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Bank of Zambia

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# PUBLIC NOTICE

## CHANGE IN ISSUANCE METHOD OF THE GOVERNMENT OF THE REPUBLIC OF ZAMBIA BONDS

The Bank of Zambia wishes to inform the General Public and investors in Government securities that effective from January 2024, the Government of the Republic of Zambia bonds (GRZ bonds) will be issued at par in the primary market for all new issuances. This means that Government bonds will be sold at their face value, that is, the cash amount to be invested will be the same as the face value amount.

Issuance at par entails that the coupon rate for each instrument will be determined during the auction. We further wish to advise that the coupon rate for each instrument on auction will be the respective highest accepted yield rate. Re-issuances of any existing bonds and secondary trading of any bonds may be done at discount, par or premium depending on market conditions.

The change has been made to streamline Government debt metrics and debt service in general.

The General Public and all investors are advised accordingly.

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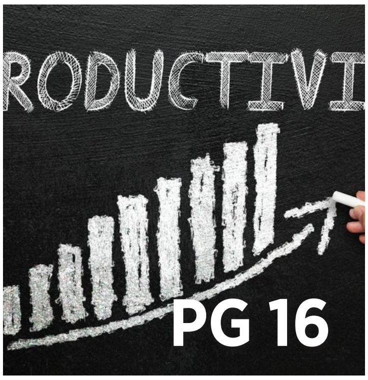
## FINANCIAL INCLUSION

Zambia has made good progress in improving financial inclusion and the rapid expansion in the use of mobile money has played a leading role. 'Given that the growth in the use of mobile money is an important channel for financial inclusion, improving internet connectivity is critical in increasing the number of people who are financially included.

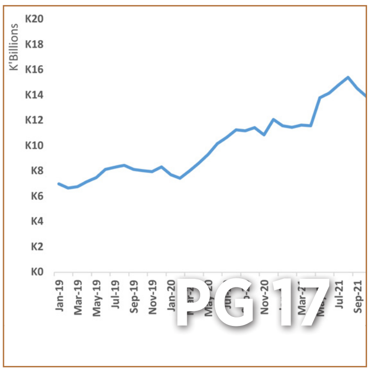



## FLEXIBLE EXCHANGE RATE REGIME

Government will continue to maintain a flexible exchange rate regime. In this regard, Government will cushion the economy against external shocks by accumulating adequate international reserves and providing necessary market support. To increase foreign exchange earnings, Government will promote export-led industrialisation and attract foreign direct investment.


## REVIEW OF THE BANKING AND FINANCIAL SERVICES ACT, 2017

To ensure that the financial sector effectively contributes to growth and economic development, the Banking and Financial Services Act, 2017 will be reviewed in 2024.




## CASH STILL WIDELY USED IN ZAMBIA

Cash remains widely used in Zambia, particularly in rural areas and among the unbanked or underbanked population, Director Payment Systems, Ms Mirriam Kamuhuza has said. Speaking during a panel discussion titled "The Death of Cash," Ms Kamuhuza said there are still many places, particularly in the informal economy and among small-scale businesses where "cash only" transactions are high.


## HIGH-WIRE ARTISTS: CENTRAL BANKER REPORT CARDS 2023

Through the past year, central bankers teetered and wobbled to avoid both inflation and recession while juggling an array of internal and external risks. Global Finance grades their success and interviews a dozen about the last year—and the next … In June, Zambia's prolonged debt crisis ended. The government managed to secure a $6.3 billion debt restructuring deal with key creditors, such as China, and made progress in restructuring another $3 billion owed to international bondholders. In all the deals, Bank of Zambia (BoZ) Governor Denny Kalyalya played a critical role.

# EXPORT PROCEEDS TRACKING FRAMEWORK

***By Angela Chileshe and Mwika Mwenechanya***

**Ms. Chileshe**

**Ms. Mwenechanya**

In 1991, the Zambian Government undertook major economic reforms to liberalise the economy. This included the removal of controls on both the current and capital and financial accounts. In doing this, the mechanism for collecting information on external sector statistics was done away with. This created an information gap in the compilation of capital and financial account statistics and led to diverging trends between the current account and reserve assets. Sizeable current account surplus has not been accompanied by the accumulation of reserves or increase in net foreign assets of domestic banks as would be expected. In this regard, it has become imperative to urgently obtain information on the use of export proceeds that include re-invested earnings, payment of dividends, debt repayment and accumulation of assets held abroad.

The Bank of Zambia (BoZ) is, therefore, in the process of fully operationalising the electronic Balance of Payments (eBoP) Monitoring System. To achieve this, the Bank intends to roll out an Export Proceeds Tracking Framework (Framework) on January 1, 2024. Under this Framework, all export earnings will be reflected into an account at a bank domiciled in the Republic of Zambia. Exporters will retain full rights and control to use the funds as they deem fit as long as they comply with Anti-Money Laundering/ Countering the Financing of Terrorism/ Financing the Proliferation (AML/CFT/PF) obligations as has been the case under the current foreign exchange arrangement. The specific requirement for exporters to route all export proceeds through a bank account at local commercial banks is provided for in the BoZ Act, 2022.

The key objective of the Framework is to obtain economically meaningful external sector statistics as well as augment efforts to combat illicit financial flows. These statistics are a vital input in policy formulation and monitoring and are submitted to international organisations such as the IMF and World Bank as part of the country's obligation to provide accurate and timely information. Once operational, the Framework will enhance the quality and availability of trade transactions data. The Framework is expected to lead to several key benefits such as creating more transparency in international financial flows and contributing to financial sector integrity by curbing trade-based money laundering. It will also allow for the creation of a database of aggregate statistics that would be useful in conducting national money laundering and terrorist financing risk assessments that the country is required to undertake under the Financial Action Task Force Recommendations.

The Framework involves the interface of the Electronic Balance of Payments (e-BoP) Monitoring System and ASYCUDAWorld. The e-BoP Monitoring System was launched in December 2019. It is a platform on which commercial banks report daily cross-border transactions. The System captures all cross-border transactions undertaken through the domestic banking system and is linked to the core banking system, reporting daily receipts and remittance transactions that include amount, purpose of transaction, sector and source country. The return submitted by financial service providers reporting these

transactions is known as a Money Receipt and Remittance Transaction (MRRT). ASYCUDAWorld is a platform on which exporters make declarations regarding the description, value and destination of their exports, it is a computerised customs management system developed by the United Nations Conference on Trade and Development (UNCTAD) for processing foreign trade and is currently used for customs administration in over 70 countries.

Under the Framework, exports declared on ASYCUDAWorld will be reconciled with the cross-border transactions reported by commercial banks on the e-BoP Monitoring System using a Unique Consignment Reference (UCR) that will be generated for each export declaration made.

The key responsibilities of various stakeholders will be as follows:

**A. Exporter**

- A Tax Payer Identification Number (TPIN) is required to undertake an export transaction.
- The exporter/declarant will be required to accurately complete an export bill of entry on ASYCUDAWorld system with a unique identification number called Unique Consignment Reference (UCR). Exporters will provide the following details when submitting the export declaration form: i) supplier's commercial invoice, ii) carrier's cargo manifest, iii) certificate of origin, iv) consignment notes, v) export permits (where applicable), vi) packing list and vii) airway bill (where applicable).
- To provide the following to the buyer:

» Account details of domestic commercial bank domiciled in the Republic of Zambia (account number, bank name, branch, SWIFT code);

» Purpose of transaction (SADC harmonized purpose codes);

» Sector (exporter-ISIC code);

» Taxpayer Identification Number (TPIN) of the exporter from ZRA; and

» UCR (Bill of entry from ZRA).

**B. Buyer**

- Orders goods and is informed of reporting requirements by the exporter.
- Buyer shall make payment for goods to the seller's local bank account using the details provided by the exporter.

**C. Bank of Zambia**

- Will reconcile UCRs and Money Receipt Remittance Transaction (MRRTs) so that all export proceeds are fully accounted for.
- Follow up with banks and exporters on unreconciled UCRs.

**D. Commercial Banks and Financial Institutions**

- Provide Money Receipt and Remittance Transaction (MRRT) details (TPINs, purpose codes, sector codes) accurately on the e-BoP System
- Ensure the correct use of the UCR
- Account holders to have accurate and valid TPINs
- Stakeholder Sensitisation

To prepare the market for the roll out of the Framework, the Bank has hosted various stakeholder engagements through the Public Private Dialogue Forum, including Government bodies and Line Ministries, Bankers Association of Zambia and the International Monetary Fund. The Bank will carry out further sensitisation with a wider range of stakeholders comprising exporters, border agents and the public. Further, the Bank has drafted Directives to govern the implementation of the Framework. The draft Directives are currently undergoing a peer review process prior to gazetting.

*The authors are Assistant Director - Balance of Payments Monitoring and Senior Economist in the Economics Department*

# BoZ TO USE ALL TOOLS AT ITS DISPOSAL TO TAME INFLATION

*By Zambanker Reporter*

Deputy Governor-Operations Dr Francis Chipimo says the Central Bank will continue to use all tools at its disposal to help achieve its medium to long-term inflation objective. The Bank of Zambia uses a variety of tools to manage inflation including: open market operations; reserve requirements; setting of key interest rates, such as the benchmark policy rate; and managing people's inflation expectations.

The Monetary Policy Committee at its August 2023 Meeting projected that inflation would remain outside the 6-8 percent target band over the next two years, if no policy action was taken. After declining for six consecutive quarters, inflation rose to an average of 9.9 percent in the second quarter of 2023 from 9.6 percent in the first quarter, moving away from the target band. The lagged pass-through from the depreciation of the Kwacha against the US dollar, higher maize grain and meat prices, reduced supply of vegetables, and the upward adjustment in electricity tariffs explain this outturn.

In July, inflation increased to 10.3 percent from 9.8 percent in June, moving further away from the target band as some of the upside risks identified in the May MPC Meeting materialised during the second quarter. Inflation thus remains firmly outside the 6-8 percent policy target. Rising food prices, particularly for maize grain and its products owing to constrained supply in the region, and the depreciation of the Kwacha against the US dollar have been key factors behind the rise in inflation.

Speaking during the PwC 2022 Banking Survey Dr Chipimo indicated that in recognition of these threats to inflation, the Bank raised the Policy Rate by 100 basis points this year to 10.0 percent from 9.0 percent.

The Central Bank raised the statutory reserve ratio by 2.5 percentage points, to 11.5 percent. This decision was made in an effort to control inflation, which the Deputy Governor said is a tax on people's incomes and hurts those who have fixed incomes the most, especially the poor and vulnerable.

"It is important to note that there are risks to the inflation outlook that could potentially affect the achievement of the target for 2024. These include increases in energy and food prices due to prolonged Russia-Ukraine war, tighter global financial conditions, and higher domestic maize grain prices due to short supply in the region and anticipated adverse weather conditions. In this context, efforts to boost food production and maize grain production in particular to meet both domestic and regional demand are critically important," he said.

The Monetary Policy Committee, at its August 21-22, 2023 Meeting, decided to raise the Monetary Policy Rate by 50 basis points to 10.0 percent. The decision was informed by the movement of current and projected inflation away from the 6-8 percent target band and the need to contain inflation expectations.

Dr Chipimo said the Committee recognised the significant structural reforms undertaken by the Government, which are reflected in lower fiscal deficits, debt restructuring, and broader efforts to promote investment and private sector led growth.

"Monetary policy can best support these efforts by steering inflation back to the target band and anchoring inflation expectations. This is consistent with the Bank of Zambia mandate to achieve and maintain price and financial system stability," he said.

The Committee noted that the financial sector exposure to systemic risk was moderate and it will remain relatively well capitalised. Further, the Bank is undertaking financial sector reforms that will support financial intermediation and inclusion. These measures will support the entrenchment of macroeconomic stability and the structural reforms being undertaken by the Government.

# AACB CONVENES IN ZAMBIA TO ADDRESS RECURRENT SHOCKS AND MACROECONOMIC CHALLENGES

***By Zambanker Reporter***

The Bank of Zambia hosted the Annual Symposium of the Annual Meetings of the Association of African Central Banks (AACB) for the first time in the 58 years history of the Association. The theme for this year's Symposium was "Recurrence of Shocks and Macroeconomic Implications for African Economies: Challenges and Prospects for Central Banks".

The Association of African Central Banks was created to promote co-operation in monetary, banking, and financial spheres in the African region, bring about and maintain price and financial system stability, and spearhead a convergence process towards a single currency and a common central bank in Africa, among others.

Finance and National Planning Minister, Hon. Dr Situmbeko Musokotwane, officially opened the meeting on behalf of President Hakainde Hichilema. Dr Musokotwane highlighted the importance of the symposium's theme in understanding and preparing for the recurrent shocks that African economies face, such as climate change, pandemics, and geopolitical conflicts. He said Zambia had itself experienced various shocks, including severe droughts and the devastating impact of the COVID-19 pandemic. Additionally, disruptions caused by the Russia-Ukraine war and the burden of unsustainable external debt compounded the challenges faced by the nation.

Dr. Musokotwane emphasized the importance of coordinated monetary and fiscal policies to tackle economic challenges. He praised the Government's reform efforts that align with the Bank of Zambia's initiatives to restore stability. He added that the successful external debt restructuring under the G20 Common Framework is a major breakthrough in easing the debt burden and channeling resources towards productive sectors.

Speaking at the same function, the BoZ Governor, Dr. Denny Kalyalya, underscored the critical role of central banks, in collaboration with fiscal authorities, in addressing the economic shocks. He expressed optimism that the discussions and conclusions of the Meetings would guide central banks and fiscal authorities in crafting effective policies to alleviate these shocks and foster price and overall macroeconomic stability across AACB member countries.

"This Symposium serves as a valuable platform for exchanging insights, experiences, and lessons drawn from our collective encounter with these shocks. The thematic focus of this gathering encompasses three key areas: 1) Enhancing the effectiveness of monetary policy in the face of persistent supply shocks; 2) The role of central banks in bolstering the resilience of African economies against external shocks; and 3) Exogenous shocks and their impact on the monetary policy transmission mechanism: Challenges faced by central banks and potential solutions," he said.

