted by central banks because a bounded sequence is a convergent sequence in real analysis (although in economics you must force the sequence to achieve convergence through policy actions with the range being the guide). It is important to know that in the scheme of things, it is inflation that has a tight target everywhere for the obvious reason being that it visibly has more effect on other variables in the economic system. For most of the other variables there is a set limit, upper or lower, to which the sequence of its realisations in the physical space must converge sustainably to deliver stability in the system. For example, fiscal variables like public debt as a percentage of gross domestic product (GDP) and fiscal deficit as a percentage of GDP must have an upper limit of 60.0 percent and a lower limit of 3.0 percent, respectively.

As I come to the end, let me state something a bit more on the issue of shocks and weaknesses they create in the system (as earlier promised when I hinted on the matter). The effects of shocks on economic and financial variables may lead to each of the variables deviating from the steady state path if there is no meaningful or timely intervention. This may result into the economic system become weak and vulnerable to adverse outcomes. The variable that deviates from the steady state path becomes a source of weakness in the system through the gap it creates. With its linkage to others through some memory function, it forces another or some other variables to deviate with some scale effect since these things are largely not linear. The other variable(s) directly linked to it will push another set of variables directly linked to each (but indirectly linked to the initially affected variable) to open more gaps. As more gaps are opened, the system becomes increasingly weaker and pregnant with more vulnerabilities due to the imbalances that ensues with the development of gaps. If these imbalances are not quickly addressed by closing the gaps, things in the economy can go horribly wrong.

I must state that effects of the shocks can either be transitory or persistent. In economic management, shocks with transitory effects can be accommodated for the reason being that policy intervention is not cheap. Policy should therefore respond to the signal and not the noise. Time series data is broadly made up of two components being the signal and the noise. The signal is the underlying property of the data which could be a persistent or an anti-persistent (i.e. stationary) process. Unfortunately, what we usually see in the data is the noise and may thus influence policy intervention. Forecasts and simulations help with understanding the dynamic effect of shocks over a set time horizon based on the understanding of the underlying properties in the data and may thus help to understand whether a particular shock is transitory in its effect or otherwise.

An economy is a complex system, it is therefore an error to have a simplistic view of it and to also allow imbalances to linger for a long time. The management of an economy should be concerted among the institutions charged with the responsibility to deliver the steady state condition. It is not enough to leave it to one institution to carry the burden. For example, fiscal-monetary coordination should not at any time break, and none should surprise the other. All responsible institutions should follow the rules as they help to bring about stability in a social setup including an economy and its markets.

The author is an economist in the Economics Department, and the views expressed in the article are his

BIG DATA AT BoZ

EMBRACING THE INFORMATION AGE WITH BIG DATA AND MACHINE LEARNING

By Namukulo Mwauluka

The Bank of Zambia (BoZ) in fulfilling its mandate to achieve and maintain price and financial system stability generates and collects large amounts of data. This data is used to formulate appropriate policies and monitor the performance of the financial sector. However, the challenge faced by modern central banks is the ever-increasing amount of data that is collected from various sources. To address this challenge the BoZ has established a data warehouse programme under which the Bank will implement a supervisory technology (SupTech) to collect supervisory data in real time and a data warehouse for storage of this and other data. These two projects are closely related as the SupTech will store its data in the Data Warehouse.

The Data Warehouse and SupTech

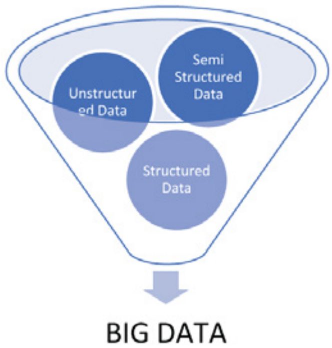
The Data Warehouse at BoZ is expected to go live in 2023. It will provide a repository for the Bank's data that is currently stored in disparate databases. A data warehouse is a large electronic store of data accumulated from a wide range of sources. It stores data and provides business intelligence tools that are necessary to transform that data into useful information for decision making.

Structured and Unstructured Data

Data that is useful for central banking can be collected from various sources which means that it may have different structures. This data can either be structured or unstructured data. Structured data is well organised and easy to access. Examples of structured data include dates, names, addresses, and account numbers. While unstructured data is just that, it has no organised structure as it is made up of various types of data such as audio files, social media posts, text files and image files. Big data is the term used to describe the combination of structured, semi structured, and unstructured data.

BIG Data

Big data and machine learning tools are making rapid inroads in the central bank toolkit. This is because central banks use data to support their economic analyses and policy decisions to formulate financial stability and monetary policy. According to the Bank of International Settlements (BIS) [1], central banks' interest in big data and machine learning has markedly increased over the last years: around 80% of central banks discuss the topic of big data formally within their institution, up from 30% in 2015. Big data and machine learning provide central banks with the ability to establish correlations between data sets which may seem unrelated and that is a powerful tool for policy making.



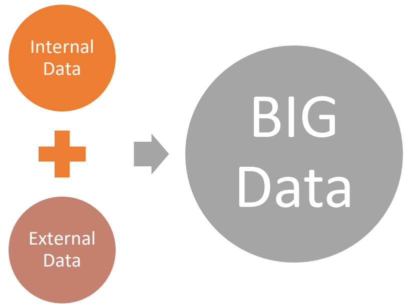
BIG DATA REFERS TO A COMBINATION OF STRUCTURED, SEMI STRUCTURED, AND UNSTRUCTURED DATA.

[1] https://www.bis.org/publ/work930.pdf

Machine learning is a subfield of artificial intelligence that focuses on learning and extracting knowledge from data [2]. Machine learning is a powerful tool for processing what may seem to be unrelated data.

Data Sources

Big data at BoZ is generated internally by its own systems and also collected externally. Systems such as the Zambia Interbank Payment and Settlement System (ZIPSS), which is a real-time gross settlement system, generate large amounts of data that provide insights into the performance of the economy. In terms of external data, the Bank has partnered with the Zambia Statistics Agency(ZSA) for the collection of economically important data. This partnership was demonstrated by the collection of financial inclusion data in the year 2020 through the FinScope 2020 survey [3]. Other sources of external data include the Bank's social media platforms and other interactions with the public.



Expected Benefits

Data is an essential ingredient for decision making. By enhancing the collection, storage, and use of data, the BoZ is directly strengthening its ability to make informed and timely decisions. The Bank in its 2020-23 Strategic Plan highlighted the area of financial stability as a key focus for that period. This includes the strengthening of micro and macro prudential supervision and regulation. A key catalyst to achieving this will accurate and timely information ch is a key outcome of the Data rehouse programme.

data and the capabilities of data ehousing are expected to support nomic research, monetary and financial stability policies as well as production of statistical publications. This, when achieved, will further propel the Bank into the information age.

