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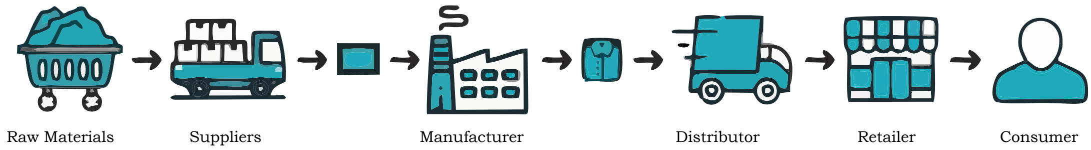
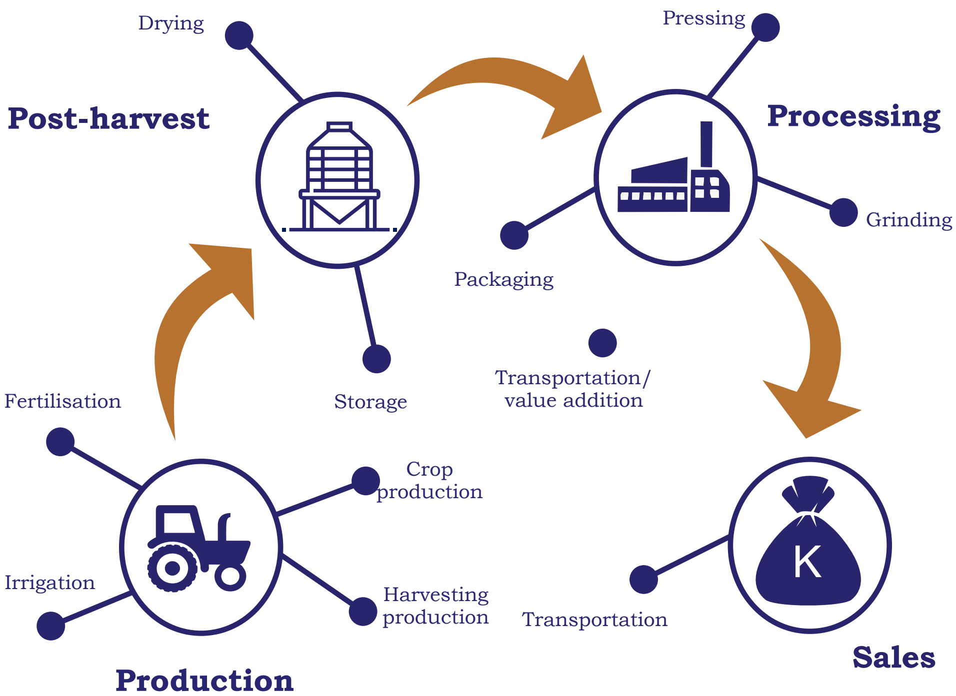
BENEFITS OF LOW INFLATION

Businesses plan better

Investment growth





- Easier for businesses to plan
- Predictability of future investment returns
- Promotes value addition
- Preserves consumer purchasing power
- Supports long term growth

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Minister of Finance and National Planning, Dr. Situmbeko Musokotwane presented the 2023 National Budget to Parliament on Friday 30 September 2022 under the theme: "Stimulating Economic Growth for Improved Livelihoods."

FINANCIAL SECTOR RESPONDS TO ECONOMIC RECOVERY

Some players in the financial sector are responding to the recovery of the economy by passing on the benefits to their consumers, a testament of the positive strides that the Government, through the Central Bank has made in creating an enabling environment that allows institutions to offer affordable financial services to their consumers...

HIGHLIGHTS OF HIGH LEVEL MEETINGS, STUDY TOURS TO THE BANK

The Bank hosted the Vice President of the World Bank, Eastern and Southern Africa, Ms Victora Kwakwa on 13th July, 2022. Ms. Kwakwa discussed collaboration between the World Bank and the Zambian Government going forward.

THE CREDIT CARD MARKET IN ZAMBIA

Income generation is at the center of human activity which builds capacity to pay for various goods and services including food, housing, education, health, energy, transportation, and other services to live a decent life...

THE AFI SHARM EL SHEIK ACCORD ON INCLUSIVE GREEN FINANCE

In 2017 the members of the Alliance for Financial Inclusion (AFI), including Bank of Zambia (the 'Bank') gathered in Sharm El Sheikh, Egypt for the 7th Annual General Meeting and Global Policy Forum (GPF) under the theme 'Exploring Diversity, Promoting Inclusion'. The AFI adopted the 2017 Sharm El Sheik Accord on Financial Inclusion, Climate Change and Green Finance.

NEW PARADIGM IN RURAL FINANCE

By Zambanker Reporter

The Bank of Zambia and Ministry of Finance and National Planning have commenced an initiative to help accelerate rural financial inclusion by promoting the use of existing public infrastructure in rural areas for the provision of financial services by the financial service providers (FSPs). So far, the Ministry of Health has opened its doors to accommodate FSPs that would be willing to use their facilities in identified rural districts.

The Ministry of Finance and National Planning, Bank of Zambia, and Ministry of Health conducted a joint inspection exercise of rural health facilities that can be used by Financial Services Providers (FSPs) in districts identified as lacking financial access points. The three institutions will provide the regulatory support and guidance to facilitate for FSPs to tap into this marginalised rural segment.

Speaking during the dissemination workshop of the 'Inspection Report on the use of general access points for the provision of financial services,' Director Non-Bank Financial Institutions Supervision Department, Ms Freda Tamba said the lack of infrastructure has hindered the outreach of FSPs in rural areas, including the spread of their agency networks, availability of ATMs and PoS terminals.

"It is from this backdrop that the Bank of Zambia and Ministry of Finance and National Planning commenced the initiative to help accelerate rural financial inclusion by promoting the use of already existing public infrastructure in rural areas for the provision of financial services by the FSPs. We thank and commend the Ministry of Health for opening their doors to accommodate FSPs that would be willing to use their facilities in the identified rural districts for the provision of financial services," she said.

She explained that the findings of the inspections exercise also indicated that although Digital Financial Services (DFS), particularly mobile money is accelerating uptake of formal financial service among the excluded adults, the rate of uptake in some of the districts (geographical areas) was low due to inadequate infrastructure. Further, in cases where mobile money agents were available, the service tended to be very poor due to issues of inadequate cash holdings (float).

Ms Tamba said the BoZ is hopeful that the findings of the inspections report will generate interest and encourage FSPs to extend their outreach into these identified rural health centres. The inspection report was also circulated to public institutions and other critical ministries such as the Zambia Information and Communications Technology Authority (ZICTA), and Ministry of Infrastructure, Housing and Urban Development that have indicated their commitment to support this initiative.

The financial sector has a significant role to play in attaining the national financial inclusion target of 80 percent by end 2022. This is in line with Vision 2030 and the 8th National Development Plan 2022 to 2026. In this regard, several initiatives have been undertaken under the National Financial Inclusion Strategy 2017 – 2022 (NFIS) to enhance financial deepening in order to support increased productivity and uplift the standard of living for the Zambian population.

At institutional level, the Bank of Zambia is driving and working in collaboration with various stakeholders on several initiatives aimed at promoting and increasing financial inclusion among the marginalised segments of our society such as women, youths, Micro, Small and Medium Enterprises (MSMEs) and rural based adults – who are the subject of our discussion today.

Some of the strategic initiatives/ objectives under rural finance include:

- Providing incentives for FSPs to expand branches/agent networks in rural areas in a cost-effective manner;

- Improve quality and availability of financial products and services for women, youth, and rural residents;
- Improve knowledge of governance of rural SMEs and their cash flow management; and
- Build capacity of financial service providers to lend to SMEs and to farmers.

The results from the FinScope 2020 Survey showed that financial inclusion rose to 69.4 percent from 59.3 percent in 2015 due to the successful implementation of initiatives under the NFIS, particularly related to DFS. Financial inclusion in urban areas was above the national target of 80% at 83.8% in 2020 (70.3% in 2015), however, inclusion in rural areas continued to be low at 56.9% (50.1% in 2015). Further, the presence of FSPs in rural areas was low and their penetration continued to be slow.

An assessment conducted in 2020, showed that 32 out of a total of 116 districts in the country lacked financial access points. This meant that people in these districts were unable to access the full range of financial products or services which include, opening and operating bank accounts, debit cards, investment products and access to credit facilities such as loans, overdrafts, and credit cards. On the supply side, traction of penetration into rural areas was hampered by lack of or poor infrastructure, sparse population, and low levels of economic activity.

NON-PERFORMING LOANS RATIO DROPS

By Zambanker Reporter

Non-Performing Loan Ratio (NPL), which is a key indicator for asset quality in a financial service provider, has been rising since 2015. However, Bank of Zambia Governor, Dr Denny Kalyalya recently said there had been an improvement over the past year.

Speaking during the third quarter Monetary Policy announcement and press briefing, Dr Kalyalya explained that the NPL Ratio in the banking sector has been maintained at favorable levels, averaging 6.1 percent in 2022 from a high of 11.2 in 2020 and 9.0 percent in 2021. The improvement in credit performance was largely attributed to the reduction in the stock of NPLs mainly on account of recovery of some businesses' cash flows previously impacted by COVID-19, write-offs of bad loans as well as recoveries.

On the distribution of loans in the NBFIs sector, the Governor said NPLS are highly concentrated to civil servants.

"As at end-September 2022, loans to civil servants represented 61.3 percent of total gross loans of the NBFIs. In this regard, the performance of the NBFIs sector remains highly sensitive to recovery of loans through direct loan instalment remittances by civil servants and loan recoveries through the Government's Payroll Management and Establishment Control (PMEC)," he said.

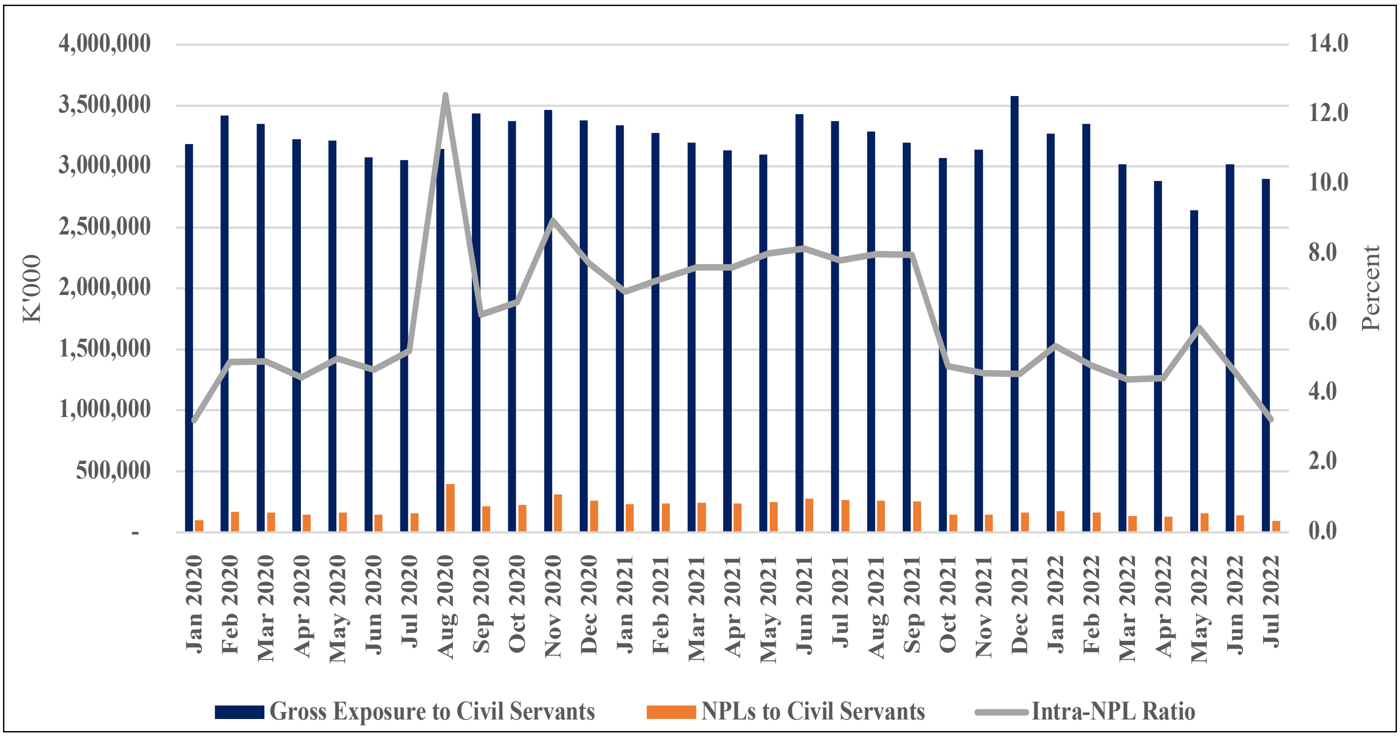
Since July 2021, the Government remitted civil servants loan instalments to NBFIs timely and this has led to the level on NPLs for the entire sector to drop from the all-time high of 27.1 percent in August 2020 to 14.5 percent as end October 2022.