He stated that AACB member countries face a persistent challenge due to their excessive dependence on commodity exports, including minerals, crude oil, and agricultural products. He explained that this dependency has rendered African economies extremely susceptible

to external disruptions, hindering their progress towards achieving their development goals. One of the consequences is a reduced fiscal space, which constrains their ability to respond effectively to shocks when they occur. Additionally, this overreliance poses challenges for monetary policy implementation.

Dr. Kalyalya highlighted climate change, particularly droughts, floods, and extreme weather events, as a major exogenous shock disrupting African economies. He said these events impact agricultural productivity, jeopardising food security and livelihoods, infrastructure, and electricity generation in countries reliant on hydropower. This, in turn, exacerbates economic pressures, including higher inflation, which central banks must address. He added that political instability and conflicts pose significant challenges, as conducting monetary policy in volatile environments hinders economic growth, fuels inflation, and drives unemployment. Central banks in such environments face immense hurdles in maintaining price stability.

# DEBT RESTRUCTURING PROGRAMME AND ITS LIKELY IMPACT ON MONETARY POLICY IN 2024

***By Zambanker Reporter***

Zambia's external debt restructuring is being undertaken under the G20 Common Framework. The Framework aims to help low-income countries restructure their debt and deal with insolvency and protracted liquidity problems. Under the Framework, Zambia's external debt with bilateral and commercial creditors is expected to be subjected to debt relief by utilising debt treatment options to all creditors on comparable terms. However, debt stock contracted from multilateral creditors is not subject to debt treatment.

On June 22 this year, Government agreed on a comprehensive debt treatment of US$6.3 billion of Central Government debt with official creditors under the G20 Common Framework through the Memorandum of Understanding (MoU). The agreement is a significant step towards restoring Zambia's long-term debt sustainability. This complements strong commitment by Multilateral Development Partners to support the country's recovery through substantial concessional financing.

On October 14, 2022 the MoU was agreed between Government and the Official Creditor Committee (OCC) on the comprehensive debt treatment reached in June. The MoU formalises the agreement reached in June with official creditors. This represents an important milestone in achieving long-term debt sustainability. The terms of the MoU will now be implemented through bilateral agreements with each member of the OCC.

The official bilateral creditor countries have agreed to provide debt relief to Zambia with the following salient features:

- Significant maturity extension of existing debt by more than 12 years with final maturity in 2043, implying that debt has been stretched up to 2043;
- A significant cut in current interest rates to very concessional levels not exceeding 2.5 percent during the next 14 years; and
- Principal repayment will start in 2026, but only for 0.5 percent of the debt stock per annum up to 2035—the amount to be paid is a smaller fraction of what should have otherwise been paid.

The agreement also includes an adjustment mechanism recognising Zambia's future debt carrying capacity uncertainties. The mechanism provides for an accelerated repayment and higher interest rates if the debt carrying capacity improves from the current weak to medium classification. The IMF and World Bank will jointly undertake this assessment in 2026. If the evaluation shows that Zambia's debt carrying capacity has improved from weak to medium, the agreement provides that:

- The final maturity will be reduced by 5 years to 2038 from 2043; and
- Interest rates will be slightly higher than the baseline scenario.

Other agreement details will become available after the Government concludes negotiations and signs the Memoranda of Understanding (MoU) with official bilateral creditors. Commercial creditors are expected to offer similar treatment options as bilateral creditors.

**Likely impact on monetary policy in 2024**

High fiscal deficits and unsustainable debt levels constrain the effectiveness of monetary policy. For instance, high external debt service arising from unsustainable fiscal deficits has the potential to significantly reduce international reserves and, therefore, limit the ability of the central bank to respond to external shocks, including the management of exchange rate volatility, and subsequently the achievement of the inflation objective.

External debt restructuring will reduce debt servicing as repayment will be at reduced interest rates and over a longer period of time. In addition, project and grant inflows from Cooperating Partners as well as expected rise in foreign direct investment as a result of debt restructuring are expected to boost international reserves. This will help to stabilise the exchange rate and ultimately contribute to containing inflation. ■

*Source: Bank of Zambia submission to the Expanded Planning and Budgeting Committee*

# NEWS IN BRIEF

### Credit Guarantee Scheme

Lack of access to affordable credit continues to hinder the growth of the SME sector. As indicated in the Eighth National Development Plan, the Micro, Small and Medium Enterprises (MSMEs) have the potential to contribute to economic development but have historically been inhibited due to limited access to affordable funding and lack of collateral compared to large businesses. In recognition of this challenge, and to promote risk sharing in the financial sector, the Bank of Zambia has been working on a credit guarantee facility with the private sector. This aims to provide a more holistic solution for the financial sector to better lend to MSMEs. The Bank expects to finalise the architecture of the facility by the end of this year and to launch it in 2024. Dr Kalyalya said 'The Bank believes this will complement the efforts being made by the Government through its own Zambia Credit Guarantee Scheme. We note that the Government plans to increase its support to the Zambia Credit Guarantee Scheme to K386.0 million in 2024 from K150.0 million provided in 2023.'

### National Payment Systems Directives on Electronic Money Issuance 2023

The National Payment Systems Directives on Electronic Money Issuance 2023 were revised and gazetted in July 2023 to provide for the regulation of business of providing electronic money. The regulation requires all providers of electronic money to be licensed by the Bank and to adhere to the set directives to safeguard customer funds. The key thematic areas covered in the Directives include: requirements for authorisation or designation for issuance of electronic money; safeguarding of customer funds; provisions for outsourcing of distributors and agents; prohibition of unauthorised business for electronic money providers; and consumer protection, know-your-customer (KYC) requirements, retention of records and other matters incidental to electronic money issuance.

### National Payment Vision and strategy

The Bank has commenced work on coming up with the next National Payments Vision and Strategy for the period 2023 – 2027 as the current Strategy comes to an end this year. The strategic document is being developed collaboratively with various key stakeholders including banks and other financial services providers, payment service providers, other regulatory agencies, and Government.

The strategy provides guidance to the market in terms of the trajectory of payment systems in Zambia over the period of the plan.

### National Biometric ID

The Bank of Zambia in collaboration with other stakeholders is currently in the process of developing a centralised KYC platform which will enable financial service providers to access the customer data/information without requiring customers to submit the same data to every financial service provider.

Centralised KYC is one of the key milestones in the Bank's current strategic plan covering the period 2020-2023. Its main objective is to facilitate digital onboarding for financial service providers through a centralised electronic system.

The centralised KYC system is envisioned to be a robust shared infrastructure that will store customer identification data that can be accessed and used by financial service providers for conducting customer due diligence. ■

# ‘FINANCIAL INSTITUTIONS MUST BUILD CAPACITY TO PROTECT THEMSELVES FROM MONEY LAUNDERERS’

*By Zambanker Reporter*

Deputy Governor-Administration, Ms Rekha Mhango, has emphasised the importance for financial institutions under the purview of the Bank of Zambia to build sufficient capacity to safeguard themselves from exploitation by money launderers.

Addressing a workshop on Combating Money Laundering organised jointly by the Bank of Zambia and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), Ms Mhango underscored the severe threats posed by money laundering, terrorism financing, and the proliferation of weapons of mass destruction, which are often perpetrated by individuals, organised criminal syndicates, and corporations.

She elaborated that these illicit activities jeopardise security, undermine stability, erode transparency and efficiency within the economic system, and exacerbate poverty and misery in society. Additionally, they threaten the integrity of the financial system and weaken financial institutions.

Zambia's Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) regime is robust and imposes significant obligations and responsibilities on regulatory authorities and reporting financial institutions to adhere to the rules and regulations and effectively execute their duties.

Ms. Mhango stated that each financial institution must play its role by understanding the AML/CFT risks it faces and implementing measures to mitigate those risks.

In response to these illegal activities, nations worldwide have united under the Financial Action Task Force (FATF) to establish measures to combat money laundering, counter terrorism financing, and proliferation financing. These measures aim to prevent, detect, investigate, and prosecute perpetrators of these crimes.

“Recognising the detrimental impact of money laundering and associated crimes on economic development, the Bank of Zambia affirms the need to strengthen efforts to combat these vices in Zambia and the region,” she said.

The scope of AML/CFT initiatives has expanded in recent years, complemented by efforts from regional groupings like ESAAMLG and individual countries. In Zambia, the Bank, working in collaboration with the Financial Intelligence Centre (FIC), has played a pivotal role in spearheading efforts to rid the financial sector of these undesirable activities. We are grateful that MEFMI, a long-standing partner of the Bank in capacity development, is taking initiatives to support its member countries in combating money laundering, terrorism financing, and proliferation financing.

The workshop provided an overview of the fight against money laundering from a global, regional and local context. It also covered measures that could be implemented to combat money laundering and improve the effectiveness of efforts to comply with the international standards such as the FATF Recommendations and UN Security Council Resolutions.

# MOBILE MONEY TRANSACTIONS SURGE 8,116% IN SIX YEARS

***By Zambanker Reporter***

The adoption of digital financial services has been on the rise, providing a convenient and accessible alternative to cash transactions. While most electronic payment methods have recorded growth, mobile money has been the biggest driver for this transformation.

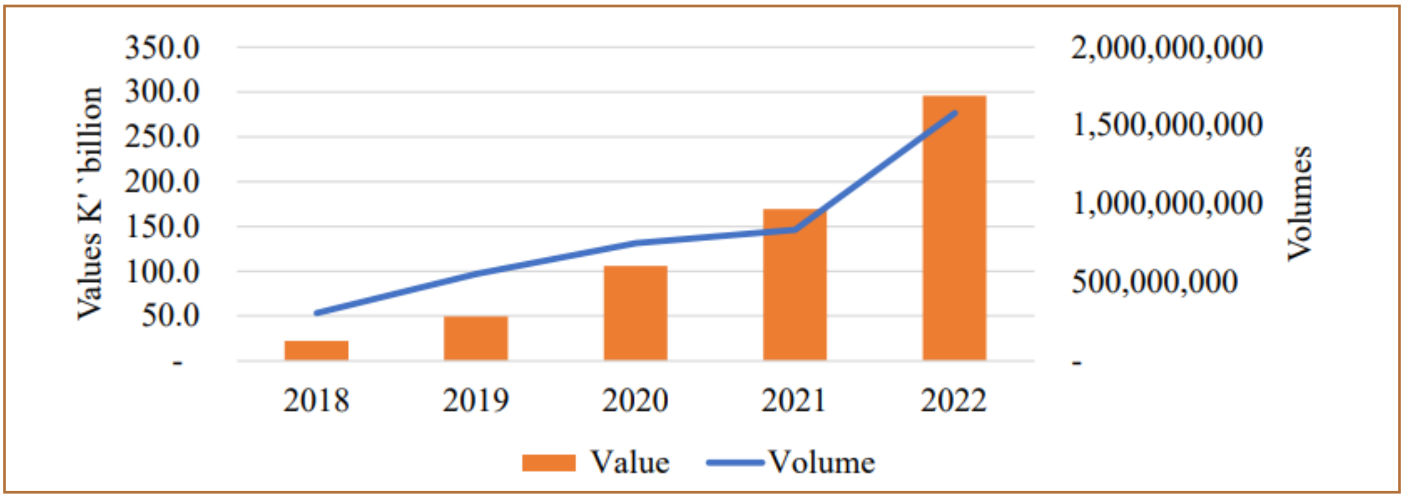
Speaking during a panel discussion titled 'The Death of Cash' Ms Kamuhuza said mobile money payments recorded a growth of K295.8 billion in 2022 compared to K3.6 billion in 2016 and that transactional volumes increased to 1.6 billion (2016: 105.9 million), representing a significant growth of over 8,116% in value while the volume grew by over 1,393% between 2016 and 2022.

The country has also seen growth of the number of active mobile money wallets to 11.2 million at end of 2022 compared to barely half a million active mobile money wallets in 2016, representing an increase of 2,140%.

One of the key objectives for the Bank of Zambia is to enhance financial inclusion by leveraging digital technologies. Government and financial services providers have been implementing initiatives to promote financial inclusion and encourage the use of digital financial services. The initiatives have led to increased product offerings within the country and the number of entities offering various digital financial services.

"The shift towards a cashless society in Zambia is driven by the objective of enhancing financial inclusion and leveraging technology for the benefit of all citizens. As regulators, our focus is on ensuring security, consumer protection, and fostering collaboration with industry players to facilitate seamless and secure digital payments. By promoting digital payments, we aim to extend financial services to the unbanked and underbanked segments of the population, empowering them with access to financial tools and services," she said.

**Mobile payments (-2018-2022)**




There are several reasons behind the growing preference for digital payments in Zambia. First, digital payments offer convenience by allowing individuals to make transactions anytime and anywhere, without the need to carry physical cash. Digital payments also provide a more secure option, reducing the risks associated with carrying large amounts of cash and minimising the occurrence of theft and fraud. Additionally, digital transactions offer greater transparency, making it easier to track and record financial activities.

Furthermore, the COVID-19 pandemic accelerated the adoption of digital payments worldwide, including in Africa and Zambia. Concerns about the potential transmission of the virus through physical cash prompted individuals and businesses to opt for contactless payment methods. This situation further emphasized the benefits of digital transactions and contributed to their increased usage.