BIG DATA ANALYTICS WILL STRENGTHEN THE ABILITY TO MAKE INFORMED AND TIMELY DECISIONS,

The author is an ICT professional with over 20 years of experience with ICT projects.

[2] *Bholat, D (2015) Big data and central banks. Big Data and Society Journal.*
[3] *https://www.boz.zm/FinScope-2020-Survey-Report.pdf*

MANAGING COMPLIANCE RISK
WITHIN THE BANK

By
Darius Mwaba

Central banks are not subject to supervision. However, they are generally expected to comply with best practice regarding laws, relevant legislation, rules and standards.

COMPLIANCE with laws, rules and standards helps to maintain the Bank's reputation in relation to meeting the expectations of its stakeholders, the markets, and the public including the promotion of good corporate governance. It is important to note that the Bank's strategic objectives can be achieved through compliance to policies, strategic plan, industry standards, laws and regulations.

KEY DRIVERS OF COMPLIANCE RISK

Compliance Risk- is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisational standards, and codes of conduct applicable to its banking activities. Key drivers of Compliance risk include the following:

a. Manual and Complicated Processes and Procedures - Manual processes and procedures increase the chance of error and give employees the incentive and opportunity to ignore controls that are designed to prevent misconduct.
b. Weak Systems for Monitoring and Surveillance - If an organisation's monitoring and surveillance is non-existent, inadequate or weak, non-compliance can go undetected and risks such as conduct may not be appropriately managed. In addition, some employees may be more likely to engage in poor behaviours because they estimate the likelihood of being caught as low.
c. Trainings and Programmes – Trainings and staff development programmes that do not adequately incorporate training on values, ethics and conduct can further exacerbate risks. Clearly, people cannot be expected to abide by conduct obligations if they are not regularly made aware of what those obligations are and taught how to apply them to their day-to-day business activities.
d. Recruitments- A lack of focus on conduct and compliance history of employees, where the focus is only on recruiting those who have attained the highest academic scores without considering areas such as diversity of experience across all levels of the organisation. A 2016 US study[1] for instance, found that financial advisory firms that hire individuals with misconduct records usually have a higher rate of misconduct themselves.
e. Violations or Breaches of Laws, Regulations, Policies and Procedures- When employees of the Bank are not penalised or do not bear the risk if things go wrong, the message sent, is that breaches are acceptable and rules are bendable.
f. Conflict of Interest [2] - Failing to identify and manage conflicts of interest has been recognised as playing an important role in the cases of misconduct emerging over the past decade. If conflict go unmanaged, opportunities for misconduct can be more prevalent.[3]

MANAGING COMPLIANCE RISK

Safeguards in managing risks do not always work, while risk management systems have their own gaps and inadequacies and become obsolete quickly in the face of industry innovations as risks evolves. Hence the need to consistently devise effective ways of mitigating risks.

a. Compliance Risk Management –The Bank of Zambia (BoZ) has adopted a 'decentralised-in-a- centralised' model for managing its risks (including Compliance risk). This implies that the day-to-day risk management activities are done by the risk owners (departments) while the role of Risk and Compliance Department and Compliance Function is primarily to coordinate Bank-wide risk management activities for reporting to and from

[1] *The Market for Financial Advisor Misconduct - 2016*
[2] *Refer to the Bank of Zambia's Code of Ethics regards to sources of conflict of interests*
[3] *Deloitte- Centre for Regulatory Strategy*

the Board and Senior Management.

b. Three-lines-of defence model- This model provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties as follows:

- The First Line of Defence
  The first line *(functions that own and manage risks)*, the department heads bear the primary responsibility for risk management and compliance in their own area, traditionally responsible for owning the Compliance risk.
- The Second Line of Defence
  The second line (functions that oversee risks) these are various risk management and compliance functions designed to help build and/or monitor the first line-of-defence controls in complying with the internal and external requirements as well as to challenge, question and engage in dialogue.
- The Third Line of Defence
  Third line *(independent assurance)*, the Internal auditors provide the Board and senior management with comprehensive assurance based on the highest level of independence and objectivity within the Bank.

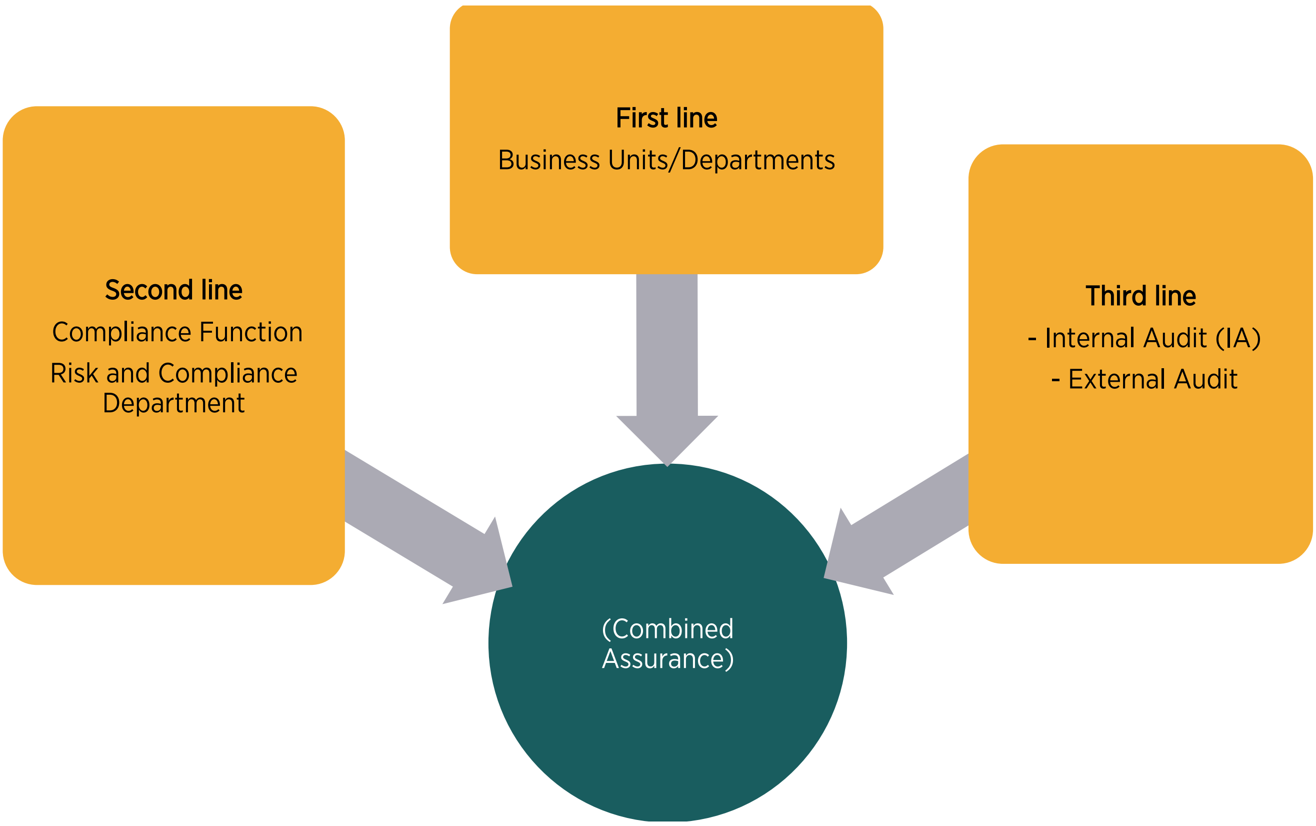
The Bank through the Compliance Function has embarked on some effective ways of managing Compliance Risk within the Bank. These include the following:

a. Periodically update- members of staff on compliance and ethics matters, through email alerts, posters, social media graphics and feature compliance topics in the Zambanker Issue and e-newsletter etc.
b. Compliance Risk liaison Officers- Integrating the responsibilities of the Compliance Risk Liaison Officers' into the centralised Compliance Function through agreements which define the extent of independence for Compliance Risk Officers from the line function.
c. Training and Sensitisation- Regularly conduct compliance education and training programmes for all members of staff including Risk Awareness months.
d. Digital Whistleblowing and Rewarding Whistleblowing- Digital transformation is aimed at modernising whistleblowing reporting including a dedicated Hotline and encourage employees to challenge bad behavior, without being stigmatised and victimised.
e. Compliance Risk Assessment Tools– Continuous improvement and enhancement of compliance risk assessment tools which include:

- Compliance Programme implementation action plan;
- Bank-Wide Compliance Universe;
- Departments Risk Reports (Risk Control Self Assessments-RSCA);
- Sample audit review; and
- Compliance and Ethics Programs.

The author is Acting Risk and Compliance Specialist in the Risk and Compliance Department

Figure 1: Three Lines of defence in managing Compliance Risk.



UNDERSTANDING FINTECH
PART 2

Mr Kennedy Mukuka

Introduction

FinTech is growing and anyone that has ever accessed their bank statement using a mobile phone, transferred money using an App, or paid for goods or services using their phone is already a part of the revolution. This article is a continuation to Part 1 (Understanding FinTech) which introduced FinTech by describing its history and highlighting some examples of FinTech in Zambia such as mobile payments and transfers, digital lending and credit, cryptocurrency exchanges, digital investments and insurance products. A breakdown of some benefits of FinTech was presented such as helping to lower the cost of accessing financial products/services by users, the emergent of targeted financial products/services and the elimination of geographic distances. In terms of formalisation, we saw that Fintech companies that wish to operate in Zambia must conform to the relevant regulations under which the operations or financial solutions are to be licensed. This can be with Bank of Zambia (BoZ), Pensions and Insurance Authority (PIA) or Securities and Exchange Commission (SEC). Notwithstanding the need to abide to regulation, we saw that Fintech companies and financial institutions have the option to test their products/ services in a live environment known as a regulatory sandbox, before fully deploying to the market, and that the BoZ regulatory sandbox is open to financial institutions, Fintech companies, financial products/services over which the Bank has regulatory oversight. All such institutions should be governed by either the Banking and Financial Services Act No. 7 of 2017 and/ or the National Systems Payment Act (2007).

Part 2 of this article will focus on defining some of the terms that were introduced in part 1, particularly focusing on the technologies that FinTech uses such as Regtech, blockchain and cryptocurrencies, Artificial Intelligence (AI), Machine Learning (ML) and Internet of Things (IoTs).

FinTech

FinTech is technology used to automate investments, insurance, risk management, banking and trading activities. The technology enhances the use of financial services and products or the automation of financial processes or services. FinTech companies use different technologies such as, blockchain, big data, robotic process automation, and Artificial Intelligence (AI). In Zambia much of the Fintech growth is around mobile money and mobile banking. Areas such as mobile insurance, and investment apps are slowly beginning to penetrate the market.

Artificial Intelligence

This is the use of algorithms to determine customer spending behaviours. The banks and other financial institutions use these algorithms to better understand their clients. Further, financial institutions are using AI to tend to customer complaints or inquiries using Chatbots. A chatbot is a software application that eliminates human interaction with customers and uses an on-line dialogue system such as chat conversation via text-to-speech, text-to-text or speech-to-speech. Chatbots enhance customer service by enabling 24-hour customer service and experience. Use of Chatbots extends beyond finance to include virtual assistants, e-commerce via chat, education, entertainment, health and news. The BoZ is not left behind as it is equally exploring the use of AI in the area of Consumer Protection and Market Conduct (CPMC).

Machine Learning (ML) is seen as an extension of AI because it enables machines or computer systems to learn and adapt without explicit commands or instructions. It is therefore a form of AI which uses historical data inputs to predict new outputs.

RegTech and SupTech

Intuitively, the increased use of technology implies the emergent of cyber related risks originating from the increased number of online activity and users as well as regulatory related risks. To this end, Regulatory Technology (RegTech) have been developed to cope with regulation in what has become as a high-Tech business environment. RegTech is not specific to FinTech or the financial system. It is a technology that enhances regulatory and compliance processes of companies. The financial industry has equally embraced RegTech and is helping Financial Service Providers (FSPs) to monitor compliance with regulations as well as meet reporting requirements. Supervisors or regulators are also utilising innovative technologies to support supervision and enforcement in the digital market. These technologies are known as Supervisory Technology (SupTech) and have largely been propelled by the massive amount of data being produced by FSPs which needs to be processed and analysed by the supervisors. Also, the number of regulations and their complexity keeps on increasing, therefore, regulators need to employ technologies that

will ensure efficient and effective supervision. Like AI, the BoZ is soon integrating SupTech in its supervisory activities to improve data for quality reporting, enhance detection capabilities, and enforcement actions.