The Governor explained that the challenging macroeconomic conditions in the period 2015-2019 underpinned the rise in NPLs, in which real GDP growth rate declined. He stated that the local currency depreciated sharply with the annual inflation also rising in the same period. This was accompanied by hikes in the monetary policy rate which led to increases in the general interest rates.

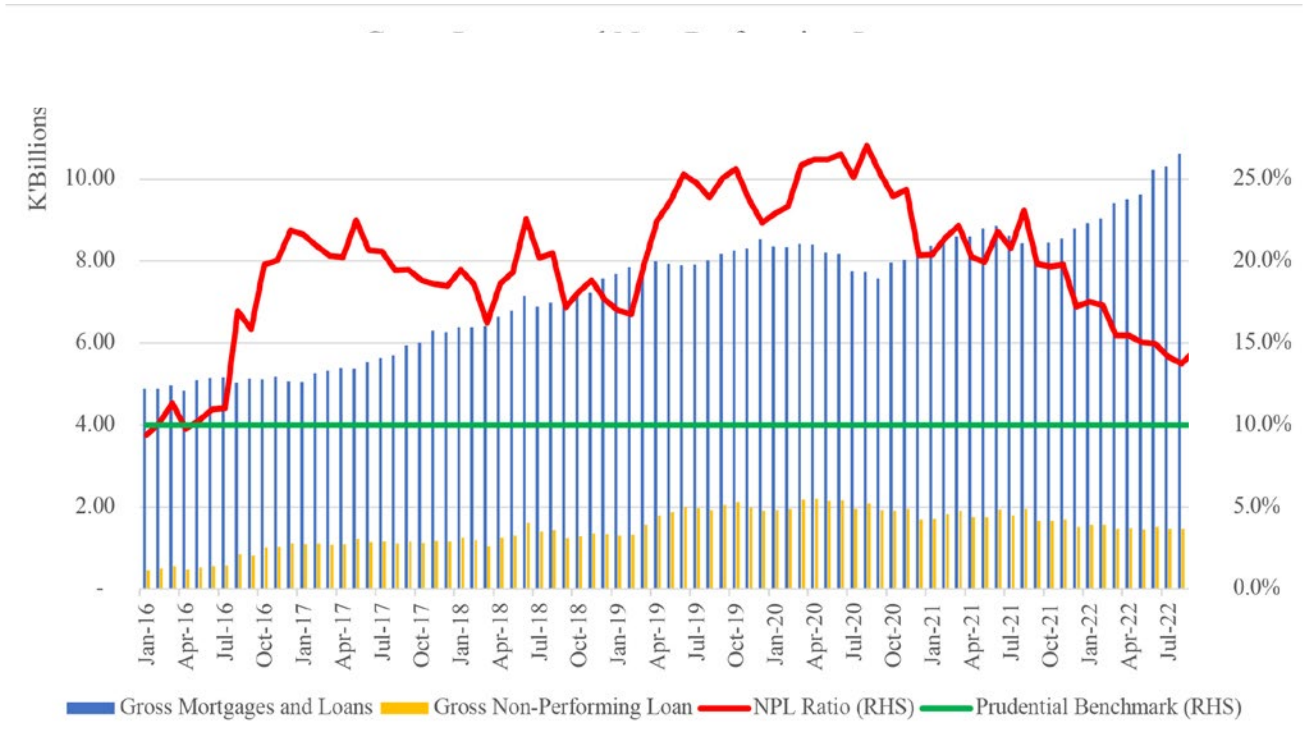
"The drought in the 2014/2015 farming season did not help as it adversely affected agriculture production and electricity generation, which together with pre-existing fiscal and exchange rate pressures aggravated macroeconomic conditions in the country," he said.

He said the combination of these multiple factors increased the cost of doing business thereby putting a strain on businesses and households and bolstering a rise in NPLs.

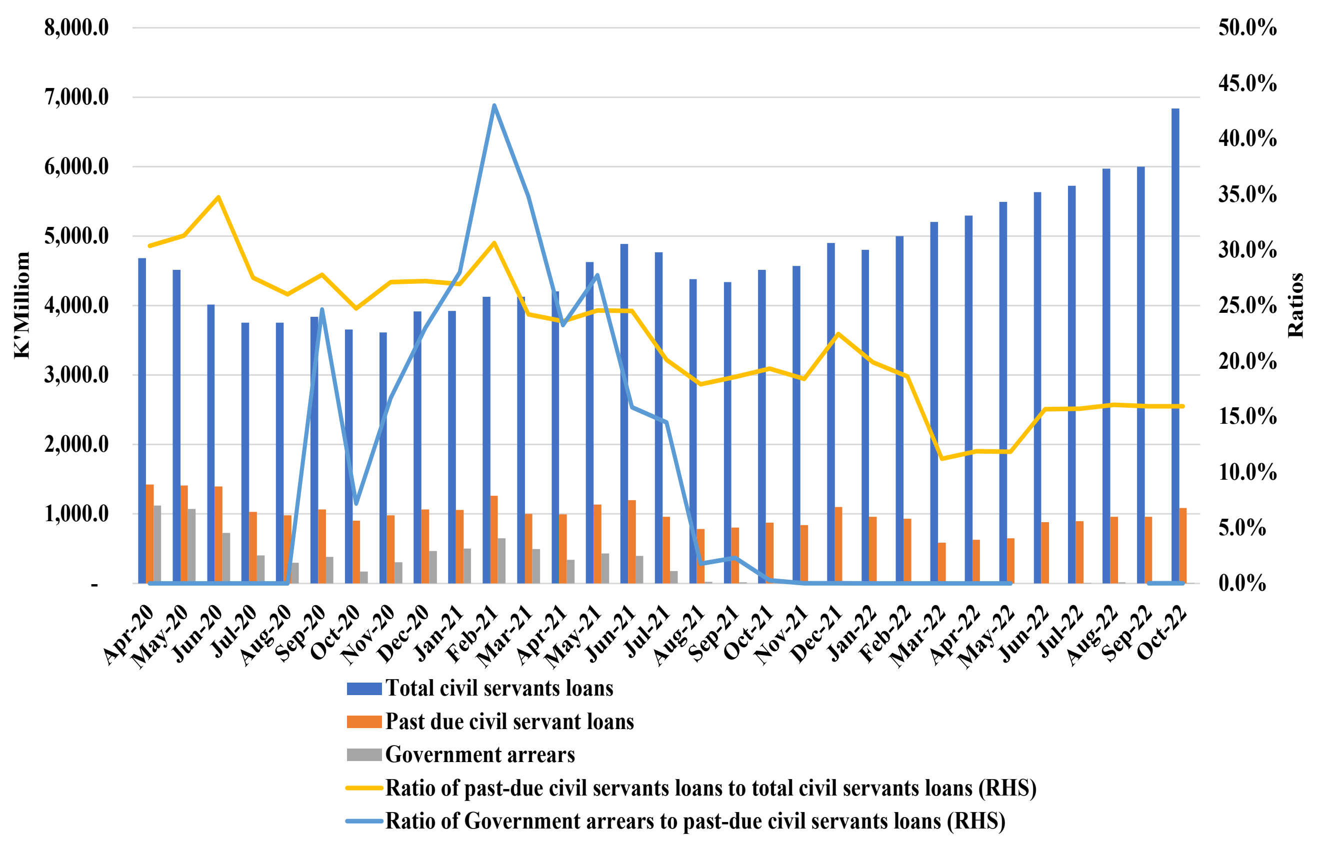
Trend in the Distribution of NPLs in commercial banks



Trend in the Distribution of NPLs In NBFIs



Trend in Loans to Civil Servants in the NBFI Sector



POLICY RESPONSE TO RISING CRUDE OIL AND WORLD FOODS PRICES

By Zambanker Reporter

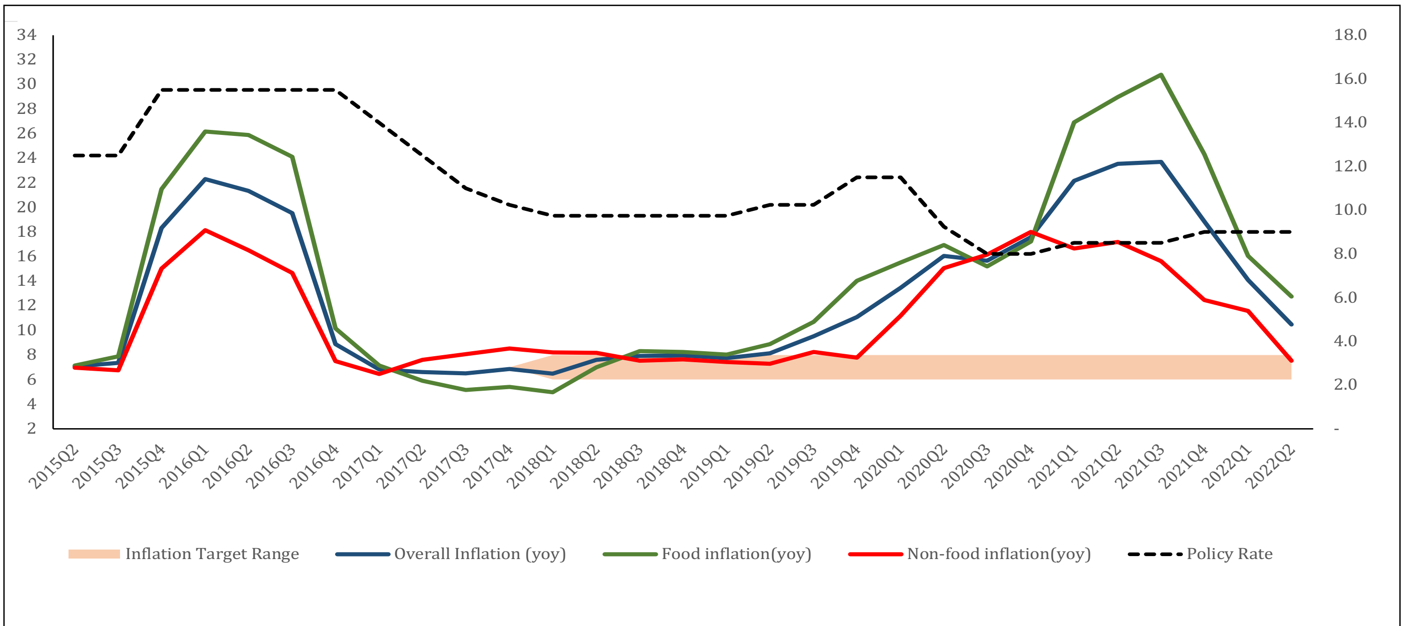
Zambia has introduced a variety of policy measures in response to the unprecedented surge in prices of crude oil and global food prices, Bank of Zambia Governor, Dr Denny Kalyalya has said. Speaking when he made a presentation at the ABSA Bank