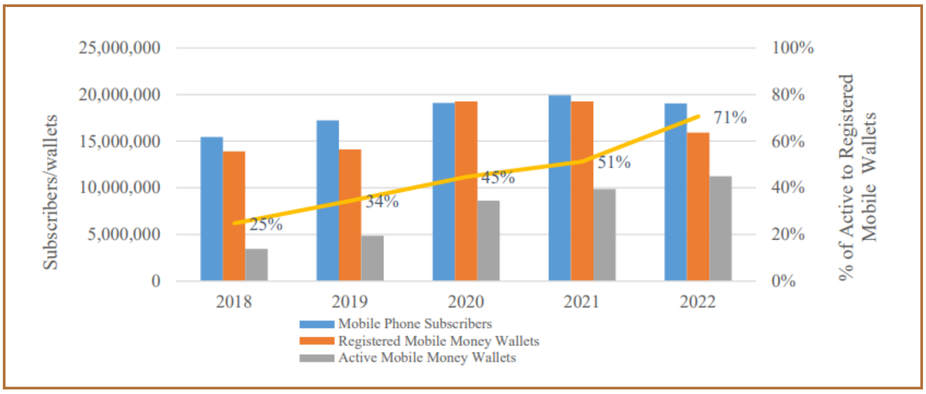
The Bank of Zambia Strategies of 2016 to 2019 and 2020 to 2023 identified financial inclusion as one of the key strategic pillars that could be scaled up through adoption of digital financial services. This has led to the implementation of various initiatives and policies to create an enabling environment for Fintechs and other key players in the financial sector.

To enable growth in access and usage of Digital Financial Services which in effect resulted in increased investment in Fintech, the Bank of Zambia undertook the following initiatives:

- Implementation of an interoperable National Financial Switch (NFS) with numerous use cases.
- Introducing tiered and simplified due diligence for mobile money users.
- Increasing of balance and transaction limits for electronic money.
- Approving various fintech products and services to promote competition.
- Conducting annual sensitisation campaigns on the use of Digital Financial Services to scale usage and train the public on safeguards.
- Implementation of the Sandbox Guidelines to support innovations in the country.
- Updating of regulations to align with market developments.
- Implementation of National Payments Vision and Strategy broken into five-year cycles.

In addition, under the FinTech4U Accelerator Programme for start-up fintechs piloting or scaling innovative digital finance services for the underserved in Zambia, the UNCDF developed the Regulatory Playbook for FinTechs, in collaboration with the Bank of Zambia, BongHive Innovation and Technology Hub, the Securities Exchange Commission (SEC) and Zambia Information and Communication Technology Authority (ZICTA). This Playbook covers key regulatory initiatives and milestones in relation to the regulation of fintechs. It further aims to equip startup fintechs in Zambia, with relevant, current information as they prepare their new businesses offering digital finance products or services to enter the market.

**Mobile Money subscribers versus Active mobile money subscribers**



# FINANCIAL INCLUSION AND SECURITY AT FOREFRONT OF PAYMENTS INFRASTRUCTURE UPGRADE

***By Zambanker Reporter***

The Bank of Zambia is committed to developing a modern, efficient, and reliable payments infrastructure that will support innovation, commerce, financial market growth, and effective monetary policy transmission.

Speaking at a panel discussion during the dissemination meeting of the 2022 National ICT Survey Assistant Director, Payment Systems Oversight, Mr Muuka Madubeko said the Bank is expanding the reach and accessibility of its payment systems, promoting financial inclusion, and enhancing security features, as part of this effort. These initiatives are expected to improve the efficiency and speed of payment transactions in Zambia and contribute to the country's economic growth and development.

"Specifically, the Bank plans to increase the number of participants in its payment systems, introduce new payment channels such as QR codes, integrate with other payment systems in the region, and continue to enhance the security features of its platforms. These initiatives will help to reduce reliance on cash and promote the use of formal financial services, which are essential for economic growth and development," he said.

He said the Bank is committed to working with stakeholders to ensure that Zambia's payments infrastructure is able to meet the needs of the country's growing economy.

On the expansion of coverage of participants on the Switch, Mr Madubeko said the Bank plans to facilitate the expansion of the coverage of participants to include more financial institutions and payment service providers, which will increase the reach and usage of the system.

Regarding the introduction of new payment channels, he said there are plans to introduce new payment channels, such as QR Codes to increase the accessibility of the system and encourage more people to use fast payments.

On the integration with other payment systems, Mr Madubeko explained that there are plans to integrate the Switch with other payment systems in the region to facilitate cross-border payments and trade.

"In the region we have the SADC TCIB system for retail payments across the region. There are plans to integrate with this infrastructure in future," he said.

Concerning the promotion of financial inclusion, the Assistant Director said the Bank is planning to use the Switch to further financial inclusion in Zambia by encouraging more people to use formal financial services and reducing the reliance on cash transactions.

Regarding the enhancement of security features, Mr Madubeko said 'there are plans to continue with the enhancement of the security features of the platforms to protect against cyber threats and fraud and ensure the safety and security of payment transactions.'

### The 2022 National ICT Survey

The Zambian Information and Communications Authority (ZICTA) in collaboration with the Ministry of Technology and Science, Bank of Zambia (BoZ) and Zambia Statistics Agency (ZAMSTATS) hosted the launch of 2022 National Survey on ICT's Access and Usage on 21st July, 2023. The launch looked at the usage and access of ICTs from a household and individual level. This report is a result of the technical and financial contribution of ZamStats and Bank of Zambia.

The 2022 National ICT Survey revealed there is significant increase in the number of households with access to the internet from 17.7% in 2018 to 33.4% in 2022. The survey also reveals that the percentage of individuals who used the internet increased from 14.3% to 25.2% in the same period. These statistics reflect the growing importance of the digital economy. Additionally, the high usage of mobile phones and social media platforms amongst individuals is a trend that is in line with global trends.

The Survey said more than 60% of households and individuals in the survey own a smartphone, indicating widespread penetration of mobile devices in society. This highlights the increasing role of mobile technology in facilitating digital financial services and the need for innovative solutions to reach a broader customer base. This further highlights the growing need for secure and convenient digital payment options, such as mobile wallets and internet banking, which can enhance financial inclusion and drive economic growth.

### Areas of Improvement

The Survey revealed that while digital literacy is at 87%, there is still a smaller proportion of the population that lacks digital skills, more so in the rural areas with a literacy rate of 77%. There is a need to continue to invest in digital education and training, more particularly in the rural areas, older individuals and those from lower-income backgrounds.

There is also the issue of high cost of digital transactions, especially across networks. The Bank acknowledges the high cost associated with mobile money transaction and has been actively engaging with key stakeholders to strike a balance between the ease of using mobile services and the cost of using the service. The review of person-to-person mobile money charges is undergoing an internal review process and once finalised, the market will be guided accordingly.

Another key issue that a significant number of households and individuals expressed was concerns about the security and privacy of digital financial services. This highlights the importance of robust cybersecurity measures and effective consumer protection frameworks to build trust and confidence in using digital financial solutions.

The Bank of Zambia has also issued the following Directives that apply to the safety and development of digital payment platforms:

1. Cyber and Information Risk Management Guidelines of 2023 to ensure licensed entities have sufficient measures in place to strengthen the cyber resilience of all entities.
2. Bank of Zambia Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) or Proliferation Directives, 2017 which provides for AML and CFT issues and reporting obligations on suspicious transactions
3. National Payment Systems Directives on Electronic Money Issuance 2023 which were revised and gazetted in July 2023 to provide for the regulation of businesses providing electronic money. The regulation requires all providers of electronic money to be licenced by the Bank and to adhere to the set directives to safeguard customer funds. The key thematic areas covered in the Directives include:

a. Requirements for authorisation or designation for issuance of electronic money.

b. Safeguarding of customer funds.

c. Provisions for outsourcing of distributors and agents.

d. Prohibition of unauthorised business for electronic money providers; and

e. Consumer protection, know-your-customer (KYC) requirements, retention of records and other matters incidental to electronic money issuance.

# BoZ ESTABLISHES WORKING AND TECHNICAL GROUPS FOR COLLABORATIVE DFS OVERSIGHT

***By Zambanker Reporter***

The Bank of Zambia (BoZ) has established Working and Technical Groups to operationalise the Collaborative Framework for the Oversight of Digital Financial Services (DFS). These groups will play a crucial role in implementing the framework and fostering collaboration among various stakeholders to promote the safe and efficient provision of DFS in Zambia.

The Working and Technical Groups will focus on achieving the following key objectives:

1. Enabling Policy and Regulatory Environment: Create a conducive policy and regulatory environment that supports the growth and transformation of DFS at the national level.
2. Shared Understanding of Risk Profiles: Develop a comprehensive understanding of the risk profiles associated with emerging digital financial services business models to inform the design of appropriate regulatory frameworks.
3. Knowledge Sharing and Learning: Stimulate discussion and exchange of experiences among policymakers to enhance knowledge and understanding of new approaches and best practices in DFS regulation
4. Information Sharing Platform: Establish a platform for capturing, tracking, and sharing information on innovative DFS products, business models, and emerging trends to inform policy responses.
5. Proportionate Supervisory Practices: Establish linkages and provide inputs to the development of proportionate supervisory practices for DFS that are aligned with the risks they pose.

The Collaborative Framework for the Oversight of Digital Financial Services aims to:

1. Promote Stakeholder Collaboration: Encourage collaboration among various stakeholders involved in DFS to foster a coordinated approach to oversight and regulation.
2. Clarity of Institutional Roles: Define clear institutional roles and responsibilities for each stakeholder, ensuring accountability and streamlining decision-making processes.
3. Information Sharing Mechanism: Establish a mechanism for effective information sharing among stakeholders to facilitate timely and informed responses to DFS challenges.
4. Efficient Resource Utilisation: Enhance the efficiency of resource utilisation by coordinating activities across multiple regulators, avoiding duplication and maximising impact.
5. Consumer Welfare and Service Delivery: Ultimately, the framework aims to promote consumer welfare and efficient service delivery by ensuring a safe, sound, and inclusive DFS ecosystem in Zambia.

During the inaugural meeting of the Working and Technical Groups, Director Payment Systems, Ms. Mirriam Kamuhuza emphasised the importance of collaboration in addressing the evolving DFS landscape and its potential to enhance financial inclusion, reduce financial exclusion, and contribute to economic growth and development.

She further highlighted the anticipated increase in internet usage following the operationalisation of the Collaborative Framework, which has incorporated key considerations from the 2022 ICT Survey to address identified challenges. These include enhancing digital infrastructure, promoting digital literacy, and raising consumer awareness, ultimately leading to increased adoption of DFS.

The BoZ's role in the payments system is crucial, as it ensures a safe and efficient environment for conducting business and settling transactions within the financial markets. The establishment of the Working and Technical Groups marks a significant step towards strengthening collaboration and promoting a robust DFS ecosystem in Zambia.

# HIGHLIGHTS FROM THE 2024 BUDGET

*By Zambanker Reporter*

The Honourable Dr. Situmbeko Musokotwane, MP, Minister of Finance and National Planning, delivered the 2024 Budget address to the National Assembly on Friday, 29th September, 2023.

**Macro-Economic Highlights**

**Inflation**

The Bank of Zambia's primary objective is working towards bringing inflation within the 6-8 percent target range. The Bank will use all the tools at its disposal, with the monetary policy rate as the key instrument.

'As they do so, we do recognise that some aspects of inflation, such as the increase in food prices we have experienced are not easily addressed with the tools at the central bank's disposal. This requires an increase in the supply of food products.'

**Review of the Banking and Financial Services Act, 2017**

To ensure that the financial sector effectively contributes to growth and economic development, the Banking and Financial Services Act, 2017 will be reviewed in 2024.

**Financial Inclusion**

Zambia has made good progress in improving financial inclusion and the rapid expansion in the use of mobile money has played a leading role. 'Given that the growth in the use of mobile money is an important channel for financial inclusion, improving internet connectivity is critical in increasing the number of people who are financially included. The policies I have outlined to expand the network of mobile towers and access to satellite technology will increase network coverage and, therefore, facilitate greater inclusion.'

The Bank of Zambia will continue to sensitise the public through its "Go Cashless" Awareness Campaign. More broadly, Government will, before the end of this year, launch the second National Financial Inclusion Strategy. The Strategy will cover the period 2024 to 2027 and has the goal of ensuring universal access to and usage of a broad range of financial services.

**Flexible exchange rate regime**

Government will continue to maintain a flexible exchange rate regime. In this regard, Government will cushion the economy against external shocks by accumulating adequate international reserves and providing necessary market support. To increase foreign exchange earnings, Government will promote export-led industrialisation and attract foreign direct investment. To promote exports, Government is supporting value addition and integrated value chains in priority sectors that include agriculture, tourism, mining and manufacturing.

**Balance of payments statistics and strengthening the Anti-Money Laundering/Combating Financing of Terrorism**

Government remains committed to enhancing the quality of balance of payments statistics and strengthening the Anti-Money Laundering/Combating Financing of Terrorism regime through the full implementation of the Electronic Balance of Payment Monitoring System. To this end, the Bank of Zambia has developed an Export Proceeds Tracking Framework that will require all exporters to route export earnings through an account held at a bank domiciled in Zambia while retaining full rights and control to use the funds as they deem fit. Implementation of the Framework will commence on 1st January, 2024. The Bank of Zambia will continue to undertake extensive consultations with all stakeholders prior to implementation.

**Commencement Order for the Bank of Zambia Act, 2022**

Following the issuance of the commencement order for the Bank of Zambia Act, 2022, the Financial Stability Committee will become operational in 2024. The Committee will, among others, formulate macroprudential policies to achieve and maintain financial system stability.

# CASH STILL WIDELY USED IN ZAMBIA

***By Zambanker Reporter***

Cash remains widely used in Zambia, particularly in rural areas and among the unbanked or underbanked population, Director Payment Systems, Ms Mirriam Kamuhuza has said. Speaking during a panel discussion titled "The Death of Cash," Ms Kamuhuza said there are still many places, particularly in the informal economy and among small-scale businesses where "cash only" transactions are high.

She explained that despite the increasing adoption of cashless payment methods by merchants, many consumers still prefer the flexibility and convenience of paying with cash, underscoring the importance of providing diverse payment options to cater to the varied needs and preferences of customers.