Blockchain and Cryptocurrency

Blockchain is a shared immutable ledger that enables transactions to be recorded and track assets in a business network while cryptocurrency is a digital currency maintained by a decentralised system on a computer network using cryptography without reliance on a centralised authority such as a bank or Government. Cryptocurrencies are mined and blockchain is the technology that supports mining. However, blockchain and cryptocurrency are independent technologies that are distinct to FinTech but have crossed paths making it difficult to isolate one from the other.

Internet of Things

The Internet of Things (IoT) refers to physical objects with sensors, processing ability, software and other technologies that connect and exchange data with other devices over the internet or other communication networks. IoT is critical in the financial sector because it is helping FSPs detect fraud and improve customer experience. For instance, the Automated Teller Machine (ATM) is a famous IoT device which as revolutionised customer experience in banking. Other upcoming IoT oriented technologies in the financial sector include blockchain-based smart contracts. A smart contract is a programme stored on a blockchain that executes when certain predefined conditions are met.

Now that most of the main technologies around FinTech are defined, look out for the next article which will look at the services being propelled by FinTech and developments around the world.

The author is Manager Financial Sector Development in the Non-Bank Financial Institutions Supervision Department.

KEY CONCEPTS IN GENDER MAINSTREAMING

By Stella Nkhoma

Introduction

For the period 28 June to 9th July 2021, the Bank of Zambia held three (03) workshops on Gender mainstreaming under the theme “Strategic Leadership in Inclusive Finance and Transformative Skills” facilitated by Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). The course sought to equip selected members of staff (Directors, Assistant Directors, Managers and Gender Focal Persons) with the necessary skills and capabilities to support and actively participate in the Bank’s Gender Mainstreaming Programme.

As part of our ongoing sensitisation programmes, the Gender Unit will bring to you a series of articles covering a variety of topics that were shared during the training. We trust that the articles will provide further clarity on a number of practical issues that pertain to gender mainstreaming.

In Part 1 of the series, we share on the subject - Key Concepts for Gender Mainstreaming.

As a backdrop to this discussion, it is pivotal to stress that the power relations that impede women's attainment of healthy and fulfilling lives operate at many levels of society, from the most personal to the highly public. Achieving change requires policy and programme actions that will improve women's access to secure livelihoods and economic resources, alleviate their extreme responsibilities with regard to housework, remove legal impediments to their participation in public life, and raise social awareness through effective programmes of education and mass communication.

As we consider the subject matter, we wish to stress that in coming up with a final report following the training, the MEFMI team worked with the Bank to crystallise different ideas from the Banks perspective, looking at what was pertaining nationally, and incorporated international best practices into a comprehensive proposed Bank of Zambia Gender Mainstreaming Programme. A number of the proposals in the report have since been incorporated in the revised Gender Policy that was approved by the Board in February 2022. The BoZ Gender Strategy has also been updated to reflect some of the recommendations and will be presented to Management in the second quarter of 2022.

Key Concepts for Gender Mainstreaming

To make gender mainstreaming a reality, it is important to understand the key concepts that form the building blocks for any gender mainstreaming programme. The list shared in this article is not exhaustive. The reader is therefore encouraged to consult the Revised Gender Policy, 2022 and consult with the Strategy and Change Management Department and the Departmental Gender Focal Persons for further guidance and information.

Concept 1: Gender:

Let’s begin with the actual term, *Gender*. What is it all about? Gender is defined as the socially constructed roles and responsibilities assigned to men and women in a given culture, location and the societal structures that support it. Gender is learned, dynamic and changes over time.

Concept 2: Gender Norms:

The gender construct is underpinned by Gender norms, which the Merriman- Webster dictionary defines as “a principle of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior”. Examples of a gender norm can be the common social beliefs that “women and girls are confined to certain activities and men to other activities”. What’s important to note is that gender norms are not universal and vary not only within the culture but between different cultures (FAO, 2013). Traditional gender norms are often deeply rooted but can also change over time. In many societies characterised by a patriarchal social order, gender norms are generally skewed in favour of men and disproportionately disadvantageous to women (World Bank, 2012).

Concept 3: Gender Mainstreaming:

Gender mainstreaming is the consistent integration of gender issues and concerns into the design, implementation, monitoring and evaluation of policies, plans, programmes, budgets and activities and projects at all levels.

Mainstreaming requires that the needs of women and men are taken into account at all levels, to avoid perpetuating systemic inequalities1. It must be noted that equal treatment in policies and programmes may not necessarily lead to equal outcomes for both sexes. Women and men specific interventions and affirmative action should be undertaken in cases of systemic inequity to ensure gender sensitive analysis and programming.

Bank of Zambia's Gender Mainstreaming Programme is aimed at achieving and maintaining an environment that eliminates all forms of bias based on gender. Externally, this extends to regulated entities and the wider financial sector for the provision of capacity building through various interventions towards a more gender responsive financial sector.

Concept 4: Gender Relations:

Gender relations are informed by socio-cultural norms and determine how power is distributed between the sexes. These relations may create and reflect systemic differences in men's and women's positions and life chances in a given society across three domains:

1. 1. Gender entitlement systems, which influence access to health and education, and access to, and control over productive resources and income;
2. 2. Gendered division of labor across productive and reproductive work; and
3. 3. Social status, bargaining power and agency to influence decision-making processes at the household, community level, in the workplace and the boardrooms2.

Concept 5: Gender Discrimination:

Gender discrimination may be seen as the negative actualisation of gender relations. Discriminatory gender norms are the core means by which gender inequalities are created and maintained in a society. It is the prejudicial treatment, restriction or exclusion made on the basis of one's gender - man or woman, which has an effect of impairing or nullifying the recognition, enjoyment of human rights and fundamental freedoms. Gender discrimination, also known as sexual discrimination, is any action that specifically denies opportunities, privileges, or rewards to a person (or a group) because of sex. In the Bank's context this discrimination can take the form of negative practices being applied in the workplace. (See Dialogue Box below - How Organisations Can Address Gender Discrimination Towards Equality).

Concept 6: Equality Vs Equity:

One concept misunderstood by many is equity and therefore deserves attention. Gender Equity, is a condition in which men and women participate as equals, have equal access to resources, opportunities and are provided with an enabling and empowering environment in the personal, social, cultural, political and economic arenas.

Gender equality is the attainment of fundamental rights, a situation where men and women are seen to be equal, provided with equal opportunities in the society, enjoying equal benefits and are treated the same before the law. The graphic below shows how equity can be used as a tool to achieve equality by providing appropriate tools (in this example, appropriate stands for persons of different stature and ability)

Equity may be achieved through equal treatment or treatment that is different, but which is considered equivalent in terms of rights, benefits, obligations and opportunities4. This could include affirmative action.