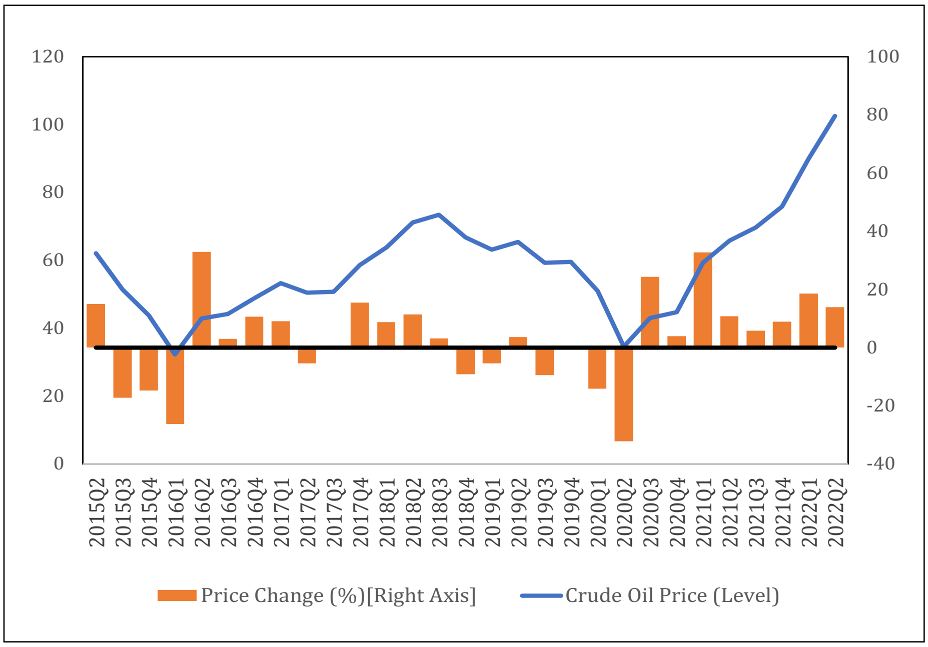
Zambia client and investor webinar, Dr Kalyalya explained that although inflation has been high over the past two years, mainly due to supply-side shocks and the weakening of the currency, it has trended downwards in the recent past. Dissipation of base effects, appreciation of the exchange rate, and weak aggregate demand have moderated inflationary pressures despite the increase in both crude oil and food prices at global level.
The Policy Rate was increased by 50 basis points to 8.5 percent in February 2021 and by a further 50 basis points in November 2021 to 9.0 percent to address rising inflationary pressures, after which it has been maintained at 9.0 percent on account of continued deceleration in inflation and further projected decline into the 6-8 percent target range during the first quarter of 2024. The Governor said the sustained implementation of fiscal consolidation measures and structural reforms, supported by the Extended Credit Facility (ECF) from the International Monetary Fund (IMF), are among the key factors expected to contribute to lower inflation. Other factors considered in maintaining the Policy Rate at 9.0 are relatively weaker growth prospects over the medium-term (3.1 percent in 2022, 4.0 percent in 2023 and 4.1 percent in 2024 from the 3.6 percent outturn in 2021), and lingering vulnerabilities and risks in the financial sector.

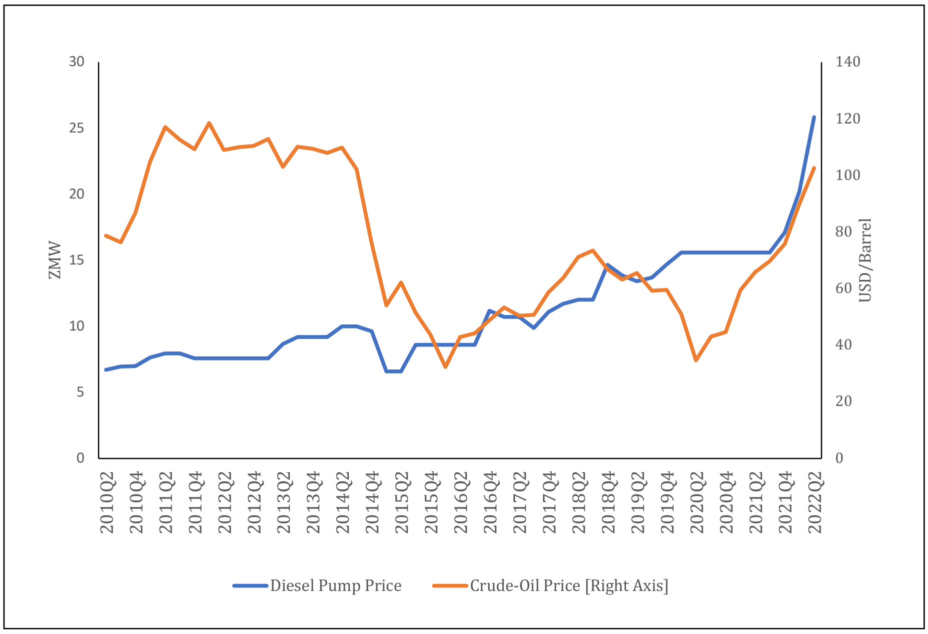
Upside risks noted to the inflation outlook include persistently elevated energy prices, higher than expected maize prices, adverse weather conditions, tight global financial conditions, and weak demand, as well as supply chain disruptions that could stem from COVID-19 containment measures.

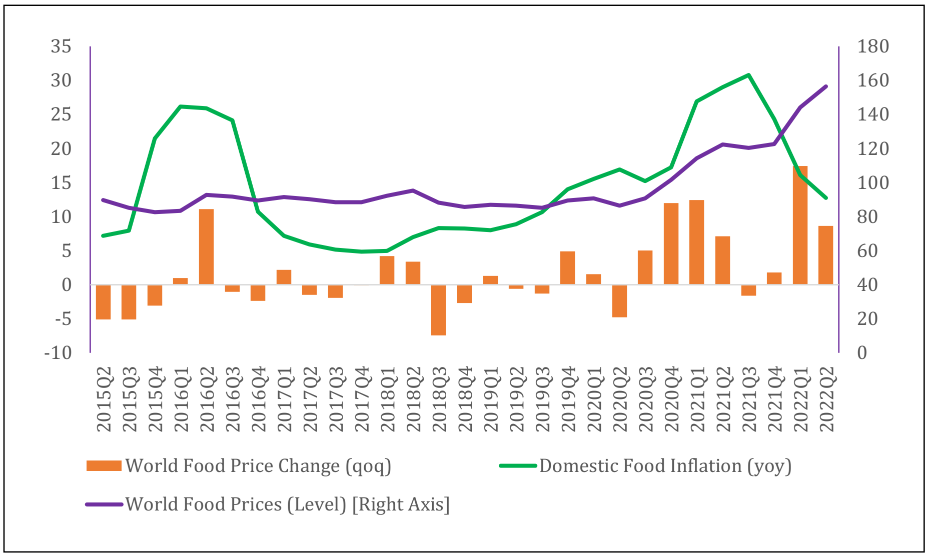
"Rising crude oil and food prices at global level are mainly supply-side shocks and monetary policy has little room to address inflationary pressures driven by such shocks. Nonetheless, if crude oil and world food price shocks persist and become embedded in the inflationary process, a tight policy response would be required to anchor inflationary expectations. However, such policy responses should always take into account prevailing domestic economic circumstances, including financial stability considerations," he said.

Inflation and the Policy Rate (Percent)









He elaborated that rising commodity prices, particularly fertilizer prices, have generated huge fiscal costs warranting scaling-up support to the agriculture sector through higher input subsidies.

Crude oil prices have been rising since the second quarter of 2020 but accelerated early this year with the onset of the Russia/Ukraine conflict in February; recovery in global demand has contributed to the rise in crude oil prices. Fuel prices are regulated in Zambia and are a function of two main factors: changes in the exchange rate and crude oil prices. With rising crude oil prices and the depreciation of the exchange rate, fuel prices have increased sharply since the fourth quarter of 2021 after holding them constant in 2020.

World food prices have also been trending upwards since the second quarter of 2020. Tight supply due to adverse weather shocks amid recovery in global demand is responsible for the imbalance. Russia-Ukraine conflict has also contributed to the rise in global food prices in recent months. The response of domestic food inflation to rising global food prices appears muted as the country has for some time been a surplus producer of the staple food (maize, which dominates the food CPI as a single product). This is evidenced by a relatively low correlation coefficient of 0.56 between domestic food inflation and world food prices.

In July, 2022, the IMF revised global growth downwards by 0.4 and 0.7 percentage points for 2022 and 2023 to 3.2 percent and 2.9 percent, respectively. The revisions were necessitated by: tighter global financial conditions following contractionary monetary policies by major central banks; higher food and energy prices stemming from the Russia/Ukraine conflict; stringent containment measures associated with new COVID-19 variants; the real estate crisis in China; and lower consumer spending. Persistence of these factors present downside risks to global growth.

ZAMBIA HOSTS ANTI-MONEY LAUNDERING SUMMIT

By Zambanker Reporter

Zambia hosted the 22nd Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) council of ministers meeting from August 28 to September 3 this year in Livingstone. The gathering coincided with the hosting of the 44th ESAAMLG taskforce of senior officials meeting and the fifth ESAAMLG Public Private Sector Dialogue.

Zambia is a founder member of ESAAMLG, a Financial Action Task Force (FATF)-style regional body which has a membership of 21 countries from the Eastern and Southern African region. FATF is an inter-governmental policymaking body whose purpose is to establish international standards, and to develop and promote policies, both at national and international levels, to combat money laundering and the financing of terrorism.

The objectives of FATF are to set standards and promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Starting with its own members, the FATF monitors countries' progress in implementing the FATF Recommendations; reviews money laundering and terrorist financing techniques and counter-measures; and promotes the adoption and implementation of the FATF Recommendations globally.

More than 400 delegates from the 19 ESAAMLG Member Countries as well as representatives of Cooperating and Supporting Nations and Organisations, such as the DRC, UK, USA, FATF Secretariat, African Development Bank, COMESA, German Development Agency (GIZ), IMF, SADC and the United Nations Office on Drugs and Crime attended the Task Force and Council meetings. The President of the FATF, Mr. T Raja Kumar also attended the meetings virtually.

Convened twice a year, the ESAAMLG meetings are designed to facilitate discussions among delegates from Member States and observers of a number of issues in relation to AML/CFT matters. The ESAAMLG Plenaries also provide an opportunity for the delegates to address pertinent issues that require a concerted and harmonised approach in the effective implementation of Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) measures. As an experience sharing platform, the plenary sessions also provide an opportunity to establish partnerships among experts, representatives of Member States, technical partners and observers in AML/CFT.

During the August/September 2022 meetings, the second round Mutual Evaluation Reports of the Republic of Kenya and Namibia, the Progress Report of Lesotho and the Follow Up Reports (with requests for re-ratings) of Botswana, Mauritius, Tanzania, and Uganda were approved. Part of the plenary meeting also included considering Reports of the Risk, Trends and Methods Group (RTMG), the Technical Assistance and Training Coordination, FIU Forum, Working Group on Risk, Compliance and Financial Inclusion, the Budget, Finance and Audit Committee as well as the closed session of the Steering Committee. The typologies studies on "Illicit Dealings in Gold, Diamond, Rubies and associated money laundering/terrorist financing in the ESAAMLG Region" presented by the RTMG was also approved at the Council's meeting.

ESAAMLG is due to discuss Zambia's Follow-Up Report in March/April 2023 which, among other areas, will cover the progress the Bank of Zambia and other financial sector supervisory authorities made in the implementation of a risk-based approach to AML/CFT supervision.

Hosted by His Excellency, President of the Republic of Zambia Mr Hakainde Hichilema and Hon. Situmbeko Musokotwane, Minister of Finance of Zambia, ESAAMLG members took this opportunity to also mark the more than 15 years of contributions made by Dr. Eliawony J. Kisanga since his appointment as Executive Secretary of the organisation in 2006. A special event to recognise the major achievements of the organisation during his tenure also took place. The Council was convinced that, with the new operating structure and the tools that Dr. Kisanga had left, the organisation was heading in the right direction.