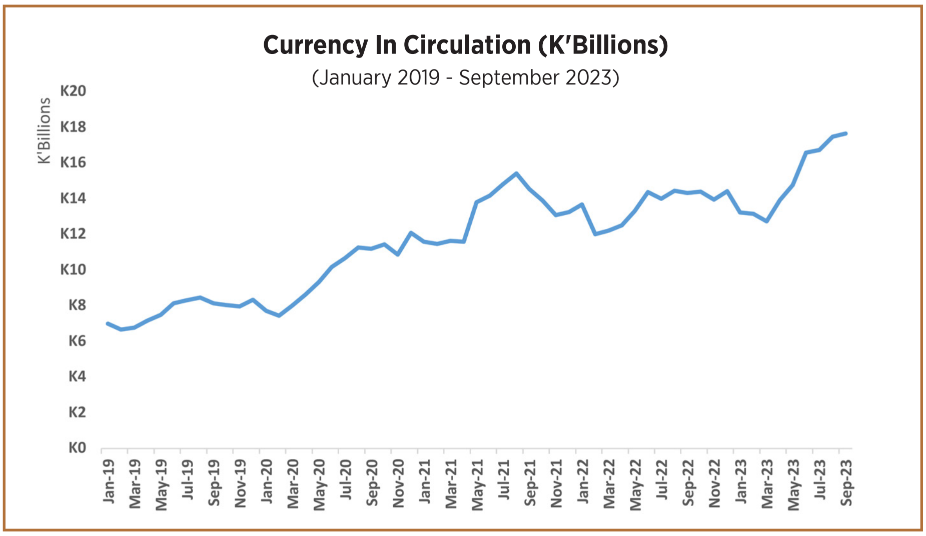
"As cash remains widely used and valued, the Bank of Zambia is committed to maintaining it and will continue to make sure it is available," Ms Kamuhuza emphasized. This means the Bank will guarantee the supply of banknotes, coordinate their production, and ensure their security and resistance to counterfeiting."

She acknowledged that while the reduction in the use of cash brings numerous benefits, it also raises concerns about security and consumer protection. Some of these concerns include:

- Availability, affordability, and accessibility of mobile phones by low-income groups remain a challenge.
- Financial marginalisation: Some financially marginalised groups, such as technotards (people who are unable to use the functionalities on their phones or computers), face technical challenges using new digital financial technologies.
- Limited access to digital infrastructure: Sparsely populated rural areas are often shunned by mobile money agents and financial service providers, making cash-in and cash-out transactions difficult.
- Inadequate mobile network coverage: The need to reach all corners of the country with quality mobile network coverage to support innovations and delivery of financial services still remains a concern. The network geographic coverage as of December 2018 was 87%, according to the State of the Zambian Digital Financial Services Market Report.
- Mobile money scams and frauds: These are creating fear among marginalised groups, discouraging them from using mobile money services and products.
- Low levels of financial literacy and awareness: Many people are not familiar with or understand the benefits of using digital financial services.
- Low levels of merchants using mobile money for retail transactions and payments: This limits the acceptance and usage of mobile money.

Despite these challenges, the Bank of Zambia and other regulators have put in place several regulations to effectively license and supervise financial players, including Fintechs, as well as oversee digital payment platforms and related products. Some of the relevant regulations include:

1. The Bank of Zambia Act 2022: This act provides for more guidance to facilitate the development of the payment system in Zambia and drive innovations.
2. The Banking and Financial Services Act No. 7 of 2017: This act provides for a licensing regime for banks, financial institutions, and related financial business
3. The National Payment Systems Act No. 1 of 2007: This act provides for the management, administration, operations, supervision, and regulation of payment, clearing, and settlement systems. It empowers the Bank of Zambia to develop and implement payment and clearing and settlement systems policy to promote efficiency, stability, and safety of the Zambian financial system. The Act is currently undergoing a review process to consider developments in the payments ecosystem and align with the SADC model law for payments and international best practices. The Bill was submitted to the Ministry of Finance for consideration in January 2023.
4. The Bank of Zambia is committed to working with key regulators and stakeholders to address the challenges that are hindering the adoption of digital financial services and promote financial inclusion for all Zambians.



# CLEAN NOTE POLICY

The Bank of Zambia has a statutory obligation to issue banknotes and coins to be legal tender in Zambia and to regulate all matters relating to the currency of the Republic under the Bank of Zambia Act Number 5 of 2022, section 17. It is the responsibility of the Bank to ensure that there are adequate banknotes and coins in circulation to facilitate trade and to ensure that the public maintains the country's legal tender under prescribed standards that aid easy identification.

To fulfil this statutory obligation, the Bank endeavours to maintain an acceptable quality of banknotes in circulation to ensure easy recognition of genuine banknotes by citizens. To ensure that banknotes in circulation remain clean, the Bank of Zambia will continue to supply clean banknotes through Commercial banks while withdrawing and destroying any soiled or mutilated banknotes.

**Types and Description of banknote defects**

**Mutilated Banknotes**
Mutilated banknotes are banknotes that show a significant loss or damage of the substrate and are generally not acceptable by members of the public in their day-to-day transactions. Such banknotes MUST be removed from circulation.

Members of the public shall submit their claims to any commercial bank or directly to the Bank of Zambia offices at Lusaka or Ndola.

Appropriate value shall be given to the claimant depending on the extent of mutilation. To determine the value at which the mutilated currency shall be exchanged, Commercial Banks shall follow the Bank of Zambia Guidelines for the Receipt and Processing of Mutilated Currency.

**A banknote shall be considered unfit for recirculation when it has any of the following defects:**

| Defect Type | Description of Defect |
|---|---|
| Holes | Holes of any shape and anywhere on the Banknote of greater than 0.5mm |
| Tears | Tears on banknotes of any size or on any part of the Banknote |
| Heat damage | • Burning of any part of the Banknote;<br>• Melting of any part of the banknote from the application of heat; and<br>• Distortion or shrinking of the structure and format of the bank Banknote. |
| Repairs | • Adhesive tape of any type or size on the surface of the Banknote; and<br>• Parts of a torn Banknote held together using staples/pins. |
| Undesirable Material on the Banknote | • Sticky substances of any type on the surface of the Banknote.<br>• Writing of any type on any part of the Banknote;<br>• Graffiti images that have been put on any part of the Banknote;<br>• Stains or discolouration of the Banknote caused by coloured dyes, inks or other material; and<br>• Discolouration from excessive soiling of the Banknote. |
| Ink Wear | • Significant reduction, removal of layers of ink from the banknote;<br>• Significant degradation of the principal design features on the Banknote; and<br>• Significant degradation of the principal security features on the banknote<br>• Ink spray implemented as a security measure in the Automated Teller Machines and transportation cassettes |
| Soiling and structural damage | • Significant layering of dirt on the Banknotes;<br>• Significant degradation of the Banknote resulting in structural damage;<br>• Significant degradation of the principal security features on the Banknote; and<br>• Significant degradation of the principal design features on the Banknote |
| Defaced or twisted out of shape(coins) | • Significant physical damage but clearly identifiable as genuine<br>• Any signs of perforation or clipping |
| Reduced weight and discolouration (Coins) | • Significant loss in weight by natural abrasion or wear;<br>• Significant loss of lustre and colour due to abrasion and natural wear. |
| Melted (Coins) | • Any signs that the coin has been subjected to significant heat |

# BoZ TAKES POSSESSION OF DBZ, BETTERNOW FINANCE, CANCELS LICENCES FOR TWO OTHERS

***By Zambanker Reporter***

The Bank of Zambia has, pursuant to Section 64 of the Banking and Financial Services Act, 2017, taken possession of Development Bank of Zambia, a non-deposit taking financial institution, with effect from July 21, 2023, due to non-compliance with the Banking and Financial Services (Capital Adequacy) Regulations.

The Bank determined that Development Bank of Zambia is under capitalised. The shareholders and the Board of Directors of Development Bank of Zambia have been unable to resolve the regulatory capital deficiency of the institution despite consistent engagements by the Bank of Zambia. For this reason, the Bank of Zambia exercised its authority under the law in order to safeguard the interests of the public and protect the integrity of the financial system.

During the period of possession, the Bank of Zambia shall cause to be prepared a statement of affairs of the assets and liabilities of the institution and take any other action it deems fit in accordance with the provisions of the Banking and Financial Services Act, 2017.

In a related development, the Bank of Zambia took possession of Betternow Finance Company Limited, a non-deposit taking financial institution on July 21, 2023, due to its insolvency, Pursuant to section 64 of the Banking and Financial Services Act, 2017. The Bank of Zambia determined that Betternow Finance Company Limited is insolvent. Further, despite consistent engagements by the Bank of Zambia, the Board of Directors of Betternow Finance Company Limited has been unable to resolve the deteriorating financial performance and condition of the institution. For this reason, the Bank of Zambia has exercised its authority under the law to safeguard the interests of the public and provide for its orderly resolution.

During the period of possession, the Bank of Zambia shall cause to be prepared a statement of affairs of the assets and liabilities of the institution and take any other action it deems fit in accordance with the provisions of the Banking and Financial Services Act, 2017.

Similarly, the Bank cancelled the Microfinance licence of ZCF Golden Lotus Financing Limited in accordance with Section 17 of the Banking and Financial Services Act, 2017 on September 26, 2023. The cancellation of the licence is due to failure by ZCF Golden Lotus Financing Limited to comply with the provisions of the Banking and Financial Services Act, 2017.

The cancellation of the licence entails that ZCF Golden Lotus Financing Limited has ceased to operate as a financial business under the Banking and Financial Services Act, 2017 with effect from September 26, 2023. However, the cancellation of the licence does not relieve ZCF Golden Lotus Financing Limited of any obligations it incurred or assumed during the period of validity of the licence.

The Registrar of Financial Service Providers also cancelled the bureau de change licence of ACE FX Bureau De Change Limited on June 27, 2023. The cancellation of the licence is due to failure by ACE FX Bureau de Change Limited to comply with the provisions of the Banking and Financial Services Act, 2017 and the Banking and Financial Services (Bureau de Change) Regulations, 2003.

The cancellation of the licence entails that ACE FX Bureau de Change Limited has ceased to operate as a bureau de change under the Banking and Financial Services Act, 2017 and the Banking and Financial Services (Bureau de Change) Regulations, 2003 with effect from June 27, 2023. However, the cancellation of the licence does not relieve ACE FX Bureau de Change Limited of any obligations it incurred or assumed during the period of validity of the licence.

# WORD SEARCH

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| B | A | N | K | S | Y | C | N | E | R | R | U | C | R | P |
| S | C | G | Q | A | T | G | V | O | S | P | Y | G | U | T |
| E | A | R | N | B | Y | I | B | L | P | L | K | S | M | B |
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ASSET
BANKS
BUDGET
BONDS
BORROWING
CURRENCY
COUPON
DEBT
DIVERSIFY
EARN
INTEREST
LEND
LIQUIDITY
MATURITY
MONEY
INSTRUMENT
INVESTING
BILLS
PLANNED
SAVING
PORTFOLIO
TREASURY

# THE BANK OF ZAMBIA CYBER AND INFORMATION RISK MANAGEMENT GUIDELINES, 2023

*By Tendai Luwabelwa*

Ms. Luwabelwa

**1. INTRODUCTION**

The Bank of Zambia (The Bank) in May 2023 issued the Cyber and Information Risk Management Guidelines to provide minimum standards and controls for prudently managing this risk in the financial sector. The Guidelines provide guidance on cyber and information risk management including related governance, strategies, policies, and procedures. In addition, the Guidelines provide guidance on collaboration and information sharing on cyber risks within the financial sector.

The Guidelines were issued pursuant to Section 167 of the Banking and Financial Services Act (BFSA) No.7 of 2017, Section 43 of the National Payment Systems Act (NPSA) No.1 of 2007 and Section 63 of the Credit Reporting Act of 2018. The Guidelines apply to the following entities: Banks; Non-Bank Financial Institutions; approved issuers of electronic money; Payment system businesses; Operators of designated payment system institutions; and Credit Reference Bureaus.

The Guidelines are principles based and take into consideration differences in the nature, size, and complexity of regulated entities. Rather than prescribing specific steps or controls, the principle-based Guidelines offer general guidance. This encourages organisations to use their judgment and expertise to determine the most effective ways to achieve compliance while still meeting the overarching principles. In this regard, the Guidelines have been issued on an apply or explain approach with the expectation that bigger and more complex entities will fully apply these Guidelines. The entities that will not be able to apply all the Guidelines are required to provide an explanation on how they manage the cyber and information risk that they are exposed to in pursuit of their business objectives.

**2. OVERVIEW OF GUIDELINES**

The Guidelines are formulated based on the The National Institute of Standards and Technology (NIST) Standard and other standards such as ISO/IEC27001, PCI and COBIT frameworks and international best practice. The Guidelines are structured around five core domains namely: Identify, Protect, Detect, Respond and Recover. These domains provide a systematic approach to managing cybersecurity risks and incidents. Regulated entities use the Guidelines to identify and prioritise assets, assess and manage risks, implement protective measures, monitor for cybersecurity events, respond effectively to incidents, and recover from any impacts. At the core of the above domains is the governance of Cybersecurity which sets the programme for cybersecurity management and controls of cyber security.

**2.1 Governance**

Cyber governance refers to the set of policies, processes, and practices that guide and control an organisation's approach to managing and securing its digital assets. It encompasses the structures and mechanisms through which an organisation ensures the confidentiality, integrity, and availability of its information in the digital realm. Effective cyber governance is a proactive and


strategic approach to cybersecurity that requires commitment from leadership, collaboration among stakeholders, and a culture of continuous improvement. By prioritising cyber governance, organisations do not only protect their digital assets but also build resilience and trust in an era where the cyber threat landscape is ever-evolving.

Effective cyber governance begins at the top. Leadership plays a pivotal role in setting the tone for the organisation's approach to cybersecurity. Boards of directors and executive leadership must not only understand the cyber risks facing the organisation but actively engage in shaping the strategy to mitigate these risks. Cybersecurity is no longer just an IT concern; it is a boardroom issue that demands strategic attention.

Overall, a Cybersecurity framework should include clearly defined responsibilities for the management of cyber and information risk across a regulated entity with an appropriate risk management structure to ensure that the risk is within the parameters set by the Board. The structure should be commensurate with the size, complexity, and diversity of the entity’s activities.