Concept 7: Affirmative Action:

This is an action taken on a temporary basis in favour of a disadvantaged group so as to enhance equality.

Concept 8: Empowerment:

Empowerment is another critical aspect of achieving gender equality. In the context of the gender discourse, it is the ability of a woman/man to control her/his own destiny. For women to be empowered they must not only have equal capacities and equal access to resources and opportunities but must also have agency to use those rights to make choices and decisions provided through leadership opportunities and participation in institutions. The pillars of empowerment include capacity building, adequate resources, equal opportunities, and inclusive security.

We hope that members of staff will find the concepts discussed above useful and try to apply them in different scenarios. Clearly, there is a compelling reason to understand that we must not treat men or women as a homogenous group but rather try to understand the different realities of their lives and the impact a project or policy will have on their lives.

HOW ORGANIZATIONS CAN ADDRESS GENDER DISCRIMINATION TOWARDS EQUALITY

Get Women on Boards

Greater representation of women on boards of directors is critical. Boards with at least one woman are likely to crush the competition, according to a Business Insider article. Diversity matters!

Educate Senior Leadership

Both the board of directors and the senior leadership team must understand the role gender plays in an organization- the business case for gender equality!

Promote gender diversity and Inclusion in HR practices

Increase gender diversity in the talent pool,

Fight Biases and gender stereotypes

Ensure that neither conscious nor unconscious gender bias plays a part in decision-making.

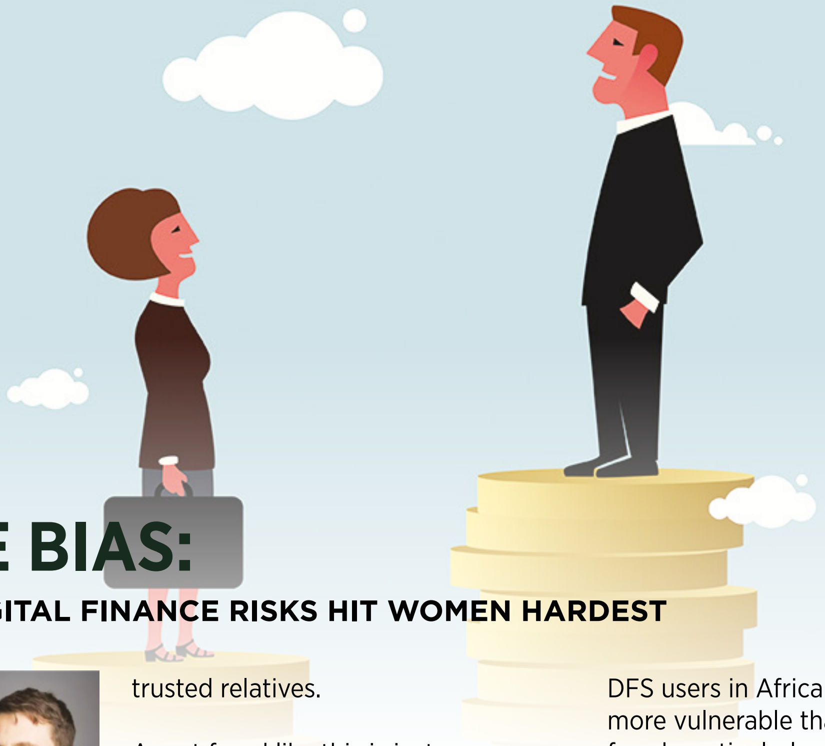
Conducive Work/Life Balance Management

Helping employees with the management of work and personal responsibilities is particularly important to those who are primary caregivers.

Include Men and Women

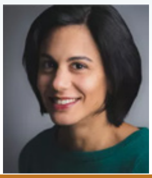
The burden of gender equality rests on everyone!

Source: The Society for Human Resource Management- Tips to Fight Gender Discrimination- Jonathan A. Segal, 2015



BREAK THE BIAS:

EVIDENCE SHOWS DIGITAL FINANCE RISKS HIT WOMEN HARDEST

By Majorie Chalwe-Mulenga, Yasmin Bin-Humam, Eric Duflos

When Kabamba heard that thieves had broken into her grandmother's house and stolen the cash in her bedroom, she knew her grandmother needed money — and fast. Without cash on hand, her grandma wouldn't be able to restock her small business selling tomatoes. She might have to close down. Kabamba sent 1,000 Zambian *Kwacha* (about US$60) via digital transfer, expecting the money to reach her grandmother many kilometers away in a matter of moments. However, after Kabamba sent the money, her grandmother experienced a different, more insidious form of theft.

Kabamba paid a standard bank transfer charge of K 15 but was shocked that her grandmother only received K 700 of the K 1,000 transfer. Kabamba's grandmother explained that the mobile money agent withheld K300 for "service fees." Kabamba advised her grandmother to warn the agent that she would report the incident to the relevant authorities. Kabamba's grandmother confronted the agent, who owned up and paid back the difference. Because of this incident, Kabamba's grandmother is no longer confident using mobile money services without help from trusted relatives.

Agent fraud like this is just one of the many types of risks that digital financial service (DFS) users, especially women, face around the world today. Over the past year, CGAP has been studying the evolving nature of DFS consumer risk globally since 2015. In our recently published typology of **66 DFS consumer risks**, we find that not only are long-standing risks like agent fraud getting worse, but new risks are emerging every year. Women like Kabamba's grandmother are particularly vulnerable to these risks.

This has significant consequences for women's financial inclusion. In addition to causing women financial hardship, experiencing or hearing stories of women who have experienced consumer risks can discourage women from using mobile money — the **main driver** of financial inclusion in many developing countries, particularly in Sub-Saharan Africa. Negative experiences with DFS can also force women to **revert to informal finance** mechanisms, reversing progress in financial inclusion.

Women are more vulnerable to DFS risks than men

Emerging evidence shows that women are more likely to experience most risks identified in CGAP's consumer risk typology. For instance, a Columbia University **study** found that women DFS users in Africa and South Asia are more vulnerable than men to cyber-fraud, particularly social engineering scams such as SMS and voice phishing. Another **study** in rural Ghana revealed that female mobile banking customers were relatively more likely to suffer misconduct than male customers. There is also evidence that women are **twice as likely to have their identity stolen** and are at a **higher risk of online harassment** than men.

In a world where women have **lower digital access than men**, women are also more likely to experience algorithmic bias since **men are better represented** in the datasets that train the algorithms.