The Council also approved Ms. Fikile Zitha's appointment as the incoming Executive Secretary of ESAAMLG. The Council congratulated Mrs Fikile Zitha for her appointment and wished her all the success.

The meeting was followed by the fifth ESAAMLG Public-Private Sector Dialogue on virtual assets and the implementation of AML/CFT programmes in the ESSAMLG Region. More than 800 participants from the public and private sector institutions participated in the Dialogue.

STRENGTHENING ACCESS TO FINANCE FOR WSME's

By Zambanker Reporter

The World Bank Group launched the Women Entrepreneurs Finance Initiative (We-Fi) Pipeline Development Programme on 27th July,2022. The programme aimed at assisting Women Small and Medium Enterprises (WSMEs) to overcome financial constraints, stimulate growth and inspire more women to participate in the Zambian economy as entrepreneurs. The objective is to reach at least 1,000 WSMEs in Lusaka and Kitwe through a combination of in-person and digital training while providing a virtual platform for other WSMEs around the country.

The We-Fi programme is a global initiative that is meant to support women entrepreneurs scale-up their access to financial products and services, build their capacity, expand their networks, offer and access mentorship, and provide linkages opportunities within the domestic and global markets.

Speaking during the launch Deputy Governor-Administration, Ms Rekha Mhango said the BoZ will continue to enhance its partnership with the World Bank and appreciate the support rendered to the financial sector to ensure financial services and credit are accessible to all segments of the society. She explained that the We-Fi project is expected to reduce the gender bias in credit decisions, build the capacity of public sector institutions, and boost the capacity of WSMEs to access credit, thereby delivering both supply- and demand-side impact on access to finance for WSMEs in Zambia.

In 2020, the World Bank commissioned a survey to collect demand-side data on women-led SMEs. The survey was conducted in Lusaka, Copperbelt and Eastern provinces under the World Bank's Women Entrepreneurs Finance Initiative (WE-Fi). The results of the survey provided insight into the challenges faced by firms across all sectors and showed that while there is a high demand for credit by women-led SMEs in the country, they are unable to access it from financial services providers. The survey also highlighted opportunities for unlocking the growth potential of women entrepreneurs.

"Following the survey, we are glad that the WE-Fi programme that will provide technical assistance on the training of 1000 women entrepreneurs identified in Lusaka, Copperbelt and Eastern provinces is being launched today," she said.

The Bank of Zambia has championed a number of strategies aimed at facilitating increased access to financial services by women entrepreneurs and the SME sector:

1. In 2010, the Bank partnered with the local office of the International Labour Organisation to promote

the use of the Female and Male Operated Small and Medium Enterprise (FAMOs) self-check audit by banks, non-banks, and recently the payments systems businesses. This initiative is aimed at identifying challenges women and youth face in terms of access to productive assets such as finance, capital and entrepreneurship with the sole purpose of enhancing the provision of suitable financial services for women. In recent times, more institutions have embraced this self-check audit.

2. In 2016, the Bank of Zambia made a commitment under the Alliance for Financial Inclusion Denarau Action Plan on women's financial inclusion to:

- Halve the gender gap for formal financial services inclusion from 10% (recorded in 2015) to 5% by 2022; so far, the Finscope 2020 survey results confirm that the formal financial inclusion gender gap was halved to 5% from 10 % in 2015.

- The Bank also committed to developing a framework for collecting, analysing and disseminating sex-disaggregated data. The financial services providers have been providing sex disaggregated data since September 2019. The importance of sex-disaggregated data and its impact on effective decision-making at all levels, especially product and service design, cannot be overstated. We believe this data will inform policy interventions to address barriers faced by SMEs in accessing finance as well as strategies and other measures for increasing financial inclusion.

3. To address some of the challenges relating to access to finance, the Bank of Zambia has been promoting the use of movable property collateral registry, which is administered by Patents and Companies Registration Agency (PACRA). This is a centralised collateral registry system that allows banks and credit providers to register movable assets as security for loans advanced.

The registry was established in November 2017 to encourage FSPs to provide credit to households and SMEs that do not have traditional collateral (land and buildings) but have items of value that could be used to secure credit, thereby promoting access to finance by these underserved segments. Bank of Zambia records show that between December 2020 and December 2021, the number of items pledged as collateral increased to 1,169 from 322.

4. It is envisioned that if well utilised, the register could facilitate women-led SMEs who do not have landed property to access credit by pledging their movable properties as collateral. Furthermore, the Bank of Zambia has, in its 2020 – 2023 strategic plan, included the commitment to strengthen accountability for gender mainstreaming and diversity in the Bank and advocates for FSPs to develop products and services that address the needs of women and SMEs. The Bank will collaborate with stakeholders to enhance digital financial services sensitisation and awareness campaigns to increase uptake and reduce dependence on cash, as well as to reach rural areas that have no access to physical financial service providers.

5. It is worth noting that the Bank has also implemented the regulatory sandbox to support innovations and new product designs by FSPs, particularly, financial technologies (fintechs) in a controlled environment. This is an opportunity for collaborative work among FSPs to design appropriate products for the SME sector.

REGULATORS OF DFS LAUNCH COLLABORATIVE FRAMEWORK

By Zambanker Reporter

Regulators with oversight responsibility for the provision of Digital Financial Services (DFSs) in the country have launched the regulatory collaborative framework, which provides a clear structure of coordination amongst key players in the DFS ecosystem to promote the safe and efficient provision of services.

The collaborative framework will ensure clarity in the institutional roles for each of the stakeholders and identification of areas of collaboration as well as develop a mechanism for such cooperation. It will define what information needs to be shared for ease of responding to DFS challenges. The framework will also improve the efficiency of resource application as activities across multiple regulators will be well co-ordinated. Overall, the framework is expected to have a meaningful impact on consumer welfare and efficient service delivery. Some of the regulators in the DFS ecosystem include the Bank of Zambia (BoZ), the Zambia Information and Communications Technology Authority (ZICTA) and the Competition and Consumer Protection Commission (CCPC).

Deputy Governor-Operations Dr Francis Chipimo represented the Bank at the launch and said the BoZ, in its role as regulator of Financial Service Providers will continue to promote innovations and ensure that the protection of consumers is enhanced in order to consolidate and sustain the gains made in increasing financial inclusion.

He explained that DFSs have increasingly become an important driver of financial inclusion globally and Zambia is no exception. He said the country has continued to make significant progress in reducing the level of financial exclusion by leveraging the digital transformation agenda, especially in the area of digital financial services.

"This collaboration is both necessary and timely, as we witness the convergence of rapid developments in the telecommunications space and in the financial services industry," he said.

The objective of financial inclusion in Zambia as envisaged by the National Financial Inclusion Strategy of (2017 – 2022) and the Bank of Zambia strategy (2020 – 2022) is to achieve universal access and usage of a broad range of quality and affordable financial services that meet the needs of both individuals and enterprises.

In the last seventeen years, the Bank of Zambia has continued to invest in

Finscope Surveys, every five years, to gauge the level of financial inclusion. To this effect, the recent survey was conducted in 2020 and the results were very encouraging. According to results, the level of overall financial inclusion increased by 10.1 percentage points to 69.4% from 59.3% in 2015 and this was mainly attributable to mobile money. Further, it is worth noting that digital payment options have been instrumental in facilitating trade and commerce amidst the COVID-19 pandemic.

To spur the growth in the usage of Digital Financial Services, the Bank has undertaken a number of initiatives to scale up access, usage and the quality of Digital Financial Services. Some of the initiatives include :

- Implementation of an interoperable National Financial Switch (NFS);
- Introducing tiered and simplified due diligence for mobile money users;
- Prohibition of unwarranted fees and charges;
- Capping of fees and charges for electronic transactions;
- Capping of merchant discount rates;
- Reducing fees on the Real Time Gross Settlements (RTGS) transactions;
- Increasing of balance and transaction limits for electronic money;
- Facilitation of mobile payments for forcibly displaced persons (refugees);
- Conducting annual sensitisation campaigns on the use of Digital Financial Services; and
- Issuance of directives on complaints handling and resolution for supervised entities, among others.

In a bid to enhance the creation of an enabling environment for innovative financial services, the Bank of Zambia issued guidelines on the Regulatory Sandbox in April 2021. The Regulatory Sandbox is a framework set up by the Bank of Zambia to allow small scale-testing of new innovative financial products and services. These guidelines apply to any person whether already holding a regulatory license or prospective applicant seeking to introduce a novel product or service to the market. The guidelines are aimed at encouraging innovation in the financial sector and promoting the adoption of Digital Financial Services. Ultimately, this is expected to scale up financial inclusion. Currently, there are two applicants for whom the Bank will be making a determination soon.

These developments signify that the use of technology is key to the improvement in the delivery of financial services and increasing the level of financial inclusion. An inclusive and well-functioning financial system enables access to a broad range of affordable financial services to households, corporates as well as micro, small and medium enterprises. This in turn contributes to the attainment of some of the Sustainable Development Goals by reducing poverty and inequality, increasing the resilience of users to financial shocks, improving access to credit and introducing new investment options to the underserved or financially excluded, among the other benefits.

Regarding concerns related to DFS the Deputy Governor said while the Finscope survey had shown increased adoption of Digital Financial Services in Zambia, there are still some challenges that need to be addressed to fully exploit the potential of these digital payment systems including cybersecurity, the level of financial awareness and training, customer complaints handling and the need to enhance the availability of enabling infrastructure.

BUDGET HIGHLIGHTS FOR 2023

By Zambanker Reporter

The Minister of Finance and National Planning, Dr. Situmbeko Musokotwane presented the 2023 National Budget to Parliament on Friday 30 September 2022 under the theme: "Stimulating Economic Growth for Improved Livelihoods." Highlighted macroeconomic objectives are: (a) Attain a real GDP growth rate of at least 4.0%; (b) Reduce inflation to within the target band of 6-8% by the end of the year; (c) Maintain international reserves above 3 months of import cover; (d) Mobilise domestic revenue to at least 20.9% of GDP; (e) Achieve a fiscal deficit of not more than 7.7% of GDP; and (f) Limit domestic borrowing to not more than 3.0% of GDP.

Salient policies and strategies:

- Fiscal policy is anchored on the Eighth National Development Plan objective of attaining fiscal sustainability and creating a platform for inclusive growth. In 2023, the focus will be on improving the fiscal position by reducing the overall deficit to 7.7 percent of GDP from the projected 9.8 percent in 2022. To attain this objective, Government is strengthening compliance and administrative capabilities to generate more revenue while keeping the tax policy environment stable and predictable.

- Government will continue to pursue policies aimed at maintaining price and financial system stability. Monetary policy will, therefore, continue to rely on the forward-looking framework anchored on the Policy Rate as a key signal for the policy stance.

- Financial stability will the focus on strengthening the macro prudential function to limit disruptions in the provision of financial services. To this end, the Bank of Zambia will operationalise the Financial Stability Committee in accordance with the Bank of Zambia Act No. 5 of 2022. The Committee will, among other responsibilities, formulate policies aimed at maintaining overall stability of the financial system.

- Government will step up efforts to increase financial services to unserved and underserved areas, particularly among the rural population. To this end, Government is developing a 2023-2027 National Financial Inclusion Strategy, which will provide interventions to increase financial inclusion.

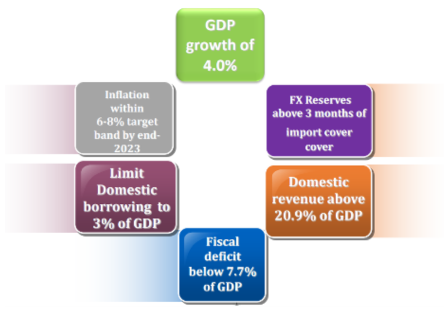
- Government will maintain a flexible exchange rate regime while mitigating excessive volatility. To cushion the economy against external shocks, accumulation of international reserves will be enhanced through increased export earnings and promotion of sustainable foreign nvestment flows. Government will also enhance the compilation of balance of payments statistics through the full operationalisation of the Electronic Balance of Payment Monitoring System.