In addition, the structure should facilitate effective Board and senior management oversight and proper execution of risk management and control processes. At a minimum, the risk governance structure should include board of directors, board risk management committees, senior management, management risk committees, risk management function and chief information security officer.

Clear and well-defined policies and procedures are the backbone of effective cyber governance. These documents articulate the organisation's stance on issues such as data protection, access controls, incident response, and employee training. Regular updates and communication of these policies help ensure that all stakeholders are aware of their roles and responsibilities in maintaining a secure digital environment.

In view of the dynamic and constantly evolving cyber threat environment, an effective cyber governance framework encourages collaboration and information sharing both within an organization and across industry sectors. Sharing threat intelligence and best practices enhances the collective ability to detect, prevent, and respond to cyber threats. Industry alliances, forums, and partnerships can be valuable resources in this collaborative effort.

No organisation can claim immunity from cyber incidents. Cyber governance includes the establishment of robust incident response and recovery plans. These plans delineate the steps to be taken in the event of a cybersecurity breach, aiming to minimise damage, restore services, and learn from the incident for future improvement.

Ultimately, cyber governance extends beyond policies and technical measures; it involves fostering a cyber-aware culture throughout the organisation. Employees at all levels should be educated about cyber risks, the importance of cybersecurity measures, and their role in maintaining a secure digital environment. A cyber-aware culture is a powerful defense against the human elements of cyber threats, such as phishing and social engineering attacks.

### 2.2 Identify

The domain, "Identify," serves as the foundation for effective cybersecurity. This domain involves understanding and managing an institution’s cybersecurity risk. It prompts organisations to catalogue and document their critical assets, systems, and data, as well as to identify potential threats and vulnerabilities. By comprehensively understanding their digital landscape, organisations can make informed decisions about how to allocate resources and prioritise cybersecurity efforts. This function sets the stage for the development of a robust cybersecurity programme tailored to the specific needs and risks of the organisation.

### 2.3 Protect

Building on the insights gained from the identification phase, the "Protect" domain focuses on implementing safeguards to ensure the delivery of critical infrastructure services. This includes the establishment of access


controls, encryption mechanisms, secure configurations, and measures to safeguard against unauthorised access or data breaches. Protecting against cyber threats requires a multi-faceted approach, and this function emphasizes proactive measures to minimise vulnerabilities and defend against potential attacks.

### 2.4 Detect

No cybersecurity strategy is complete without a robust detection mechanism. The "Detect" function emphasizes continuous monitoring and detection of cybersecurity events. Institutions are encouraged to establish processes and systems for identifying anomalies, suspicious activities, or potential security incidents in real-time. Early detection enables swift response, minimising the impact of security breaches. This function underscores the importance of staying vigilant in the ever-changing threat landscape.

### 2. 5 Respond

Inevitably, despite the best preventive measures, security incidents may occur. The "Respond" domain outlines steps organisations should take in the aftermath of a cybersecurity incident. It involves developing and implementing an incident response plan, detailing the actions to be taken to contain the incident, mitigate its impact, and recover from it. Effective response mechanisms are crucial for minimising downtime, reducing financial losses, and preserving an organisation's reputation.

### 2.6 Recover

The final domain, "Recover," focuses on restoring capabilities or services that were impaired due to a cybersecurity incident. This involves not only technical recovery but also a comprehensive analysis of the incident to improve future response efforts. Institutions are encouraged to develop and maintain resilience strategies, including robust backup and recovery mechanisms, to ensure a prompt and effective recovery process.

## 3. CONCLUSION

As organisations continue to navigate the complexities of the digital landscape, the governance of cyber risk is no longer an option but a necessity. Effective cyber governance is a proactive and strategic approach to cybersecurity that requires commitment from leadership, collaboration among stakeholders, and a culture of continuous improvement. By prioritising cyber governance, organisations can not only protect their digital assets but also build resilience and trust in an era where the cyber threat landscape is ever-evolving.

In addition, the Guidelines have five core domains that provide a holistic and adaptable approach to managing cybersecurity risk. By identifying, protecting, detecting, responding, and recovering, institutions can establish a comprehensive cybersecurity posture that evolves with the dynamic threat landscape. While the Guidelines provide a common language for cybersecurity discussions, its true strength lies in its flexibility, allowing organisations to tailor their cybersecurity efforts to their unique needs.

The regulated entities are required to annually conduct cyber and information security maturity assessment to ascertain their level of maturity. The methodology and tools used to perform the assessment together with the results are expected to be submitted to the Bank of Zambia.

*Source: The Author is Principal Examiner, Bank Supervision Department.*

# WHAT'S TRENDING:
# NEWS FROM AROUND THE WORLD

## HIGH-WIRE ARTISTS: CENTRAL BANKER REPORT CARDS 2023

Through the past year, central bankers teetered and wobbled to avoid both inflation and recession while juggling an array of internal and external risks. Global Finance grades their success and interviews a dozen about the last year—and the next. For many central bankers, the central task of the past year has been to stabilise prices without sending the national economy into a tailspin. Even central bank governors whose mandates center on currency rates or financial system stability have had to cope with the same inflationary pressures.

So far, they seem to have pulled off this balancing act. "The inflationary scenario in Latin America improved for most large economies," says Rosanna Costa, governor of the central bank of Chile, attributing the succcess to early rate hikes and fiscal deficit reduction. "The rapid initial monetary policy reaction and the recent progress in inflation have allowed the monetary easing cycle to begin in some economies, such as Chile and Brazil."

**SUCCESS AGAINST INFLATION**

Chile is not alone; Bank of Mongolia (BOM) tells a similar story. "The early signs of success are now becoming evident," says Governor Byadran Lkhagvasuren. "The policy rate tightening and macroprudential adjustments have played a role in preventing second-round effects on inflation."

Nevertheless, "uncertainty remains high," warns Colombia's central bank governor, Leonardo Villar. "Returning to the inflation target by the end of next year is likely to require a contractionary monetary policy stance for a relatively long period of time." Yet with current production "well above the pre-pandemic trend," he adds, "This slowdown will help the Colombian economy achieve a more sustainable growth path."

Some central banks have limited policy tools. Research by the central bank of Azerbaijan showed inflation rose largely due to external supply factors over which monetary policy tools would have little impact, according to Governor Taleh Kazimov. "Our main strategy was to ensure that demand factors were under control by increasing the policy rate," he says. "Additionally, we maintained the stability of local currency in periods of excessive foreign currency supply."

Central bankers are also looking to the long-term future. Maintaining price stability and healthy financial institutions, says Amir Yaron, governor of the Bank of Israel, "necessitates [central bankers'] understanding of

the economic implications of climate and environmental challenges and risks."

"It is governments and legislators who lead the fight against climate change, yet central banks have an important role to play," says Yannis Stournaras, governor of the Bank of Greece, an early mover on climate change. "The financing of climate adaptation and mitigation projects requires the significant upscaling of investment. In this regard, banks and financial institutions need to play their part." Meanwhile, digital innovations are driving rapid and dramatic change. Mongolia's payment system is relatively advanced compared to other nations at a similar development level, and BOM has been actively exploring digital currencies, says Lkhagvasuren, finding some limitations to decentralised models. Banks themselves continue to innovate apace, buying fintech strength where they lack it. After some difficult years, banks are generally strong.

Still, cautions Boris Vujčić of Croatian National Bank, "Good times for banks will not last forever and they need to remain vigilant on improving efficiency and cutting costs in order to remain competitive in the changing financial landscape as new challengers arise, by finding new applications for technological innovations." Good forward guidance in any era.

**RWANDA**
**John Rwangombwa | GRADE: B**

With an unprecedented surge in inflation and pressure from the IMF to "pursue a more decisive monetary policy tightening," National Bank of Rwanda (NBR) Governor John Rwangombwa has avoided panic. Inflation, which stood at a mere 1.3% in January 2022, soared to an all-time high of 33.8% by November that year—reason enough for panic-induced countermeasures. The NBR hiked the repo rate a mere 150 bp, to 7.5%, and inflation fell back to 11.9% by July 2023. Meanwhile, the Rwandan franc's stability and the banking sector's soundness have shown that the NBR is in Rwangombwa's safe hands.

**UNITED STATES**
**Jerome Hayden Powell | GRADE: B+**

The US Federal Reserve, under the leadership of Jerome Powell, has significantly shifted its monetary policy approach in the past year. After agonising for months over whether inflation was "transitory" or for real, the Fed eventually jumped into action last March. It engaged in its most aggressive rate hiking cycle since the Volcker shock of the early 1980s," says Fitch BMI's Beakey.


The Fed started late but was willing to be more aggressive and faster, agrees Michael Gapen, head of US economics at Bank of America. "Now the Federal Reserve is as clear as they can be, given the circumstances."

However, shortcomings in terms of supervision, particularly after acknowledging that its regulatory stance could have been more effective in preventing the Silicon Valley Bank and Signature Bank cases, the Fed has acknowledged that there have been lapses in its supervisory practices and areas that require correction.

Despite these shortcomings, it is worth noting that there has been a significant improvement in the general opinion surrounding Jerome Powell. "Powell's reputation may well rise to approach the lofty heights of central banking greats such as Paul Volcker, Alan Greenspan and ex-Bundesbank President Karl Otto Pöhl," says Beakey.

**ZAMBIA**
**Denny Kalyalya | GRADE: B+**

In June, Zambia's prolonged debt crisis ended. The government managed to secure a $6.3 billion debt restructuring deal with key creditors, such as China, and made progress in restructuring another $3 billion owed to international bondholders. In all the deals, Bank of Zambia (BoZ) Governor Denny Kalyalya played a critical role. Called to help Zambia swim out of a deep economic crisis in 2021, he has tamed inflation, stabilised the local currency and ensured sanity in the financial sector. In August, BoZ raised its benchmark rate for the second consecutive time by 50 bps to 10%, owing to inflation exceeding its target, accelerating to 10.3% in July from 9.8% in June. Kalyalya, who has managed to secure the tenure of BoZ governor and deputy governor through a new law, is also encouraging innovations. A "Go Cashless" campaign by BoZ, for instance, is scaling up safe usage of digital financial services.

*Source: Global Finance*

# A NON-LINEAR ANALYSIS OF THE EXCHANGE RATE PASS-THROUGH TO FOOD AND NON-FOOD INFLATION IN ZAMBIA

*By Sydney C. Phiri and Keegan Chisha*

**Mr. Phiri**

**Mr. Chisha**

This article is a non-technical summary of an empirical study published in the 2023 Bank of Zambia working paper series by Keegan Chisha, Sydney Chauwa Phiri, and Bright Chansa with the title "A non-linear analysis of the exchange rate pass-through to food and non-food inflation in Zambia". The title may be a little mouthful and raises important questions which are answered in this article. The hope is that by the end of this short article, the reader will appreciate the salient conclusions and implications of the evidence in the study and why it was warranted in the first place.

### What do we know and why is this study important in the first place?

Zambia is a small open and import-dependent economy. In fact, at least 37 per cent food items in the official consumer basket are either imported as final products or use imported inputs. This means that movements in the exchange rate have repercussions on domestic inflation and people's livelihoods and businesses. In social circles, it is not uncommon to hear anecdotes in which at times sellers of products such as charcoal or tomato tend to give the "US dollar" i.e. depreciation of the exchange rate as a reason for higher prices. Of course, this is an anecdote to be taken with a pinch of salt, but it underscores how the impacts of the exchange rate depreciation seem to cut across almost all products even those that are produced locally. It is such scenarios that spur researchers and policymakers to seek a deeper understanding of the extent to which exchange rate depreciation (appreciation) is truly passed on to consumer prices of food and non-food products. It's an old-age question in economies such as ours that have small export bases and large import needs and an exchange rate that is left to the markets to determine (floating exchange rate).

### What does exchange rate pass-through to inflation mean?

This term broadly describes the responsiveness of prices in the consumer basket to exchange rate movements (i.e. depreciation or appreciation). If prices are very responsive to exchange rate movements, then the pass-through to inflation will be described as high and the converse is also true.

### Why does the study emphasize that the investigation is nonlinear in the first place? What does a nonlinear analysis even mean and why is it an important consideration?

In a linear world, the costs/benefits associated with a particular action are the direct opposites of each other but of similar magnitude. Take for instance someone with a US$ 300 who wants to convert to Kwacha at a prevailing exchange rate of say K22.00 per US dollar. At this rate, the Kwacha equivalent is K6,600.00. Should the exchange rate appreciate to K21 per US dollar, the Kwacha equivalent would be K6,300.00, and should it depreciate to K23 per US dollar, the Kwacha equivalent would be K6,900.00. Therefore, from a K22.00 per US dollar exchange rate a K1.00 Kwacha appreciation has the same impact in magnitude (i.e. K300.00) but can either be a K300.00 loss or gain depending on whether it is an appreciation or depreciation, respectively. This is an example of a linear impact or symmetric impact. It describes a situation where an increase or decrease of some variable has the same impact in terms of absolute magnitude on the outcome of interest. In the exchange rate pass-through (ERPT) context, non-linearity or asymmetry in the ERPT means that we allow for the possibility that the magnitude of the responsiveness of consumer prices to a given appreciation or depreciation differs. This may also differ depending on whether its in the short run or the long run. However, it is the case that most of the evidence in Zambia assumes that the magnitude of impact of an exchange rate depreciation on the price of a product is the same as that when an exchange rate appreciation

occurs (linear). We hasten to say that while this may be true in principle for some cases as shown in the example above, it is a strong and super limiting assumption to hold when it comes to how sellers price in the exchange rate movements in an import-oriented economy. In economic theory, there is a statement that "prices are sticky downwards" implying that firms are quick to adjust prices upwards but are not as quick to reduce prices even when economic conditions dictate so. This phenomenon of "sticky prices" can only be investigated using econometric methodologies that are nonlinear hence the emphasis of the study.