Lower digital and financial skill levels among factors that make women more susceptible to DFS consumer risks

A few factors heighten women's susceptibility to DFS risks. One of the most important is that women generally have lower digital and financial skills than men.

The Economist Intelligence Unit estimates that in Sub-Saharan Africa, men are **30% more likely than women to be connected to the internet**. In all 14 countries covered by GSMA's Intelligence Consumer Survey, more women than men cited **not knowing how to use a phone** as one of the main barriers to owning a mobile phone. Also, **findings** from six country deep dives indicate that men are more digitally and financially literate than women. While the global financial literacy gender gap is 5% according to the **S&P Global Financial Literacy Survey**, many countries, both developed and developing, have much larger gaps.

In the context of the COVID-19 pandemic, the gender gap in digital and financial literacy has put women at even greater risk. The pandemic has accelerated the world's digital transformation, led to a **surge in digital fraud** and compelled women to use DFS even when their digital and financial skills are low.

Sometimes, poor communication from Governments and DFS providers to agents and customers adds to the problem. In Indonesia, bank agents and facilitators of the *Programme Keluarga Harapan* held **incorrect beliefs** about accounts used to receive Government-to-Person (G2P) payments. These included the idea that "any money left in the account will be taken back by the bank." This led many women to mistrust and fear their G2P accounts. Unfortunately, women do not usually report issues of misinformation and misconduct due to complex redress procedures.

In many countries, **social norms** discourage women from engaging freely with male agents, preventing them from asking questions about product features. In Bangladesh, the IFC **found** that women believed that female agents were "better behaved," easier to approach, more trustworthy and better at maintaining confidentiality than male agents. Breaking the bias in gender norms is crucial for promoting women's digital financial inclusion, which helps women to generate income, access essential services, and protect their basic living standards.

Regulators, supervisors, funders and providers can help mitigate DFS consumer risks for women.

Consumer risks warrant urgent action to ensure positive outcomes for women and vulnerable DFS users. There has been notable progress on this front in recent years. For example, the **IMF's Financial Access Survey** shows that by October 2021, 71 out of 165 jurisdictions reported gender-disaggregated data — an increase of 10% relative to the previous round. Policy makers and regulators have also been focusing more on DFS risks. It is encouraging to see that 28% of the 43 central banks that participated in a recent AFI **survey** are adding consumer protection provisions to DFS-specific regulatory instruments. Also noteworthy is that 8% have designed a specialized consumer protection framework for DFS, and 12% are considering gender-based risk issues.

Many funders have also taken proactive steps to promote responsible access and usage of DFS. For instance, the International Finance Corporation, together with CDC, KfW, Goodwell Investments and 50 co-founding signatories, launched the **Investor Guidelines for Responsible Investing in DFS.** However, there is room to further emphasize gender. To improve gender-disaggregated data and mitigate DFS consumer risks for women, we suggest the following:

- **Regulators and supervisors can require financial service providers to report gender-disaggregated consumer risk data.** They can also monitor gender-based risks using the tools described in **CGAP's Market Monitoring Toolkit**, like mystery shopping, thematic reviews and phone surveys. A United Nations Secretary-General's Special Advocate for Inclusive Finance for Development **study** in 2020 found that countries with more experience gathering supply-side, gender-disaggregated data developed gender-informed financial policies. Collecting consumer risk data can help regulators and supervisors to design appropriate consumer protection regulations that promote women's financial inclusion.
- **Funders can finance programs that elevate women's voices.** For example, they can support consumer associations, which are **chronically under-resourced.** Some **consumer associations** have helped to promote women's financial capability. The Consumer Council of Zimbabwe rolled out financial education programmes to 4,000 women through consumer action clubs. Consumer Unity and Trust Society International supported 84,000 women with financial literacy activities, while the Consumer Council of Fiji provided financial advisory services to women. Funders can also promote programmes that enhance women's financial and digital literacy.
- **Providers can take a more customer-centric approach with women.** This may require them to adapt their culture and business models to better serve women. At a minimum, they should better understand women's needs — for instance, by investing in consumer insights research and analysing internal customer data. In Bangladesh, a simple redesign of Grameenphone's utility bill and mobile top-up app, GPAY, simplified the user interface. This made it **easier for less digitally literate women** to use the payment solution.

By taking these steps, we can help ensure women like Kabamba's grandmother use DFS to achieve positive financial outcomes.
This post blog post originally appeared on www.cgap.org

For more information about DFS consumer risks and additional recommendations on mitigating them, see CGAP's new report, "The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence."

WHAT IS THE ROLE OF INTERNAL AUDIT?

By Agrippa Mwanza

The words "Internal Audit" often conjure a sense of fear, frustration, and time-consuming activity. Even in the best circumstances, most would find having someone review their activities unsettling or intimidating. Understanding the role of Internal Audit and knowing what to expect during an Internal Audit, will help put you at ease and make the experience much more pleasant and valuable.

One of the objectives of Internal Audit is to identify weaknesses within the processes and control environment so that they can be fixed as quickly as possible to prevent harm to the Bank and its stakeholders.

Accordingly, the Internal Audit Plan is driven by risk or, in other words, is designed to examine those areas that present the greatest risk to the Bank.

Internal vs External Audits: How are They Different?

There is a little bit of confusion about what the difference is between internal and external audits. The simplest way to explain the difference between internal and external audits would be to compare the who, what, why and when questions associated with the two types of audits.

As explained below, there is a difference between an internal and external audit. Although both audits involve checking whether the Bank is performing certain activities or controls correctly, internal audit results are reported in-house while the results from external audits are reported to stakeholders inside and outside of the Bank. The Bank can use the results from the internal audit to identify weaknesses and work to correct or strengthen them in preparation for the external audit where the results will be shared publicly.

You will notice that the scope and objectives of the two types of audits also differ. Internal Audits are typically smaller, focused audits that collectively over a year will cover a broader scope. This allows the Bank's Board and Management to get more frequent/timely information that may be used to govern and improve the Bank. In contrast, the Bank will typically have one big external financial audit each year. The objective of the external audit is to determine the accuracy of annual financial statements.