- Government will focus on containing public expenditures within sustainable levels. This will be achieved by ensuring strict adherence to priority projects, doing away with wasteful subsidies and improving procurement procedures. Government will also curb the accumulation of new arrears by enforcing the use of the Commitment Control System for procurement of goods and services.

- Revenue mobilisation will focus on strengthening compliance and improving trade facilitation. To enhance compliance, Government will implement the following measures: (a) Use of Electronic Fiscal Devices. Government will expand the use of Electronic Fiscal Devices with enhanced functionality to all eligible taxpayers and shall be extended to turnover tax and the gaming and betting industry; (b) Interface of Government Systems.

- The ZRA Tax Online System will be interfaced with the Integrated Financial Management Information System and the Land Management System and the Mandatory verification of tax liabilities. Government will make it mandatory for all public bodies to verify with ZRA any tax liabilities and withhold amounts owed to ZRA before making payment to suppliers of goods and services.

- Government will continue engaging all the creditors to negotiate and agree the terms and conditions of the debt restructuring. Successful debt restructuring will create fiscal space to enable the Government provide support to developmental programmes and also to spend more on the vulnerable.



‘WE HAVE BEEN CONSISTENT IN OUR ADVISORY ROLE’

By Zambanker Reporter

Bank of Zambia Governor, Dr Denny Kalyalya has reaffirmed the Central Bank’s consistency in its advisory role to Government. Responding to journalists who wanted to know if the Bank will continue to provide checks and balances on economic management, the Governor stated that the Bank remains apolitical and committed to being objective in its advisory role to Government.

He explained that the Bank has continued to advise Government on various economic issues through high level and technical meetings as well as confidential communications. He added that Bank’s publications also serve as way of sharing information with the Government. The Bank hosted a media tour during the Zambia Agricultural and Commercial Show.

“The Bank advises Government on macroeconomic and other important matters including prior consultations on formulation of new as well as amendments to existing legislation,” he said.

The BoZ is responsible for formulating and implementing monetary policy. Its inflation objective aims at maintaining price stability within the target band of 6-8 percent over the medium term. On the supervisory side, the BoZ has been enhancing the macro-prudential policy framework by further developing a suite of indicators to assess systemic risks, developing macro-prudential tools to address emerging risks, conducting analytical research to inform on the calibration of these tools, and evaluating the effectiveness of these tools in limiting systemic risk.

The Governor said monetary and fiscal policies working in complementarity are important in driving the economy forward. Monetary policy targets price stability, while fiscal policy looks at Government spending and tax policies to influence economic performance. Governments can, for example decide to spend money on provision of public services and procurement of goods and services to support the economy as well as introduction of specific taxes to reduce inequalities but that can affect monetary policy hence for enhanced collaboration between the sides of economic management. Government finances its budget through tax revenues, domestic and external borrowing.

In response to a question on protection of consumers of financial services, the Governor explained that the BoZ encourages a positive consumer focused culture as well as having robust consumer protection frameworks in regulated firms. To enforce compliance, financial institutions are monitored on a regular basis.

He said the Central Bank’s objective is for regulated firms to be financially sound and properly managed. This is undertaken through risk-based supervision including, approval of persons under the fitness and probity standards, and taking appropriate actions when necessary.

The Governor stressed that the BoZ actions aim at maintaining stability and avoiding disruption to financial services.

FINANCIAL SECTOR RESPONDS TO ECONOMIC RECOVERY

By Zambanker Reporter

Some players in the financial sector are responding to the recovery of the economy by passing on the benefits to their consumers, a testament of the positive strides that the Government, through the Central Bank has made in creating an enabling environment that allows institutions to offer affordable financial services to their consumers, says Deputy Governor-Administration, Ms Rekha Chifuwe Mhango.

Speaking at the launch of the Standard Chartered Bank Agency Banking Service, Ms Mhango said Standard Chartered had, for instance, just reduced its interest rates on mortgages from 24% to 16%. Similarly, personal loans interest rates have been dropped to 23 percent from 29 percent with an offering of a maximum of K450,000 with tenor of up to 60 months.

"I am delighted to note that Standard Chartered is one such bank that has risen to the occasion and continues to be innovative by providing clients with banking services that allow them to have the choice on how, when, and where to bank. The Standard Chartered agency banking platform being launched today, is one such platform that will enhance convenience for our people who wish to access banking services; thereby increasing the efficiency of banking services and empowering our citizens to trade and do business efficiently," she said.

The launch of agency banking by Standard Chartered will see the bank roll out a total of 100 agents across the country in the initial phase, and an additional 300 agents in the second phase, a significant achievement towards taking banking services to the people.

She said banks need to continuously evolve and find ways of reaching the unbanked population by opening new service points for clients to access banking services in this era of digitisation.

Meanwhile, Standard Chartered Bank Chief Executive Officer Sonny Zulu said his Bank remains committed to the growth agenda of the country through the various investments they have made and continue to make.

He explained that the introduction of our agency banking services is designed to enhance livelihoods while providing convenient and reliable services to customers, reaching places the bank never had presence of before in its 116 years of existence.

"It is important to recognise that this product is an opportunity for us to offer banking services in a different manner - thus enhancing customer experience. We are confident that this product just like the SC mobile application will significantly improve lives across the country. This demonstrates why digital services, and its agenda are paramount to the development of financial inclusion in this country," he stated.

He said the SC mobile application has continued to demonstrate that it is possible to achieve financial inclusion. With this application, Standard Chartered has opened accounts for customers in far flung corners of Zambia such as Chilubi island.

Standard Chartered Board Chairperson Dr. Caleb Fundanga said Agency Banking is an opportunity for Zambians. He urged entrepreneurs to come on board and establish their own financial services companies assuring them of the banks 'support.

HIGHLIGHTS OF HIGH LEVEL MEETINGS, STUDY TOURS TO THE BANK

- The Bank hosted the Vice President of the World Bank, Eastern and Southern Africa, Ms Victora Kwakwa on 13th July, 2022. Ms. Kwakwa discussed collaboration between the World Bank and the Zambian Government going forward. Earlier Ms. Kwakwa had meetings with his Excellency, the President of the Republic of Zambia, Mr Hakainde Hichilema and the Minister of Finance and National Planning Mr Situmbeko Musokotwane.
- World Bank Managing Director, Ms Anshula Kant, who is the third in the chain of command from the President of the World Bank visited the Bank to gain an insight into Zambia's financial sector issues and discuss potential future cooperation with the World Bank Group.
- The Bank received a team from the Reserve Bank of Malawi from 29th August to 2nd September, 2022. The delegation came on a study tour of the Compilation of Balance of Payments Statistics. They were attached to the Economics Department.
- A delegation from the Banco de Mozambique's Communication Office (pictured above) visited Bank of Zambia on a peer learning visit on the Bank's experience in monetary policy communication. They were attached to the Communications Division in the Executive Office.
- A delegation from the Reserve Bank of Zimbabwe visited the Bank for peer learning on the development of and implementation of the second phase of the National Financial Inclusion Strategy.

STUDENT ESSAY PRIZE WINNERS ANNOUNCED

By Zambanker Reporter

FinTech is creating a whole new world of possibilities for the financial services sector in Zambia. There are clear prospects for financial technologies to make the financial system even more efficient, effective and resilient. The rapid pace of technological innovation presents new challenges for financial regulation and supervision, highlighting the need to implement enabling regulatory frameworks whilst safeguarding consumers, and preserving the stability and integrity of the financial system.

In the spirit of enhancing the financial inclusion agenda, the Bank of Zambia run the inaugural essay writing contest from 1st to 31st October, 2021 under the topic ***"How can digital financial services help Zambia develop?".***

The essay challenge was one way of getting information on how digital financial services are helping in pushing the financial inclusion agenda, from the perspective of school going children. The contest was open to learners from Grade 8 to 12. The Challenge provided an opportunity for young citizens to share their thoughts, ideas and experiences on key issues and have their hard work and achievement celebrated.

Contestants were expected to write an essay on that topic, of between 500 and 1, 000 words. Submissions were judged on originality, expression, creativity, and appropriateness to the theme.

The exercise attracted 224 entries from various parts of the country including Mwinilunga, Kawambwa, Samfya, Mkushi, Mazabuka, Luanshya and Kabwe to mention a few locations.

Speaking when she announced the winners, Assistant Director-Communications, Ms Besnat Mwanza stated that the finalists displayed great skill and clarity in conveying their message.

She highlighted the timely nature of this essay competition, which exposes the younger generation to Digital Financial Services. The Bank of Zambia has adopted Financial Inclusion as one of its focus areas in its 2020 – 2023 strategic plan. Under this objective, several initiatives aimed at contributing towards reducing the number of financially excluded individuals in Zambia have been adopted. One of those initiatives is to increase the uptake of digital financial services as a key driver to a financially included population.

"Congratulations to the three essay winners. Our gratitude also goes to the other participants who didn't make it and the judges for their time and efforts," She said.

Ms Mwanza encouraged those who did not win not to give up but look out for the next edition of the essay challenge.

The winners are:

- Mr. Shemaiah Kiyana Lundulanga, Mwinilunga Boarding Secondary School – Winner (82.8%), **He won an HP Laptop**
- Ms. Vailet Amina Mwale, Olympia Park Secondary School - 1st Runner Up (76.5%), **She won a Samsung Galaxy Tablet S7**
- Ms. Anna Nanyangwe, Kapiri Day Secondary School - 2nd Runner Up (74%), **She won an Infinix Note 10 mobile phone**.

NEWS FROM AROUND THE WORLD

1. Q3 2022 – Global Economic Outlook

The world economy is on a slippery slope, amid deteriorating growth prospects, high and persistent inflation, diminishing policy support and elevated financial and geopolitical uncertainties. Economic activity in the United States, China and Europe is weakening, and growth in developing countries remains largely inadequate to steer a full recovery from the pandemic

Elevated and persistent inflation has prompted aggressive monetary tightening in a number of large economies. Rising borrowing costs are increasing fiscal consolidation pressures and risks of sovereign defaults among developing countries.

Amid health, climate, food security and geopolitical crises, strengthened and effective multilateral cooperation will remain critical to stimulate growth, support the most vulnerable and put the world economy on track towards sustainable development.

Source: World Bank

2. Bank of Ghana Announces Launch of Regulatory Sandbox

On August 19, 2022, the Bank of Ghana launched its Regulatory and Innovation Sandbox developed in collaboration with EMTECH Solutions Inc. This is in line with the Bank's commitment to continuously evolve a conducive regulatory environment that fosters innovation, financial inclusion and financial stability.

According to the Bank's statement, the Regulatory Sandbox is open to all licensed financial institutions (Banks, Specialised Deposit-taking Institutions, Payment Service Providers, Dedicated Electronic Money Issuers, Financial Holding companies and other Non-Bank Financial Institutions) and unlicensed FinTech start-ups that have innovative products, services or business models that meet the Regulatory Sandbox requirements.

It aims at, among others, fostering a deeper understanding of innovative products, services and business models by the regulator, allowing for potential improvements to legal and regulatory requirements to encapsulate emerging technologies, and ensuring careful monitoring and containment of any risks that may emerge.

Source: Bank of Ghana

3. US Senators Press Meta CEO on Crypto Scam Policies for Facebook, Instagram, WhatsApp

Six U.S. Senators Robert Menendez, Sherrod Brown, Elizabeth Warren, Dianne Feinstein, Bernard Sanders, and Cory A. Booker have demanded answers from Mark Zuckerberg, chairman and CEO of Meta, about his company's "efforts to combat cryptocurrency scams on its social media platforms, including Facebook, Instagram, and WhatsApp."

"We are concerned that Meta provides a breeding ground for cryptocurrency fraud that causes significant harm to consumers," the lawmakers wrote in a letter to Zuckerberg.

For each of Meta's social media platforms, the questions included how the company finds and removes crypto scammers, educates and warns users about crypto scams, and assists victims of fraudulent crypto schemes. The senators also asked how Meta verifies that crypto ads are not scams and what regulatory licenses are required to advertise on its platforms. Moreover, they asked to what extent Meta collaborates with law enforcement to track down scammers.