**The topic sounds familiar, haven't other people studied this? What evidence exists?**

Indeed, there have been a couple of studies done on this subject providing evidence of the nature of exchange rate pass-through including a recent study by Fandamu et al (2023), Mwila et al (2018), and Zgambo (2015) among the commonly cited sources. One of the challenges that cuts across these studies relates to the methodology used as they use a model which imposes oversimplifying or rigid assumptions (Structural Vector Autoregression with Cholesky identification) on the causal relationship between variables i.e. X affects Y , which in turn affects Z and so on. However, most economic relationships are not that simplified and, in most cases, you can find that Z also affects Y and X. Another study by Rogers et al (2017) uses a methodology that does not place such rigid assumptions (Zero and Sign Restricted Structural Vector Autoregression), but it implicitly assumes that the impact of an exchange rate appreciation and depreciation on the inflation are the exact opposites of each other i.e. linear impact. As such, a situation that is unclear is the difference in the impact of depreciation (appreciation) on specific components of inflation both in the short and long term. Therefore, using two complementing econometric methodologies, namely, Sign Restricted Structural Vector Autoregression and Non-Linear Auto Regressive Distributed Lag, we set up economic models and provide evidence based on less rigid assumptions on the causal relationship among variables and analyse the asymmetric impact of depreciation and appreciation on food and non-food inflation in both the short and long run.

**Innovation of the study**

The study combines the identified blind spots of the existing literature into one and does the following to cover them: Firstly, we analyse the exchange rate pass-through at disaggregated levels so that we can assess if the pass-through to food inflation is the same as that to non-food inflation in both the short and long run. Secondly, we conduct our analyses using nonlinear methods to empirically assess whether exchange rate depreciations have the same impact on consumer prices as exchange rate appreciations in both the short and long run and thirdly, we utilise a methodology that makes less rigid assumptions (more robust) on the causal relationship between the variables of interest.

**What are the key study findings?**

Using two separate robust methodologies that can uncover non-linearities in the exchange rate pass-through, we find evidence that indeed, there is non-linearity or asymmetry in the exchange rate pass-through to consumer prices (inflation). In the true fashion of sticky prices, we find that exchange rate depreciations lead to a higher cumulative increase in food prices than does an exchange rate appreciation in both the short and long run. The same is true for non-food inflation. In actual magnitudes, a 1 per cent depreciation leads to food prices increasing by a cumulative 0.53% over 6 months. The same depreciation of the exchange rate will only serve to increase non-food prices by a lower magnitude of 0.25% and for a shorter period of 4 months. When it comes to the appreciation, the impact is almost negligible unless there is a sustained exchange rate appreciation as opposed to a once-off shock. How about over a long period? Do exchange rate changes matter for inflation then? Indeed, we find evidence that successive exchange rate depreciations are associated with higher food inflation than non-food inflation and that appreciations are only relevant for non-food inflation over the long term. All this points to evidence of nonlinearity or strong asymmetries in the exchange rate pass-through to consumer prices and inflation.

**How do our results compare to others?**

Broadly, the conclusion that pass-through to food prices is higher than to non-food prices is echoed by other researchers (e.g. Zgambo, 2015). The presence of non-linearity is also echoed by Fandamu et al (2023). However, using more robust methodologies we provide tighter estimates on how long an unexpected depreciation or appreciation of the exchange rate is passed on to consumer prices and find that the peak impact is about 6 months for food prices and 4 months for non-food prices. Again, unlike Fandamu et al (2023), we provide more meticulous evidence of strong asymmetries for both components of inflation.

**Summing up**

In conclusion, the finding of strong asymmetries in the exchange rate pass-through particularly that consumer prices are more responsive to exchange rate depreciation than appreciation is important for households, businesses and the monetary authority. Finally, the full impact of exchange rate movements has some expected longer adjustment period for food prices owing to the indirect impact of the exchange rate on imported inputs used in the production of food. ■

*The authors are Senior Researcher-Prices and, Senior Researcher - Modelling and Forecasting, Economics Department*

# CYBERSECURITY AND DATA PROTECTION REMAIN KEY CONCERNS FOR ZAMBIAN BANKS AND NBFIS-2022 PWC SURVEY RESULTS

The PwC released the seventh edition of the Zambia Banking Industry Survey on 25th August, 2023. This is the first survey that the firm has conducted since the Government lifted most of the remaining COVID-19 restrictions in September 2022. The Report says despite the disruption caused by the pandemic plus a fragile global economy, Zambia's banking sector reported strong performance in 2022. Industry-wide profitability increased by 10.7% to K5.7bn last year, while total assets grew by 25.1% to K196bn.

Three main themes have emerged in the 2022 survey:

- An increased level of convergence over the issues of most significance – the highest since our inaugural survey.
- A gradual shift from operational to strategic matters.
- The future of banking and its offshoots dominate the top five issues.

Zambia's banking sector reported strong performance in 2022. Industry-wide profitability increased by 10.7% to K5.7bn last year, while total assets grew by 25.1% to K196bn.

Cybersecurity was identified as the most pressing issue faced by banks in 2021 with a score of 5.8, up from fourth place in 2020, when it scored 4.1. Among NBFIs, cybersecurity scored 3.7, falling just a few points short of the top five most significant issues affecting NBFIs. Survey results show the growing importance of information security among banks and NBFIs.


The Survey Results state that financial institutions are being forced to adopt better cybersecurity measures due to geopolitical change, technological advancements across different markets, and information security considerations as companies increasingly opt for flexible working models in the post-COVID-19 world. 'The financial sector has been working to innovate and digitalise its services, and this has led to an unprecedented increase in cyber-related attacks. These attacks range from ransomware attacks to mobile money fraud, and make institutions and customers nervous about using technology for financial transactions.'

According to PwC's Cyber Threats 2021: A Year in Retrospect report, ransomware was the most significant cyber threat faced by organisations across different geographies and sectors in 2021. Leak sites exposed data of approximately 1,300 ransomware victims in 2020, while in 2021 this number rose to 2,435 victims. The majority of ransomware attacks were financially motivated, while others were believed to be politically motivated.

In Zambia, The Data Protection Act and The Cybersecurity and Cyber Crimes Act were enacted by Parliament in 2021. This brings the number of nations in Africa with specific data protection legislation to 33.

The right to information, the right to object erasure, the right to processing restraints and the right to portability are all protected under The Data Protection Act.

Meanwhile, the introduction of The Cybersecurity and Cyber Crimes Act was met with mixed reactions. On a positive note, the Act shows how, from a legal perspective, Government has made significant strides towards enhancing information security. However, some entities are hesitant to fully implement the requirements set out in the Act. When asked in the survey in what ways the Act would impact business, the most common concerns identified by NBFIs and banks were as follows:

- Huge capital and operational costs required to enhance the various critical information infrastructure and systems needed to meet the security obligations, including ongoing monitoring of traffic by the authorities.

- Security and data assurance: The Act includes the establishment of a Central Monitoring and Coordination Centre to implement interception laws, among other policies. This will give enforcement officers the right to intercept information capable of causing financial loss to banks, financial institutions, account holders and beneficiaries of funds being remitted or received by such account holders or beneficiaries. Consequently, data protection issues will arise from the implementation of these provisions of the Act.

- Obstructing cloud computing and the need for data localisation. The requirements around data localisation would restrict and limit the full potential of cloud computing as data localisation requirements would impact data sovereignty requirements around both personal and commercial data.

**Strategic imperatives (average scores): Banks**

For NBFIs, meeting customer expectations was the most important strategic imperative (8.2) rather than product innovation. However, digitising operations was not far behind, with a score of 8.1 - implying that the strategic priorities of both banks and NBFIs are broadly aligned.

**Strategic imperatives (average scores): NBFIs**

Zambia's economic outlook
i. Economic growth trends Key highlights in this area include:

- Recovering from a real GDP decline of 2.8% in 2020, the Zambian economy grew by 3.6% in 2021 on the back of higher copper prices, improved business and investor confidence following the August 2021 elections, and continued recovery in the agricultural sector as rainfall patterns normalised.

- All sub-sectors recorded growth during the year except for mining, with the sector continuing to be challenged by supply chain disruptions and excessive rainfall. The financial and insurance sector recorded an average growth rate of 6.7% during 2021 - outpacing growth in the overall economy.

- The Zambian economy grew by 2.4% year-on-year in the first quarter of 2022. The Zambia Statistics Agency recorded year-on-year growth in the public administration, education, information and communication, electricity generation, accommodation and real estate sectors.

The BoZ Quarterly Survey of Business Opinions and Expectations 2022 Q1 shows that Zambian businesses are positive about growth in the year ahead. This outlook is based on expectations of favourable policies under the new government, as well as the approved IMF extended credit facility (ECF). However, business leaders were also concerned at the time about the adverse effects of Russia's invasion of Ukraine on the global market.

This is reflected in the marginally negative readings for May and June in Stanbic Bank's Zambia Purchasing Managers' Index (PMI). PwC expects the Zambian economy to grow 3% in 2022. However, in May, the BoZ highlighted some of the key challenges to the growth outlook this year. These include: 1) the impact of the global fallout from Russia's invasion of Ukraine on supply chains; 2) a slow recovery in trade with key partner countries; and 3) uncertainty surrounding the resurgence of new and more contagious COVID-19 variants.

The World Bank has also warned that African exporters of industrial metals, crude oil and ores could feel pressure from decelerating growth in China, the world's second-largest economy. These exporters include countries such as Angola, the Democratic Republic of Congo, the Republic of Congo, South Africa and Zambia.

**Key messages**

1. The top five issues facing banks in 2021 as reported by the CEOs/MDs of banks were (from most to least significant): 1. Cybersecurity 2. The state of the local economy 3. Digital transformation 4. Impact of an IMF programme on the banking sector 5. US dollar liquidity.

2. The top five issues facing NBFIs were: 1. Digital transformation 2. Liquidity risk 3. State of the local economy 4. High credit risk and non-performing loans (NPLs) 5. Interest rate risk.

3. Digital transformation and the state of the local economy were the only common issues between banks and NBFIs in the top five.

# FAQ- EXPORT PROCEEDS TRACKING FRAMEWORK

**What is the Export Proceeds Tracking Framework?**

The Export Proceeds Tracking Framework is a mechanism that will allow the country to monitor the use and destination of the proceeds earned from our exports

**What is the purpose of the Export Proceeds Tracking Framework?**

The Framework is intended to enhance the compilation of balance of payments statistics by expanding the coverage of external sector statistics, particularly relating to the capture of data on the utilisation of export earnings and information on balances held abroad by resident enterprises and other financial account flows

**What are the benefits of the Export Proceeds Tracking Framework?**

Meaningful external sector statistics for more informed policy formulation

More credible balance of payments statistics

Better oversight of all financial transactions and trade data

Combating Illicit financial flows

**How will the framework work?**

Under the Framework, all exporters will be required to route export earnings through an account at a bank domiciled in Zambia while retaining full rights and control to use the funds as they deem fit as long as they meet the Anti-Money Laundering/ Countering the Financing of Terrorism/ Financing the Proliferation (AML/CFT/ PF) obligations.

Full payment of export proceeds will have to be reflected in such accounts within three (3) months from the date of export.

The Framework entails an interface between Asycudworld and the electronic Balance of Payments system.

Asycudaworld is a platform on which exporters make declarations regarding the description, value and destination of their exports.

On the other hand, the electronic Balance of Payments is a platform on which commercial banks report daily cross border transactions.

Under the framework, the exports declared on Asycudaworld will be reconciled with the cross-border transactions reported by commercial banks using a unique consignment reference (UCR) that will be generated for each export declared.

**Who will be affected by the EPTF?**

The framework will mainly introduce changes for exporters, agents and commercial banks.

**What changes will the framework bring for Exporters?**

Under the framework, exporters will be required to inform their buyers to deposit all payments relating to exports into an account at a bank domiciled in Zambia within 90 days from the date of export.

What happens if the proceeds are not paid within the 90-day timeframe

Unless there has been prior engagement with the Bank of Zambia requesting for an extension with relevant documentation provided, punitive measures will be enforced.

How long will the export proceeds be required to remain in the country?

There will be no requirements for the funds to remain in Zambia for any length of time. The funds can be transferred within 24 hours of receipt.

**Will there be any surrender requirements ?**

There will be no surrender requirements

**What changes will the framework bring for commercial banks?**

Commercial banks will now be required to report the UCR for all cross-border transactions. Further, commercial banks will be required to sensitise their customers who engage in export trading on the new regulation.

**Is this the re-introduction of exchange controls?**

The EPTF is a monitoring tool and not the re-introduction of exchange controls

The economy will continue to have an open current and capital account

This monitoring mechanism promotes fair trade as it strengthens measures that curb the flow of illicit financial flows thereby augmenting efforts

**What is the difference between the EPTF and SI55?**

Unlike SI55 that was manual and laborious for both the exporter and bank staff, the framework will be seamless as it will take advantage of technology and therefore not disruptive to business and in particular the flow of capital.

Further, in contrast to SI55, there will be no registration of loans and no requirement for approval before funds are moved.

Under the Framework, the Bank has been working with commercial banks to ensure that they are prepared for the operationalisation of the framework without causing businesses to incur unnecessary costs or disruption.

The EPTF promotes trade and investment with exporters retaining full rights and control of their funds.

# KEY MESSAGES OF THE FINANCIAL LITERACY WEEK, INSURANCE WEEK, AND WORLD INVESTOR WEEK

***By Collins Muchupu***

***Mr. Muchupu***

The National Strategy on Financial Education (2019-2024) Phase II (NSFE-II) was launched on 10 December 2019. Its overall strategic objective is for the Zambian population to have improved knowledge, understanding, skills, motivation, and confidence to help them secure positive financial outcomes for themselves and their families by 2024. The priority financial education programmes of the NSFE-II are organised around four themes on financial education for children, youths, adults, and all age groups. Financial education for all ages is conducted through the following annual campaigns: the Financial Literacy Week, Insurance Week, World Investor Week and World Savings Day.