The last area of difference that we would like to highlight is with respect to the scope of responsibilities. Internal auditors function as

Question	Internal Audits	External Audits
Who Performs the Audit?	Internal Auditors, typically employees of the Bank.	External Auditors, typically members of a Certified Public Accountant (CPA) firm. i.e. Audit firms.
Who are the Audit findings Reported to?	Senior Management and the Board of Directors	Shareholders, the Board and stakeholders outside of the Bank.
What does the Audit Cover?	Evaluations of the Bank's Governance, Risk Management and control processes.	Financial Reports, and Internal Controls related to Financial Reporting.
Why is the Audit Performed?	Performed to: • To improve the effectiveness of governance, risk management, and controls over critical processes. • Provide the Board and Management with information and assurance related to their duties.	To validate or provide reasonable assurance of the material accuracy of financial reports from the Bank to its stakeholders.
When are Results Reported by the Audit?	May report at any frequency (usually quarterly) designated by the Board.	Annually.

consultants and trusted advisors who perform risk assessments and then advise the Bank's management on how to address the risks identified. External auditors do not have any responsibility to the Bank. External auditors' only responsibility is to assess, validate, or provide reasonable assurance on the material accuracy of financial reports from the Bank to its stakeholders.

What are the Types of Internal Audits?

The key types of internal audits include compliance (i.e., regulatory), information technology, operational and performance audits.

- **Compliance Audits** evaluate compliance with applicable laws, regulations, policies and procedures. Some of the regulations may have a significant impact on the Bank's financial well-being. Failure to comply with some laws may result in millions being paid in fines or reputation damage.
- **Information Technology Audits** may evaluate information systems and the underlying infrastructure to ensure the accuracy of their processing, the security and confidential information or intellectual property. They will typically include the assessment of general Information Technology controls related to logical access, change management, system operations, backup and recovery.
- **Operational Audits** assess the Bank's control mechanisms for their overall efficiency and reliability.
- **Performance Audits** evaluate whether the Bank is meeting the metrics set by management in order to achieve the goals and objectives set forth by the Board of Directors.

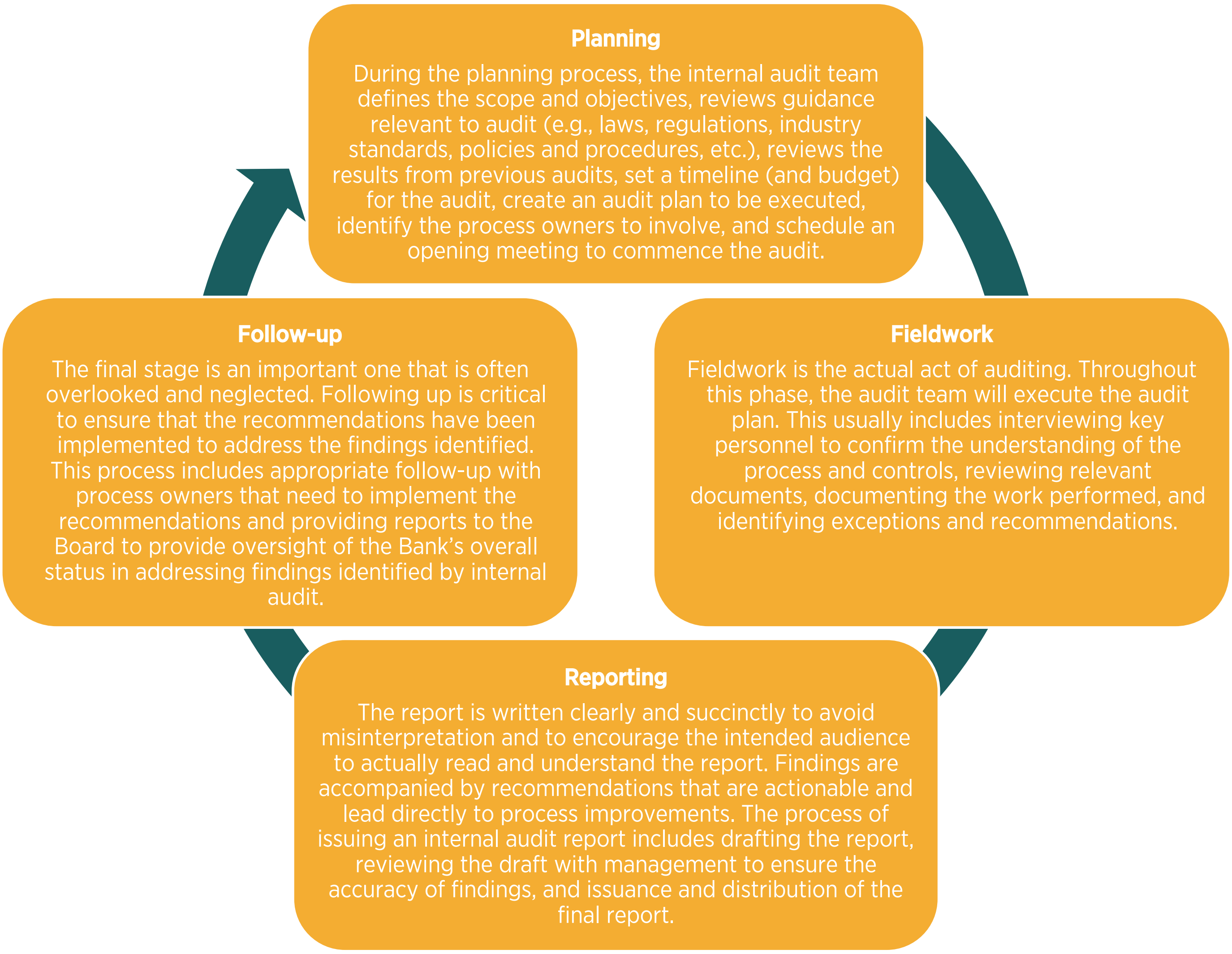
What is the Internal Audit Procedure / Process?

An internal audit cycle has four general phases of activities—Planning, Fieldwork, Reporting, and Follow-up. The following provides a brief synopsis of each phase.

Conclusion

It is hoped that this article shall enhance understanding of the role of internal audit and its importance in improving the operations of the Bank. The Internal Audit Department's desire is that the general perspective of Internal Audit will change and that client departments may look forward to audit engagements.

The author is an Internal Auditor in the Internal Audit Department.



A FIVE- POINT STRATEGY FOR CONSTRUCTIVE CRITICISM

By Matakala Mabuku & Bernadette Mwiinga

Constructive Criticism is the process of offering **valid** and **well-reasoned opinions** about the work of others, usually involving both positive and **negative** comments, in a friendly manner rather than an oppositional one.

When discussing how to deliver negative feedback, it is important to distinguish between **Outright Criticism** and **Constructive Criticism.** The goal in delivering negative feedback should always be to help the recipients of the feedback correct problematic behaviors. Generalised or mean-spirited comments will never be useful or constructive for an employee and should thus be avoided.

It is important for the person delivering the constructive criticism to get straight to the point and deliver the feedback clearly and succinctly. Otherwise, the receiver may be confused and thus defeating the purpose of the conversion.