The Senators cited recent reports of scams on social media platforms and apps, including data from the Federal Trade Commission (FTC). "Among consumers who reported being scammed out of cryptocurrency on a social media website, 32% identified the scam as having originated on Instagram, 26% on Facebook, and 9% on WhatsApp."

Source: Bitcoin.com

4. Central Bank of Egypt & Palestine Monetary Authority win the AFI Global Financial Inclusion Awards

The Nestor Espenilla Jr. Financial Inclusion Innovation Award was taken home by the Central Bank of Egypt (CBE) for demonstrating commitment and leadership to foster new technologies and innovations to drive financial inclusion and for its innovative policies and use of structured approach through the adoption of a National Fintech & Innovation Strategy.

The Global Youth Financial Inclusion Award was won by the Palestine Monetary Authority (PMA) recognising their achievements amongst regulators worldwide in advancing the financial inclusion of youth. PMA has championed financial inclusion of youth, embedding it as a focus in its national financial inclusion strategy. PMA also introduced a holistic approach that includes an extensive set of initiatives covering awareness-raising activities, financial services measuring and benchmarking initiatives.

Source AFI

THE DETERMINANTS OF NON-PERFORMING LOANS IN ZAMBIA: IMPACT OF BANK-SPECIFIC AND MACROECONOMIC VARIABLES

By Isaac Muhanga & Teddy K. Funyina

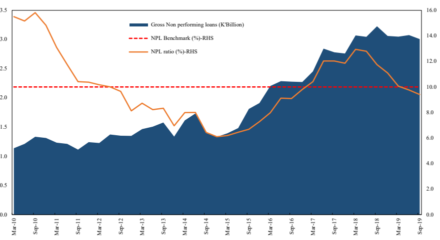
It has become apparent that the global financial crisis of 2007/2008 has sparked a growing discussion among economists on the effects of banking sector instability on the wider economy (Louzis et al., 2012; Chaibi and Ftiti, 2015). This has motivated academic researchers, policy makers and financial regulators to explore, in further detail, the factors that could possibly cause a banking crisis. In this regard, exploring the factors that lead to bad loans is paramount for financial regulatory authorities to maintain financial stability by allowing banks to pursue responsible management and play a vital intermediation role. Thus, the stability of the banking system is fundamental to sustainable growth prospects as it enhances the confidence of businesses and the public at large.

Literature has established that an increase in credit risk on the back of huge accumulated non-performing loans (NPLs) tends to increase the probability of a banking crisis. Louzis et al. (2012), and Chaibi and Ftiti (2015) argue that a banking crisis could be triggered by fragilities in the macroeconomic environment manifesting in the form of declining growth, increased unemployment levels, rising interest rates, and high inflation, which heighten credit default risk. Others have argued that, among other concerns, banking crises have been preceded by the buildup of structural weaknesses in the economy and the financial system, risky banking practices, incentive structures, and moral hazard (Chaibi and Ftiti, 2015). Nonetheless, Reinhart and Rogoff (2010) argued that a prolonged deterioration in asset quality, as indicated by a large increase in NPLs could be used to mark the onset of the banking crisis and economic downturn. Thus, a banking crisis is imminent if NPLs are not held in constant check. It is in this regard that Castro (2013) underscores the need to examine credit risk problems in the banking sector that take the form of NPLs prior to delving into the triggers of a banking system crisis.

The NPL ratio in the Zambian banking sector has fluctuated overtime, ranging from 15.8 percent in September-2010 to 6.1 percent in December-2014 to 12.9 percent in March-2018 and to 9.4 percent in September-2019 (Figure 1). The fluctuation in the ratio has largely reflected the cyclical movement in macroeconomic conditions between 2010 and 2019. The NPL ratio rose to 15.8 percent in September-2010 as a consequence of the reeling effects of the 2007/2008 global financial crisis which shored up on banks' balance sheets a year later in 2009 and continued in 2010. However, the favorable macroeconomic environment in 2010-2014 characterised by robust GDP growth and a surge in total loans, helped lower the NPL ratio. In the subsequent period, 2015-2019 when macroeconomic conditions weakened, increases in the stock of NPLs together with the slowdown loans growth, largely contributed to the deterioration in the NPL ratio.

The increasing NPLs and NPL ratio if left unaddressed can compound into financial crisis and constrain banks' balance sheet, with potential adverse effect on intermediation capacity. Since 2015 when macroeconomic fundamentals began to corrode, the NPLs stock increased, with the NPL ratio breaching the 10 percent prudential benchmark, hitting a peak of 12.9 percent in March-2018 from 6.1 percent in December-2014 (Figure 1). This dramatic turn in NPLs which began to rise in 2015 and continued in successive years raises systemic risk to financial stability with potential to degrade bank soundness, especially for individual banks which appear vulnerable given their low capitalisation (Table 1). Moreover, the feedback effects from the banking system to economic activity have potential to undermine a sustained recovery and may pose significant vulnerabilities in future. Given the worrying upward trend in NPLs and the NPL ratio, there is need for an empirical investigation into the determinants of NPLs in the banking sector in Zambia.
The surge in NPLs and the NPL ratio is widely spread across banks

Figure 1: Gross Non-Performing Loans and NPL Ratio in the Zambian Banking System, 2010 to 2019



Source: Authors construction using Bank of Zambia data

and sectors, revealing strong and negative co-movements with pace of economic recovery (Figure 1 and Table 1). The challenging macroeconomic conditions in the period 2015-2019 underpinned the rise in NPLs, in which real GDP growth rate declined to an average of 3.1 percent compared to 6.6 percent in 2010-2014. The local currency depreciated sharply from an average of K5.27/US$ to K10.37/US$, with the annual inflation rising from an average of 7.1 percent to 10.3 percent in the same period. This was accompanied by hikes in the monetary policy rate which led to increases in the general interest rates. The drought in the 2014/2015 farming season adversely affected agriculture production and electricity generation, which together with pre-existing fiscal and exchange rate pressures aggravated macroeconomic conditions in the country. Consequently, a combination of these multiple factors increased the cost of doing business thereby putting a strain on businesses and households and bolstering a rise in NPLs.

In the period under review, the rising trend in NPLs and NPL ratio reflected in part the consequences of heightened unemployment across various economic sectors which, together with depreciated currency and tight financial conditions, weakened borrowers' repayment capacity. While this trend analysis seems to suggest that macroeconomic factors explain movements in NPLs in Zambia, high NPL ratio variations within individual banks, implies that bank-specific variables could also have a role to play. Thus, to the extent that the occurrence of banking crises is related to increases in NPLs, understanding the determinants of NPLs could be critical to enhancing the soundness of banks.

Table 1: Trends in the Capital Adequacy Ratio (CAR) and NPL Ratio

Bank ID	Bank Size	Dec-14		Dec-15		Dec-16		Dec-17		Dec-18		Sep-19	
		CAR	NPL Ratio	CAR	NPL Ratio	CAR	NPL Ratio	CAR	NPL Ratio	CAR	NPL Ratio	CAR	NPL Ratio
1	Small	18.8	1.7	33.6	2.4	15.9	1.8	30.7	2.6	28.0	3.5	43.1	4.0
2	Small	12.0	24.5	3.7	25.7	15.1	37.1	5.3	65.7	10.2	64.5	19.0	60.7
3	Small	36.4	8.8	27.6	7.3	30.9	10.0	40.1	5.6	40.9	7.5	40.5	7.7
4	Small	45.5	11.2	28.9	11.9	29.1	6.8	24.3	10.5	18.4	9.1	20.3	6.3
5	Small	19.6	8.3	17.0	14.3	15.0	13.5	19.7	17.2	15.9	13.1	11.8	13.8
6	Small	27.6	5.6	19.5	17.8	25.3	40.9	35	37.5	39.1	32.3	31.0	19.7
7	Small	59.7	10.7	46.4	14.4	54.8	19.4	69.6	3.3	21.6	3.9	27.2	2.4
8	Small	49.9	0.2	34.1	0.1	92.8	0.2	79.9	0.3	42.2	0.0	41.2	0.2
9	Small	33.6	12.5	26.0	2.2	34.9	3.0	50.2	24.4	52.5	18.0	61.2	1.1
10	Big	60.6	2.5	50.8	3.7	58.6	2.6	49.7	2.5	41.7	6.4	37.8	5.4
11	Big	40.0	12.4	38.7	23.0	30.2	23.6	13.8	19.7	18.6	17.0	18.8	16.5
12	Big	25.9	3.6	20.4	5.4	22.8	10.4	20.8	19.2	23.6	29.3	27.8	25.6
13	Big	90.3	0.0	64.9	0.0	57.7	0.0	42.6	0.0	17.4	0.0	19.2	0.0
14	Big	18.7	1.5	13.3	2.6	16.6	4.4	27.6	5.2	14.8	5.3	15.7	5.0
15	Big	20.5	9.1	18.9	11.3	16.8	16.9	16.8	19.0	12.8	8.5	14.2	7.6
16	Big	14.7	5.5	13.3	5.2	25.5	9.0	28.7	8.2	28.0	7.8	21.2	7.2
17	Big	23.5	4.6	13.9	5.3	18.5	4.2	19.1	5.8	18.3	6.6	20.6	5.2
Banking Sector Average		**27.0**	**6.1**	**21.0**	**7.3**	**26.2**	**9.7**	**26.5**	**11.5**	**22.1**	**11.0**	**22.6**	**9.4**

Source: Authors construction using Bank of Zambia data

Against this backdrop, this study explores the factors that trigger NPLs in the Zambian banking sector. Broadly, the objective of this study is to explore the key determinants of NPLs in the banking sector using bank-level data over the period 2010Q1-2019Q3. The period 2010-2019 is considered as it gives relatively more consistent data on the cross-section and time series observations used in this study. The period also encompasses both the boom cycle (2010-2014) and the bust cycle (2015-2019), with GDP growth rates averaging 6.6 percent and 3.1 percent, respectively). This helps to avert the challenge of estimation results being solely influenced by the boom or bust cycles thereby making the results useful in both normal and abnormal times.

Extant literature highlights that both bank-specific and macroeconomic variables play a pivotal role in influencing NPLs (Louzis et al., 2012; Chaibi and Ftiti, 2015) though with a bias towards advanced economies and a limited focus on sub-Saharan Africa. Chileshe (2017) and Mbao (2017) are the only studies in Zambia that focus on the topic. However, they looked at a limited number of bank-specific and macroeconomic variables. Further research on Zambia remains imperative to augment existing literature. Therefore, this study extends the topic of "NPLs determinants in Zambia" by including a comprehensive number of bank-specific and macroeconomic variables with banks disaggregated into five categories (i.e. all-banks, small-banks, big-banks, domestic-banks and foreign-banks) in line with the contemporary literature using a dynamic panel data approach of cointegration and fully modified ordinary least squares (FMOLS).

The results broadly confirm that NPLs are affected by both bank-specific and macroeconomic variables. Among the macroeconomic determinants, results suggest that higher fiscal deficits and interest rates contribute to higher NPLs while higher GDP growth, copper prices, credit-to-GDP ratio, and inflation results in lower NPLs. Exchange rate depreciation was found to increase NPLs in all, big and foreign bank categories, but lower NPLs in small and domestic bank categories. The impact of bank-specific factors is indeed in line with the literature. Bank capitalisation, non-interest income ratio (diversification) and net interest margin ratio (NIMR) are positively correlated with NPLs while bank size leads to lower NPLs. While bank-specific variables have a significant impact on NPLs, the explanatory power of macroeconomic variables seem to weigh more.

Based on the results, commercial banks should pay attention to both bank-specific and macroeconomic factors when providing loans to restrain the level of NPLs. The study advocates for policies that ensure macroeconomic stability, as this could provide significant benefits to the banking sector by lowering the likelihood of loan defaults and the possibility of banking crises. The central bank should strengthen macroprudential regulations to prevent banks from taking excessive risks during economic booms.

The authors are Director-Financial Markets & Economist in the Bank Supervision Department, respectively.