**2023 Financial Literacy Week**

The 2023 Financial Literacy Week (FLW) marked the 11th edition of Zambia participating in the Global Money Week, anchored by the Organisation for Economic Cooperation and Development (OECD). The theme "Plan your money, plant your future" was the official theme of Global Money Week 2023 and was adapted by FLW accordingly. This year's theme focused on sustainability and raising awareness on the implications of individual financial behavior not only on one's financial future but also on the environment.

The FLW provided an opportunity for children, youths and adults to:

- **Learn:** about available financial products, how to determine their authenticity and adapt to the constant changes by the financial service providers. Targeted groups have to be taught how to utilise digital financial services
- **Select:** appropriate financial products and services based on their financial circumstances. This entails the identification and assessment of the products in order to maximise the benefits accorded by using the right products
- **Secure:** their financial assets appropriately at all times to sustain their livelihoods in times of drastic change. Target groups need to continually safeguard their money. Financial service providers need to be involved in ensuring that the vulnerability of clients is addressed continually as the digitisation of services exposes them to more cyber and technology related fraud attacks.

**2023 Insurance Week**

The Insurance Week (IW) is an annual consumer education event conducted by stakeholders in the insurance industry. The goal of the Insurance Week campaign is to promote financial inclusion through insurance uptake by educating the public on insurance.

The 2023 commemoration of IW was held from 25th to 30th September 2023 and marked the 10th anniversary under the theme "Insure Today for a Sustainable Future". The theme had three (3) key messages :

- **Insure Today:** This is a call to action. People need to take action today to secure against unforeseen calamity, and secure finances for future needs. This includes taking the following steps:

  a. Identifying potential risks;

  b. Identifying the right insurance cover that addresses your needs; and

  c. Selecting a licensed provider; and securing cover with the provider.

The theme underscores the importance of insurance in managing risks. It encourages individuals to consider various types of insurance, such as health, life, property, and disability insurance, as a means to mitigate risks and ensure financial stability.

- **Sustainable:** Sustainability is key in attaining economic and social development. Insurance is a financial tool that can be used to promote sustainable social and economic development. Insurance provides a means of financial recovery, in order to ensure that households and businesses are able to meet their basic needs and remain sustainable when risks materialise. The theme also extends to the broader context of environmental sustainability. It suggests that taking action today to mitigate environmental challenges, such as climate change, resource depletion, and pollution, can contribute to a sustainable and healthier future for generations to come. Insurance products such as agriculture and weather Index can help farmers recover from losses due to extreme weather events.
- **Future:** The future belongs to those who prepare for it. The future is uncertain and the onus is on each person to prepare for unforeseen eventualities. Preparing for the future with insurance helps you to become financially resilient even in the midst of financial loses and shocks.

**2023 World Investor Week**

The World Investor Week (WIW) is a public awareness campaign aimed at enhancing investor education and protection. The campaign is led by the International Organisation of Securities Commissions (IOSCO) and implemented by Securities Regulators worldwide. In Zambia, the Securities and Exchange Commission (SEC) is responsible for spearheading and coordinating WIW in collaboration with various capital markets stakeholders. The 2023 WIW will be held from 2nd and 8th October under the theme, **"Cultivating Resilience and Wise Habits: A Smart Investor avoids Fraud".**

The key messages 2023 WIW include the following:

**Investor resilience**

A smart investor:

a. Focuses on the impact of inflation on purchasing power and uses real rates of return to assess investment performance;

b. Understands the way asset classes may behave in a persistent inflation environment and the impact on their attractiveness;

c. Recognises the importance of diversification, especially with respect to protecting investments from losses from a single, unexpected event;

d. Weathers negative financial shocks with an adequate emergency fund;

e. Understands that risk exists in all investments; and

f. Plans for life's unexpected challenges with budgeting strategies to manage risk, reduce the impact of inflation, and avoid high-interest debt.

**Crypto Assets**

A smart investor:

a. Understands the investment products and risks that are associated with crypto assets;

b. Does not forget about the importance of due diligence when considering any investment opportunity, including crypto assets;

c. Recognises the warning signs of investment fraud; and

d. Never invests based solely on a celebrity endorsement.

**Sustainable Finance**

A smart investor:

a. Realises that sustainable finance may be referred to in many ways, such as environmental, social, and governance (ESG) investing, socially; responsible investing, and impact investing;

b. Reviews an investment's disclosure documents to see how it weighs various ESG or sustainable finance factors.

c. Considers whether an investment's stated approach to sustainable finance matches the investor's investment goals, objectives, risk tolerance and preferences; and

d. Understands that each sustainable finance investment opportunity is unique and should be evaluated on its own terms.

**Frauds and Scams Prevention**

A smart investor:

a. Verifies that an investment professional is licensed;

b. Researches investment opportunities independently before investing;

c. Avoids "get rich quick" and "can't lose" schemes; if it looks too good to be true, it probably is;

d. Distrusts anyone who tries to pressure into making hurried investment decisions;

e. Never feels rushed and ignores over-the-top sales pitches and pressure to invest right on the spot;

f. Is suspicious of requests to wire money out of the country.

g. Never discloses personal information on an unexpected call or other communication.

h. Ensures the use of strong passwords and good data security practices such as two-factor authentication on accounts containing financial data.

i. Is skeptical of unsolicited investment offers through social media; and

j. Verifies the source of any investment information found on the internet.

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

# THE IMPACT OF SOCIAL ENGINEERING ON USER BEHAVIOUR IN THE CYBERSECURITY LANDSCAPE

***By Daniel Chibesakunda***

**Mr. Chibesakunda**

### Introduction

In the rapidly evolving digital era, where technology and connectivity are at the forefront, the human element remains a critical factor in the cybersecurity equation. Social engineering, a form of psychological manipulation, has emerged as a pervasive threat, exploiting human behaviour to compromise security. This article explores the profound impact of social engineering on user behaviour, shedding light on the tactics employed, the consequences faced by individuals and organisations, and strategies to enhance resilience against such attacks.

### Understanding Social Engineering

Social engineering involves the manipulation of individuals into divulging confidential information or performing actions that may compromise security. Unlike traditional cyber threats that exploit technical vulnerabilities, social engineering exploits the inherent trust and predictability of human behaviour. Common techniques include phishing emails, pretexting, impersonation, and baiting, all designed to deceive individuals into taking actions that benefit the attacker.

### The Psychological Aspect

At the core of social engineering is an understanding of human psychology. Attackers leverage cognitive biases, emotions, and trust dynamics to achieve their objectives. For instance, phishing emails often exploit a sense of urgency, fear, or curiosity, prompting users to click on malicious links or provide sensitive information. By manipulating emotions and decision-making processes, social engineers effectively bypass technical safeguards.

### Consequences of Successful Social Engineering Attacks

The consequences of falling victim to social engineering attacks can be severe and wide-ranging. From financial loss and identity theft to unauthorised access to sensitive data, individuals and organisations face multifaceted risks. Beyond immediate material damages, reputational harm can occur, especially when personal or confidential information is exposed. In the corporate realm, social engineering attacks can lead to data breaches, intellectual property theft, and disruption of business operations.

### Targeting Individuals and Organisations

Social engineering tactics are versatile and can target individuals and organisations alike. While individuals may fall victim to phishing emails or impersonation attempts, organisations are susceptible to more sophisticated attacks, such as pretexting to gain unauthorised access or engaging in CEO fraud to manipulate employees into transferring funds. The human factor becomes a potential vulnerability across the entire spectrum of users.

### Strategies to Mitigate the Impact

Enhancing user awareness is a key strategy in mitigating the impact of social engineering. Educating individuals and employees about common tactics, warning signs, and best practices can empower them to recognise and resist manipulation


attempts. Simulated phishing exercises can provide hands-on training, allowing users to experience and learn from potential threats in a controlled environment.

Technical safeguards, such as email filtering and multi-factor authentication, complement awareness efforts. Email filters can detect and quarantine phishing emails, while multi-factor authentication adds an additional layer of security, requiring more than just a password for access. Collaboration between cybersecurity experts, human resources, and organisational leadership is crucial in creating a comprehensive defense strategy.

### Conclusion

As technology advances, the human element remains a constant in the realm of cybersecurity. Understanding the impact of social engineering on user behaviour is paramount to developing effective defense mechanisms. By combining technical safeguards with comprehensive user education and awareness programmes, individuals and organisations can fortify themselves against the insidious tactics of social engineers. In a landscape where trust is both a strength and a vulnerability, proactive measures are essential to navigate the evolving challenges posed by social engineering attacks.