To help an employee to improve his or her performance, explaining to the employee what he/she did wrong is only half the equation. It is crucial for the manager to be prepared with concrete examples of how the employee could have handled the past problems better, as well as solutions on how the employee can deal with similar situations in future.

To be effective, constructive criticism should be delivered with an appropriate tone. Even if a manager is feeling angry at or frustrated with an employee, the employee will likely be more receptive to the negative feedback if the manager comes across as concerned and understanding when delivering it.

When delivering constructive criticism, Managers should consider highlighting the employee's strengths. This will help the employee to keep the criticism in perspective as well as encourage him or her to "keep the good work" in the areas in which the employee excels.

How to receive constructive criticism

1. **Stop your first reaction:**
   At the first sign of criticism, before you do anything, stop. Try not to react at all and in that moment, you can halt a dismissive facial expression or reactive quip and remind yourself to remain calm.
2. **Remember the benefit of getting feedback:**
   It is to the benefit of the receiver to remind themselves, on the benefits of receiving constructive criticism, which include, among others, improving your skills, work product/output and relationships and meet the expectations that your manager and others have of you.
3. **Listen to understand:**
   After avoiding your typical reaction, your brain is working and you have recalled all the benefits of feedback, you now need to listen to understand what you are being told. As the person shares feedback with you, listen closely. Allow the person to share their complete thoughts without interruption. When they are done, repeat what you heard so that you can confirm what was said.
4. **Say thank you:**
   - Saying thank you in a situation like this is hard, but please do say "thank you". Look the person in the eyes and thank them for sharing the feedback with you. Don't gloss over it, but actually say "I really appreciate you taking the time to talk about this with me".
   - Expressing appreciation doesn't have to mean you are agreeing with the assessment, but it shows that you are acknowledging the effort your colleague took to evaluate you and share his/her thoughts.
5. **Ask questions to deconstruct the feedback:**
   After processing the feedback, you need to get clarity and share your perspective. Avoid getting into a debate, instead, ask questions to get to the root of the actual issues being raised.

Examples of constructive criticism

- **Firstly, detach the situation from the person.** This distinction is crucial. Take the person out of the equation and focus on the behavior, action, situation or issue at hand.
- **Comment on the issue, not the person.** For example, "the clothes are dirty" and not "you are dirty", "the report is late" and not "you are late", "the food is oily" and not "you are a bad cook."
- **Don't make personal attacks.** Comments like "I'm so sick and tired of..." or "You're so stupid or negative or lazy or unorganized" come across as accusatory. Stay away from attacks.
- **Don't use active voice; use passive voice.** Example of active voice versus passive voice: "you gave a bad presentation" vs "the presentation you gave was bad." Notice that the passive voice

shifts the attention away from the person and brings it to the subject matter.
- **Share how it affects you.** Rather than go on and on about how bad the thing is, share how it affects you. This shifts the focus away from the person and onto yourself, which lets the person take a step back to evaluate the situation. It also gives him or her insight to where you are coming from.

Be specific with feedback

- Focus more on objective points than subjective opinions. Just saying "I don't like it" is not helpful. On the other hand, stating the specific things you do not like, is helpful.
- Break your feedback down into key points. Don't give your feedback as one big lump. Break it down into various key points, then give your feedback point by point.
- Give specific examples of each point. What are the exact situations or examples where the person exhibits the behaviors you highlighted? Point them out.
- There is no need to highlight every single example – just pointing out 1-2 key examples per point will be sufficient. The intention here is to (a) bring the person's awareness to things which he/she may be oblivious about and (b) illustrate what you mean.

Comment on things that are actionable

- Knowing what's actionable and unactionable requires you to be empathetic.
- Understand the person's situation and his or her objectives, then provide your critique based on that.

Give Recommendations on how to improve

- When all is said and done, give recommendations on what the person can do to improve.
- Firstly, your recommendations will tie up your critique in a nice bow. Everyone has varying perspectives, which means every critique can be interpreted in different ways. Giving recommendations will give the person a clear idea of what you have in mind.
- Secondly, recommendations provide a strong call-to-action. You want the person to act on what you have shared, not procrastinate.
- With your recommendations, I recommend to: (a) be specific with your suggestions and (b) briefly explain the rationale behind the recommendation.

Don't make assumptions

- Do not make assumptions. When providing criticism, do so within what you know as fact about the person and the subject. There's no need to make any assumptions. Not only does it make the person look bad, it also makes you look bad — especially when your assumption is wrong.

Benefits of constructive criticism

- You get more learning opportunities - Through constructive criticism, individuals have an opportunity to learn new things and perform better in tasks.
- Feedback is always useful - Constructive criticism is an honest response that gives you views on what is right and what you can do better.
- Criticism is a form of being honesty - Constructive criticism does not come as a way of bringing you down; it is a different perspective of how others think.
- It helps you improve - Positive criticism can open and set your sight to higher levels that you may not have been thinking about before.

In conclusion, constructive criticism is often the only way we learn about our weaknesses and without it we cannot improve. When we are defensive, instead of accepting criticism graciously, we run the risk of missing out on this important insight. In the same way, giving criticism must be done with careful consideration, taking into account all the steps mentioned above, instead of taking a blaming attacking approach.

Source: Katie Calabrese, 2014

Matakala Mabuku is Assistant Manager HR Administration while Bernadette Chifita is Acting Assistant Manager HR Operations.

2022
PHOTO FOCUS

FIRST QUARTER MPC

INTERNATIONAL WOMENS DAY

POLICE DAY

Bank of Zambia

PRESS RELEASE

STATEMENT ON THE CANCELLATION OF THE NON-DEPOSIT TAKING MICROFINANCE INSTITUTION LICENCE OF MONETA FINANCE LIMITED

The Registrar of Financial Service Providers has with effect from 1 March 2022 cancelled the non-deposit taking microfinance institution licence of **MONETA FINANCE LIMITED** in accordance with section 17 of the Banking and Financial Services Act. The cancellation of the licence is due to failure by Moneta Finance Limited to comply with the provisions of the Banking and Financial Services Act and the Banking and Financial Services (Microfinance) Regulations, 2006.

The cancellation of the licence entails that Moneta Finance Limited ceases to operate as a microfinance institution under the Banking and Financial Services Act and the Banking and Financial Services (Microfinance) Regulations, 2006. However, the cancellation of the licence does not relieve Moneta Finance Limited of any obligations it incurred or assumed during the period of validity of the licence.

For further information and clarification, kindly contact the following:

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