THE CREDIT CARD MARKET IN ZAMBIA

By Kasalapo Lungu

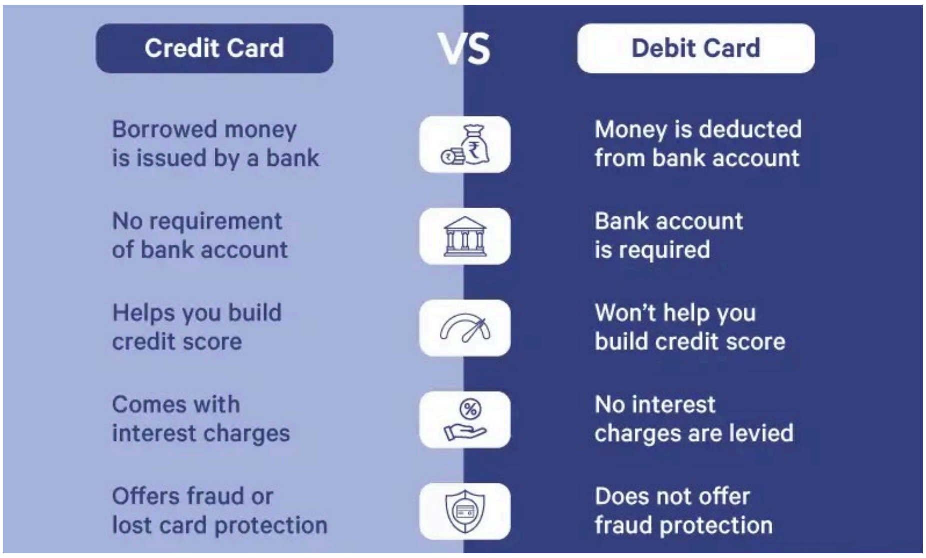
Income generation is at the center of human activity which builds capacity to pay for various goods and services including food, housing, education, health, energy, transportation, and other services to live a decent life. Despite the focus to generate income, households and individuals still experience financing gaps rendering them incapacitated to afford a decent lifestyle, and or live below the poverty line. The financing gaps arise from cashflow mismatches (timing and quantum of cashflows). One of the available options to close the immediate financing gap is short-term borrowing. However, access to affordable and appropriate short-term finance remains a challenge.

Although the development of *mobile money or digital financial services has accelerated the distribution of credit to household and individuals that never had access before*, one other product appropriate for consumer credit namely, credit card, is still in short supply in Zambia.

Therefore, this article explores the availability, adoption, usage, and potential economic benefits of credit cards in Zambia.

Definition of the Credit Card

A credit card is a payments instrument issued by a financial service provider that allows a cardholder to borrow funds with which to pay for goods and services instantly but allows the cardholder to repay the card issuer later.
In addition to the standard credit line, the credit card issuer may also provide a card holder with an option to get cash, thus enabling the card



Source: https://www.paisabazaar.com/credit-card/why-are-credit-cards-better-than-debit-cards/

holder to borrow money in form of cash advances that are withdrawable through bank branches, ATMs and or moved to current bank accounts.

Issuers of Credit Cards

Credit card issuers are typically financial service providers (usually regulated) in collaboration with the network providers or payments platform providers like Visa and Master Card. In this arrangement credit providers make funds available for payments to cardholders of which flow of funds is enabled by the payment's solutions.

In Zambia, the authorised categories of financial services providers to provide credit services by the Bank of Zambia includes, commercial banks, microfinance institutions, leasing financing institutions, savings and credit institutions, development finance institutions and financial businesses. However, except for commercial banks, most non-bank financial institutions usually do not provide card services, either debit or credit cards. The data collected by the Bank of Zambia shows that only 11,579 credit cards were in issue against 2,727,780 debit cards at end-December 2021.

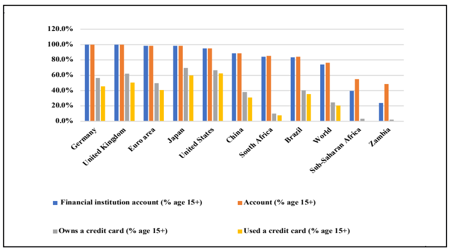
Economic Importance of Credit Cards

Although credit cards have, in some instances, been perceived in bad light especially when associated with irresponsible borrowing and lending, the economy can, none the less, benefit in many respects through their wider use. Some of the benefits include access to revolving credit, being a more secure payments instrument, facilitates efficient borrowing as access to credit does not require reapplication, helps borrowers to build credit history and scores, helps to smoothen consumption and encourage increased supply or production of goods and services and facilitates cash less transactions thereby reducing cash handling pressures on the central bank, financial services providers, businesses as well as cardholders.

The Global Credit Card Market

According to the World Bank Global Findex Database 2021, developed countries like Japan, United Kingdom, Germany, and the United States of America had an adoption and usage rate of credit cards of over 60% of their populations older than 15 years (Figure1).

Figure 1: Some Selected Global Findex Indicators for selected countries in 2021



Source: Global Findex 2021 database, World Bank.computations

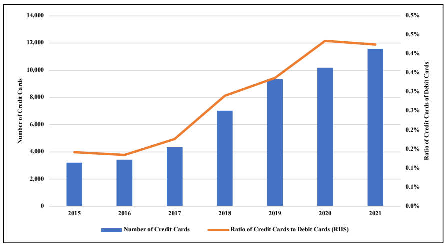
However, the number of credit cards in issue in Zambia is exceptionally low, a phenomenon common among many developing countries around the world. According to the global Findex report of 2021, only about 2% of the population (15 years plus) of Zambia confirmed owning a credit card.

In developed countries, credit card purchases account for a good proportion of their GDP. For instance, the credit card purchases accounted for approximately 10 percent of the United States of America's GDP in 2021.

Zambia Credit Card Market

Despite the economic benefits of credit cards, the Zambian credit card market has remained extremely small but on the growth path, increasing from below 3,000 cards in 2015 to above 11,000 cards in 2021 (Figure 2). For the same period, the number of debit cards grew from 2,263,428 in 2015 to 2,727,780 in 2021.

Figure 2: Number of Credit Cards in Zambia



Source: Bank of Zambia

A desktop review of licensed commercial banks in Zambia revealed that only three of the nine commercial banks offering revolving credit facilities are advertising the credit card product offering. These are Standard Chartered Bank PLC, Stanbic Bank Zambia Limited, and ABSA Bank Zambia PLC.

The limits on the credit cards on offer ranged between K130,000 and K250,000. The qualifying net salary for one of the credit cards offering was K4,500.0 for existing clients and K7,500.0 for new customers, and a monthly interest payment of 2.5%. Further, the common conditions included the applicants being salaried, above the age of 18 years, and annual account management fees. However, some banks did not include a lot of detail on their adverts to make a potential customer's credit card shopping journey easier.

According to the Zambia Revenue Authority, there were about 818,661 employees that paid Pay-As-You-Earn in 2021, and whose estimated average salary was less than K4,500.0 per month. Considering the number of credit cards in issue, the number of formally employed individuals that had a credit card was approximately 1.3 percent of the total of the formally employed people.

The average remuneration is less than the minimum net income criterion for access to credit cards in effect eliminating a lot of formally employed individuals from getting access to credit cards currently on offer. As a result, many formally employed individuals resort to accessing inappropriate credit facilities which are expensive, exploitative, and at unsustainable costs and are ever indebted for consumer loans.

The conservative strategy of targeting only high-net-worth individuals for purposes of marketing credit cards denies lower income earners an opportunity to access credit cards and is contradictory to the approach taken by credit card issuers in big credit card markets which gives all the populace with an opportunity to own a credit card and help them build their credit history.

The ratio of credit cards compared to the number of debit cards in issue at less than 0.5 percent is way too low. This statistic further implies that less than 0.5 percent of debit card holders have access to this consumer credit financial solution, worse-off for deposit-taking institutions despite being in custody of billions of Kwachas deposited by their customers. Although very few individuals have access to credit cards, many have access to salary backed and or payroll-based credit.

Demand and Supply of Credit by Financial Services Providers in Zambia

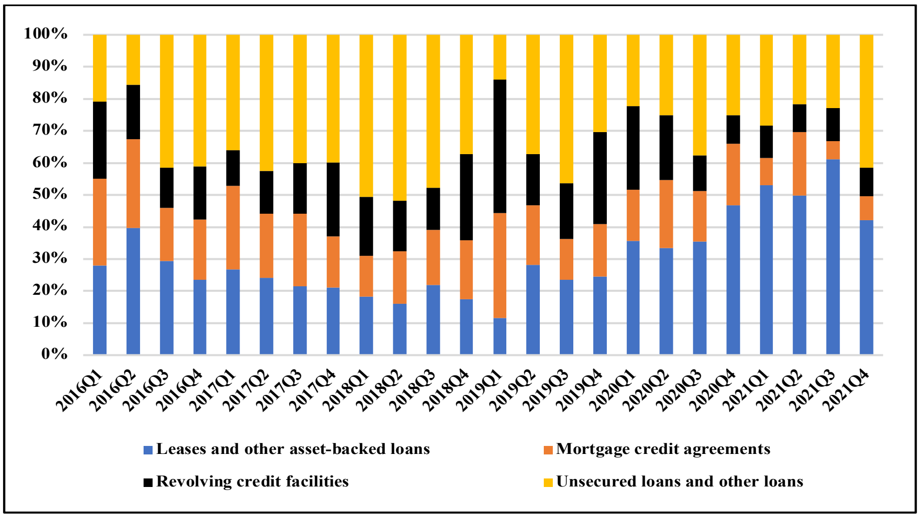
Because of the conditions that come with credit cards, the demand for revolving credit accounted for less than 0.5 percent of the total demand for credit between 2016 and 2021 despite households and individuals accounting for approximately 90.5 percent demand for credit. The skewed demand for leases, other asset backed loans and unsecured loans is reflective of the credit supply factors that impede borrowers' access to appropriate and affordable consumer revolving credit financial solutions.

In terms of credit supply, from 2016 to 2021, financial services providers disbursed over K151.9 billion of which 17.4 percent was revolving credit. Figure 3 below shows the distribution of credit by loan product categories.

In 2021, nine commercial banks disbursed revolving credit of which only three banks actively advertised their credit cards (on their websites). The three commercial banks disbursed K1.1 billion as revolving credit which accounted for 26.5 percent of total revolving credit or 2.5 percent of the total loans disbursed in 2021.

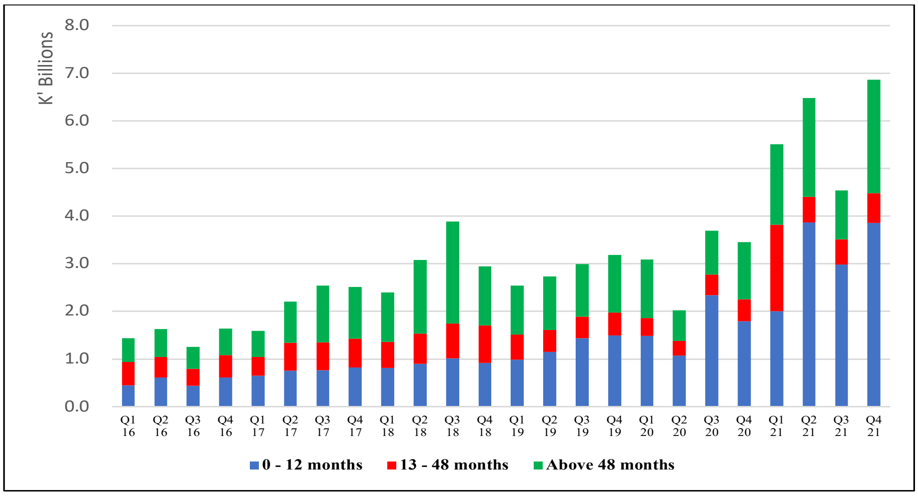
Considering that revolving credit includes overdraft facilities, it is reasonable to assume that the value of loans via credit cards is way less

Figure 3: Disbursement of loans by product category



Data Source: Credit Market Monitoring Programme Data, Bank of Zambia

Figure 4: Trend in value of loans disbursed to households, businesses, and agriculture users



Data Source: Credit Market Monitoring Programme Data, Bank of Zambia

than 2.5 percent of the total loans disbursed by financial institutions under the supervisory ambit of the Bank of Zambia. Worse-off, comparing the value of revolving credit disbursed to the 2021 GDP of US$21.2 billion, the impact of credit card loans on the Zambian economy is minimal (estimated at less than 0.5 percent of GDP). This outturn indicates that usage of credit cards in Zambia is extremely low and has failed to penetrate the credit market like other credit products have successfully done.