*The author is Acting Assistant Director-ICT Department*

# HISTORICAL SNAPSHOT

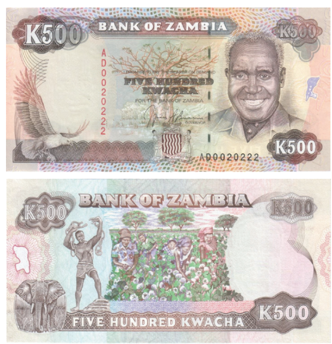










# THE PARADOX OF HYPER-INDEPENDENCE

***By Zelipa Mitti***

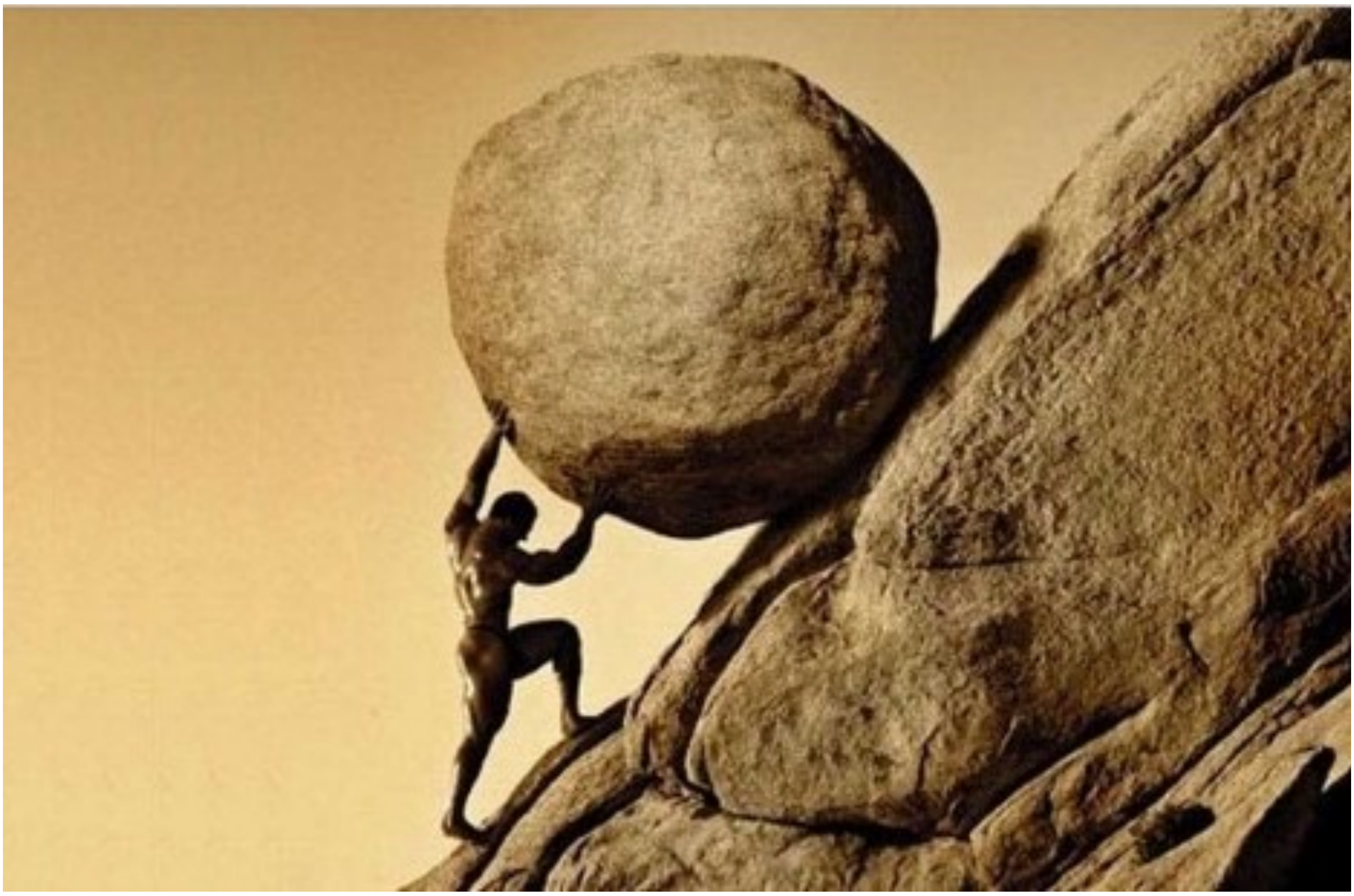
***Ms. Mitti***

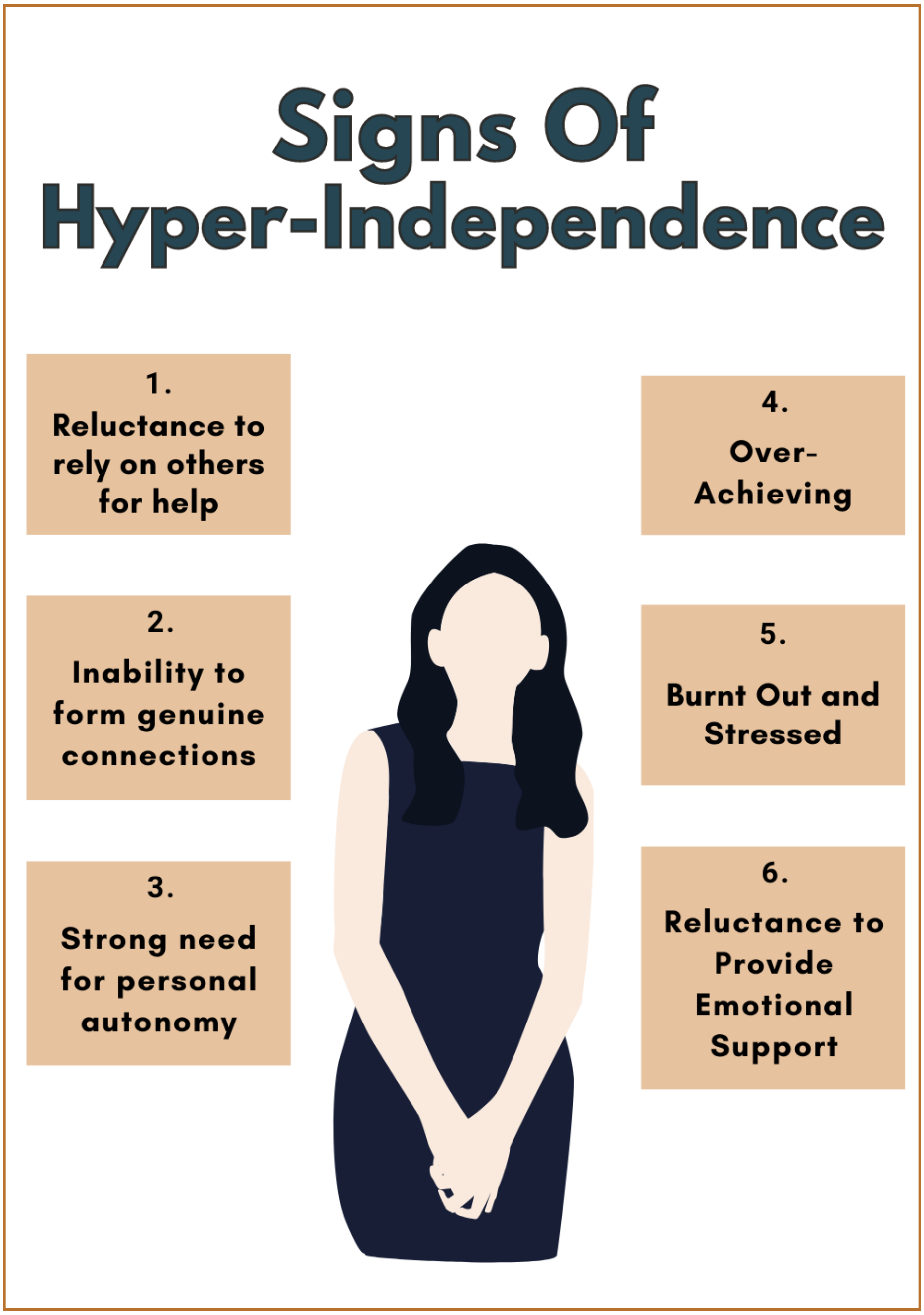
Mutale is a 38-year-old woman who grew up in a household where her parents were often unavailable. She was neglected as a child and so she learned to rely on herself from a young age. Mutale took on the task of caring for herself because she knew that she couldn't count on her parents to be there for her. Mutale is now a successful professional, but she has a hard time asking for help or delegating tasks even when she is struggling. She often overcommits herself to projects and takes on too much responsibility. She is hesitant to form close relationships with others, because she is afraid of needing to rely on someone else. Mutale is unable to trust anyone so she tries to do it all by herself. However, she is extremely overwhelmed. She has to work full-time, and she also has other commitments outside of work. She knows that she needs to ask for help, but she is hesitant to do so. She doesn't want to burden her friends and she is worried that they will think she is not capable of handling things on her own. Mutale is the perfect example of a hyper-independent person.

We are born being fully dependent on our parents or guardians. As we grow up, we strive to be more independent in various ways. We want to drive to where we want to go, pay for our purchases, and make our own decisions. But can we become too independent? Many people say yes. Hyper-independence, some argue, is too much of a good thing. It is a personality trait characterised by an extreme need to be self-sufficient. Hyper-independent people compulsively avoid relying on others for support or assistance and have difficulty asking for help - even when they need it, and they may feel guilty or ashamed when others offer them assistance. Hyper-independence can lead to social isolation, burnout, and stress, and it can make it difficult to maintain healthy relationships.

Hyper-independence can develop as a result of a number of factors, including:

- **Trauma:** People who have experienced trauma or disappointment may develop hyper-independence as a coping mechanism. For example, a child who was neglected or abused






may learn to rely on themselves for everything, as they may not have trusted others to be there for them.

- Perfectionism: People with perfectionism may have an unrealistic expectation of themselves to be able to do everything perfectly and without any help. This can lead them to avoid asking for help, even when they need it.
- Low self-esteem: People with low self-esteem may believe that they are not worthy of help or support from others. They may also fear that others will judge them or see them as weak if they ask for help.
- Cultural influences: Some cultures may value self-reliance more than others. This can lead people to feel pressure to be hyper-independent, even if it is not something that comes naturally to them.

Common signs and symptoms of hyper-independence include resisting offers of help or support, avoiding situations where one may need to rely on others, being self-critical and perfectionistic and feeling isolated and alone. Hyper-independence may seem like a sign of maturity, but the inability to rely on others can cause problems in professional and personal relationships. These problems can arise suddenly or gradually, leading to anxiety and/or missed opportunities. Learning to trust others and allow them to help and support us is essential for a balanced life. Even the most successful business people rely on others to achieve their success. Especially in today's world, where we are bombarded with high expectations and more information than we should be expected to process, we can't do everything alone. We belong to groups and communities that can and should help each other. If you find yourself struggling to control everything, it may be a sign of hyper-independence.

Overcoming hyper-independence can be challenging, but it is possible. Identify the root cause of your hyper-independence. What factors contributed to your need to be self-reliant? Once you understand the root cause, you can begin to address it. People with hyper-independence often have negative beliefs about themselves and others, such as "I'm not good enough" or "Others can't be trusted." Challenge these beliefs by asking yourself if they are really true. Then learn to ask for help. Asking for help can be difficult but it is an important skill to learn. Start by asking for help with small things, and gradually work your way up to asking for help with larger things. Allow others to help you. When someone offers to help you, accept their offer.

It's okay to let others do things for you.

Above all else, be patient, kind and compassionate towards your own needs. It takes time to change ingrained patterns of behaviour. Don't get discouraged if you don't see results immediately. Every time you ask for help or allow someone to help you, you have taken a big step towards your goal. Overcoming hyper-independence is possible with time, effort, and self-compassion.

*The author is Web Editor in the Executive Department*

# INTER CENTRAL BANK GAMES-AN EXPERIENCE TO REMEMBER

***By Grant Mwaba***

***Mr. Mwaba***

More than 150 regional central bankers converged at the Malawi Reserve Bank (RBM) in Lilongwe for a multi-sport event from 15th to 16th September 2023. The well attended and competitive games were opened by the Governor of the Central Bank of Malawi, Dr Wilson Banda.

Among the participating countries were Zambia, Malawi, Zimbabwe and Mozambique. The Bank of Zambia (BoZ) delegation was led by Deputy Governor-Administration, Ms Rekha Mhango. BoZ Teams participated in different games including netball, volleyball, football, tennis, chess and darts. As host of the games, the BoM coordinated all activities.

As a major investment in the health and wellbeing of its staff, the RBM has a separate integrated sport facility, where all sports activities took place. This comprises of a state-of-the-art all-weather soccer pitch, swimming pool, game rooms and courts for volleyball and netball (also usable for tennis and basketball), not forgetting the ultra-modern multi-purpose Wellness Centre that boasts of state-of-the-art gymnasium, table tennis, squash and badminton.

The purpose of the sporting club is to encourage sporting, recreational and associated social activities among the Bank employees both through participation in sports within the Bank or in conjunction with other sporting associations.

Everyone who travelled to these games has a good story to tell, not only about how the RBM organised the event but also how they took care of the visiting delegations. Teams were assigned buses, protocol officers and state police escort from their respective hotels during their stay in Malawi. The icing on the cake, was a trip to Lake Nyasa also known as Lake Malawi.

Admiring their Wellness Centre came with reflections but that's a story for another day! With the games behind us and winners announced, there was something to smile about by Team BoZ, which became a sought-after hot cake amongst other participants. Ladies and gentlemen, the BoZ cap, yes you read it right, everyone wanted to wear our branded navy blue corporate cap.

With all the good sportsmanship of exchanging caps and t-shirts that took place, an interesting social aspect was the enthusiasm by BoZ staff to learn Portuguese, Shona and Chichewa conversations. Seeing BoZ staff engage in tongue twisting conversations was very funny. Another interesting note is that the BoZ team did not only come back with trophies, caps, chambo (Malawian Dish of Tilapia Fish) but also with songs, one in particular was "Mwana ndi Mwana" a Malawi version of the Zambia Chipolopolo anthem.

To experience such rare and wonderful moments, join a sport in the Bank, be consistent with training and participate in local competitions. BoZ management has been very supportive of sports in the Bank, but individuals shun it. It was great to watch DGA feature against an all-powerful Zimbabwe and Malawi men Basketball teams.

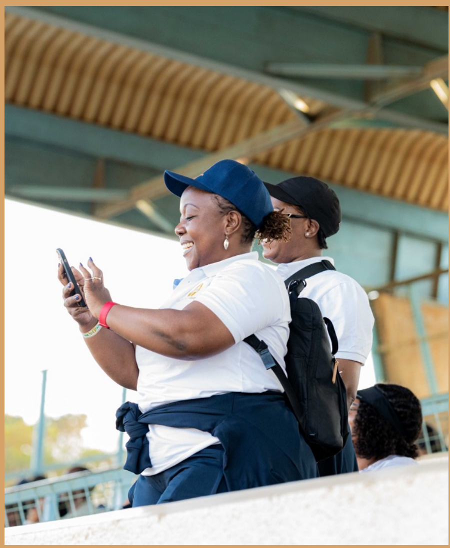
This was indeed good exposure for staff who participated and kudos to Management for supporting the adventurous tour. Indeed "umwana ashenda, atasha nina ukunaya" meaning luck of exposure limits one's perspectives.

Enjoy wellness through sports, wherever you are!

*The author is Assistant Manager-Compliance, Security Department*

# PHOTO FOCUS

## FROM THE INTER CENTRAL BANK GAMES





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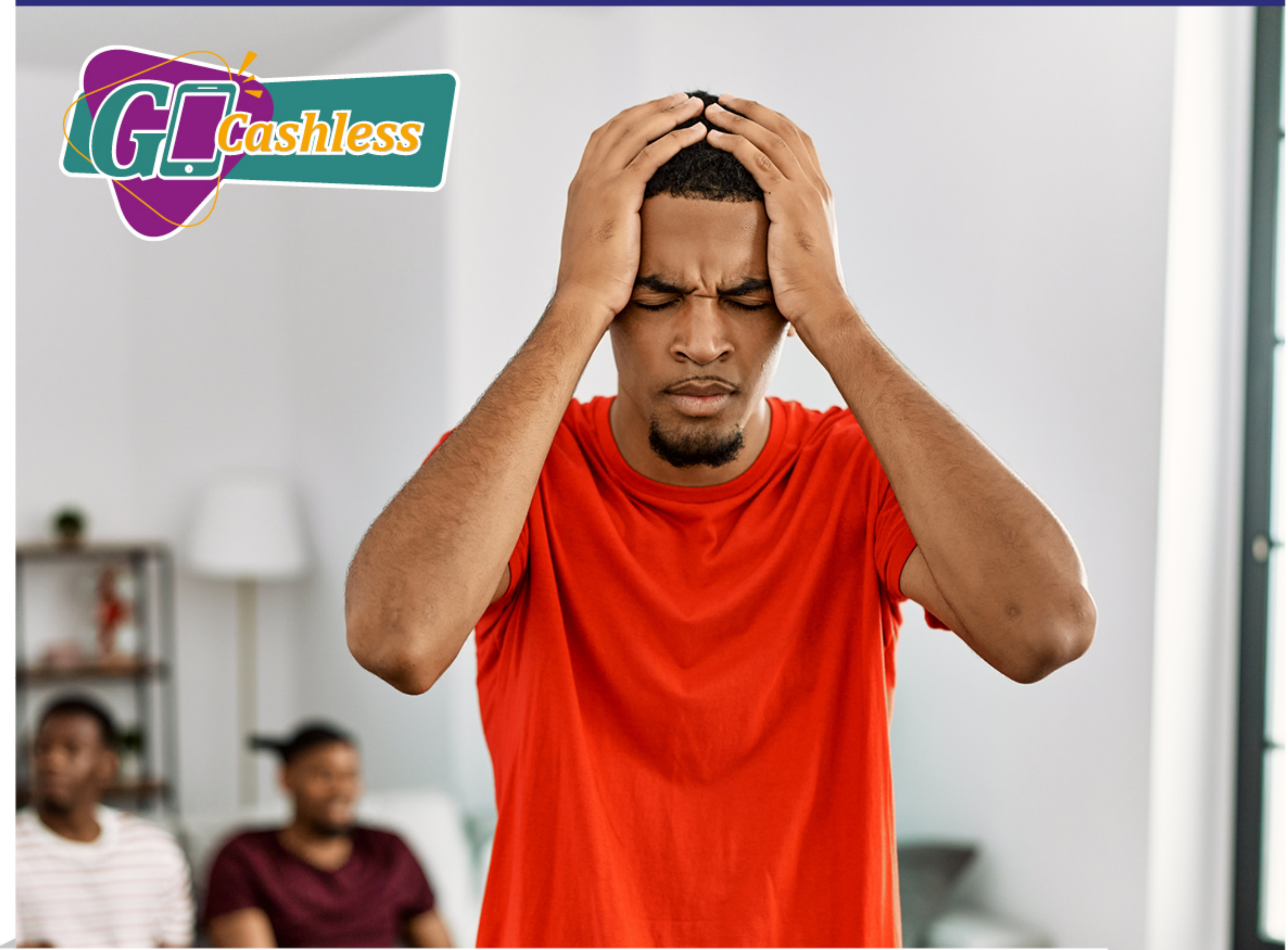
Bank of Zambia

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