Tenure of Loans of household, Businesses and Agriculture Users

The trend of the value of loans disbursed from 2016 to 2021 shows significant growth, and the most growth was in loans with short tenures and is indicative of an inclination towards loans with tenures of not more than 12 months (Figure 4). The increasing preference by financial services providers for supply of short-term loans points to the nature and or purpose for which borrowers acquire loans, for household consumption. And at the same time, the short-term loans pose less risk(s) to the financial services providers. Loans with short tenures and for consumption fits the profile of credit that may be disbursed via credit cards.

Conclusion

Loans to households and individuals are consumer in nature and in most cases are perpetual in character as users after settlement of previous facilities access further facilities within a fleeting period. However, revolving credit facilities which includes overdraft facilities accounts for an exceedingly small proportional of loans compared to other forms of credit in Zambia. The proportion of credit via credit cards is even smaller as is a proportion of revolving credit.

The low uptake of credit cards in Zambia is due to credit card issuers' conservative strategy to focus on high-net-worth individuals specifically those that have subscribed for premium services and or considered premium customer(s) excluding those that are below a certain income bracket. This strategy has minimized risk exposures but has stifled credit growth and disadvantages majority of low-income earners and does not give an opportunity to those without credit history to build the much-needed credit history.

The average net income of Zambians is below the minimum net income criteria which credit card issuers set. If credit card issuers with a focus to grow the retail or consumer loan portfolio revised the net income criteria to match the average net income in Zambia, there is no doubt that the uptake of credit cards would accelerate.

With responsible lending and borrowing, and sound risk management practices, the credit card business has potential to exponentially grow in Zambia, help to improve and or minimise the financing needs of households and individuals, providing access to cheaper and sustainable sources of credit, improve the quality of life of households and individuals by smoothening consumption and trade volumes of business and ultimately promotes economic growth.

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WORD SEARCH

G	F	B	Z	F	L	C	R	E	D	I	T	O	R	S	G	T	D	A
H	B	G	C	H	G	R	D	T	O	J	R	F	Y	D	S	N	C	M
H	B	G	A	H	M	B	L	S	J	R	K	J	K	S	J	S	N	A
R	E	N	S	G	J	J	J	S	M	Y	R	T	S	J	E	P	U	I
T	T	H	H	A	T	T	S	T	O	K	Y	T	X	M	R	O	Y	N
J	H	M	K	G	V	Y	F	K	N	F	F	E	O	J	G	L	I	T
A	D	V	E	R	S	E	K	K	E	K	I	C	D	R	F	I	D	A
K	D	T	G	G	J	K	B	T	Y	Y	N	V	J	G	I	C	X	I
F	M	H	N	J	Y	U	K	T	U	I	A	T	K	R	N	Y	H	N
R	T	L	S	F	Y	T	G	X	K	Y	N	K	R	T	F	X	F	F
A	M	L	I	Q	U	I	D	I	T	Y	C	R	C	S	F	H	S	T
M	M	H	G	M	Y	M	F	T	U	Y	I	R	Y	I	H	F	Y	J
E	S	D	E	H	K	B	A	N	K	S	A	Y	Y	T	D	F	C	M
W	R	C	G	H	L	O	J	R	G	A	L	I	T	E	R	A	C	Y
O	J	T	K	H	K	N	R	J	S	R	R	D	Y	Y	G	V	F	B
R	F	J	L	M	Y	D	G	F	Y	E	Y	I	K	L	B	F	T	F
K	Q	I	M	F	Z	S	K	Z	A	S	K	W	R	A	T	E	L	T

ADVERSE	BONDS	INCOME	LIQUIDITY
CASH	FINANCIAL	MAINTAIN	RATE
CREDITORS	FRAMEWORK	MONEY	SAVE
BANKS	IMF	LITERACY	POLICY

THE AFI SHARM EL SHEIK ACCORD ON INCLUSIVE GREEN FINANCE

By Kabinda Kawesha

In 2017 the members of the Alliance for Financial Inclusion (AFI), including Bank of Zambia (the 'Bank') gathered in Sharm El Sheikh, Egypt for the 7th Annual General Meeting and Global Policy Forum (GPF) under the theme 'Exploring Diversity, Promoting Inclusion'. As per its custom to use the AGM as a forum for members to adopt either accords, action plans or statements that outline specific goals and target different aspects of financial inclusion, the AFI adopted the 2017 Sharm El Sheik Accord on Financial Inclusion, Climate Change and Green Finance.

The development of this Accord was spearheaded by AFI members from the Pacific Islands region that are highly vulnerable to the devastating impacts of climate change. As global warming has led to severe weather patterns, rising sea levels and a rise in average temperatures, the Pacific Islands region has experienced increasingly destructive tropical cyclones, storms and floods, higher rates of disease, disruptions to agriculture caused by the intrusion of saltwater damages to existing farmland, disruptions to livelihoods and the displacement of many citizens[1].

The 2017 Sharm El Sheik Accord on Financial Inclusion, Climate Change and Green Finance therefore drew AFI members' attention to the growing threat of climate change and called on them to take action to collaborate with public and private sector stakeholders in order to among others[2] –

i. Identify, understand, develop and implement financial inclusion policy solutions that have positive outcomes for the environment and in particular for vulnerable communities which are most often affected by climate change;

ii. Incorporate financial inclusion policies/regulatory approaches which positively affect climate change, green finance and sustainable development into national financial inclusion strategies and other financial sector strategies;

iii. Contribute to SDG 13 (combat climate change and its impacts) and (iv) complement other initiatives such as the Conference of Parties (COP) for the UN Framework Convention on Climate Change[3].

On its part, the Bank of Zambia joined its fellow AFI members to endorse the Accord in 2017, followed by a specific commitment in 2019, for the Bank to develop a policy framework for IGF. This commitment has been integrated into the financial inclusion pillar of the BoZ 2020-2023 Strategic Plan where it enables the Bank to advocate and work on formulating green finance policies at institutional, national and international levels.

The Updated 2022 Sharm El Sheik Accord[4]

Five years later in September 2022, at the 10th AGM and GPF held in Amman, Jordan, the BoZ once again joined members of AFI to recommit to and update the accord to be the Sharm El Sheikh Accord on Inclusive Green Finance. Some of the notable updates include a call for members to:

- Raise awareness and advocate for financial inclusion policies and regulatory approaches which reinforce efforts on climate change mitigation and adaptation, ending biodiversity loss and a just transition at the global and regional level.

- Enact the roll-out of digital financial services to enable IGF and encourage the usage of innovative financial products and platforms that enhance efforts on climate change mitigation and adaptation.

[1] *https://unfccc.int/news/how-fiji-is-impacted-by-climate-change*
[2] *https://www.afi-global.org/global-voice/maya-declaration/sharm-el-sheikh-accord/*
[3] *Conference of Parties (COP) is the core decision making body of the UNFCCC*
[4] *https://www.afi-global.org/publications/sharm-el-sheikh-accord-financial-inclusion-climate-change-green-finance/*
[5] *https://www.afi-global.org/publications/roadmap-for-inclusive-green-finance-implementation/*
[6] *Sharm_FS_18_AW_digital.pdf (afi-global.org)*

- Contribute to the work of the IGF Working Group to issue policy guidance and provide regulatory leadership on IGF. (The IGF Working Group was established in 2019 and has 60 members from 53 countries representing all the regions in the AFI network).
- Affirm direct contribution of IGF to Sustainable Development Goals, specifically to goals 1 (No poverty), 7 (Affordable and clean energy), 13 (Climate action), and 17 (Partnership for the goals).
- Agree to, as a network, bring our voice into the global debate on financial inclusion, climate change, and green finance and advocate for further recognition of IGF, including at the Standard-Setting Bodies (SSBs), G20, and the UN Framework Convention on Climate Change (UNFCCC) and Convention on Biological Diversity (CBD)'s Conference of the Parties (COPs).

Inclusive Green Finance

As referenced above, the Sharm El Sheik Accord has laid the ground for AFI to champion inclusive green finance (IGF) as a policy area that brings together financial inclusion and green finance to address how vulnerable populations (especially individuals and MSMEs) can become more resilient to climate impacts and mitigate their contributions to climate change, as well as alleviate biodiversity (natural capital) loss and protect their environment through access to financial products and services.

These IGF efforts are recognised to be part of the broader, global trends of how central banks are reacting to the challenge of climate change and enabling the financial sector to contribute to Governments' environmental priorities to implement the Paris Agreement, Nationally Determined Contributions (NDCs), and the UN Sustainable Development Goals (SDGs). More specifically to the Paris Agreement, IGF policies contribute to Articles 2.1c, 7 and 8 which are to:

- Make all finance flows (public, private, domestic and international) consistent with a pathway toward low greenhouse gas emissions and climate resilient development.
- Enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change; and
- Avert, minimise and address loss and damage associated with adverse effects of climate change.

AFIs participation at COP27 in Sharm El Sheik, Egypt

In line with the action points in the Sharm El Sheikh Accord for AFI to issue IGF regulatory guidance and advocate for IGF with standard setting bodies (SBs) and the UNFCC COPs, during November 2022, AFI participated in the COP 27 held in Sharm El Sheikh Egypt. The AFI delegation included representative members of the IGF Working Group from Ecuador, Egypt, Ghana, Morocco, Palestine, and Zambia, as well as partner representatives from the University of Luxembourg and the German Federal Ministry for Economic Affairs and Climate Action.

The objective of the AFI event at COP27 was to discuss the role of central banks and regulators in contributing to climate action; highlight the importance of IGF to a broader audience and how it can advance climate mitigation and adaptation efforts; launch a special report on the Roadmap for IGF Implementation; and share progress of AFI members in IGF policy development, as tabulated below[5] :

The report on the Roadmap for IGF Implementation provides a summary of challenges and recommendations for IGF policy implementation, including a framework of six building blocks, and five policy tools for IGF. See next accompanying article.

In conclusion, the Sharm El sheik Accord[6] and the recent report on the Roadmap for IGF Implementation are beneficial in providing direction for the policy/regulatory work on green finance by AFI members, including the Bank of Zambia. These milestones were worth presenting at COP27 in Egypt as it was befitting for AFI to demonstrate how far it has come and continues to champion IGF since it issued its own Sharm El Sheik Accord in 2017.

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HIGHLIGHTS OF THE SPECIAL AFI REPORT ON THE ROADMAP FOR INCLUSIVE GREEN FINANCE

The special Alliance for Financial Inclusion (AFI) report on the Roadmap for Inclusive Green Finance provides guidance to central banks and financial regulators on how they can further financial inclusion and enhance climate change resilience through effective policies, regulations and national strategies on inclusive green finance (IGF). It also highlights the role of financial institutions to embrace IGF as a means of providing support to individuals and micro, small and medium enterprises (MSMEs) to navigate an uncertain environment by promoting green products within savings, credit, insurance, money transfers and new digital delivery channels.

Based on research, international approaches and AFI members' experiences, the report identifies IGF as a subset of sustainable finance which promotes more long-term investments in sustainable economic activities and projects; builds resilience to and mitigates the impacts of climate change and extreme weather conditions. The report also shows that a successful IGF framework rests on six (6) building blocks for policy development and implementation comprised of strategy, prioritisation, classification, data and models, ecosystem, as follows :

1. ***Strategy*** - financial regulators and central banking must adopt a strategy on green or sustainable finance, including IGF.
2. ***Prioritisation*** - regulators need to establish IGF as a priority for both financial institutions and regulators, such as through sustainable banking principles and environmental, social, and governance-related risk frameworks
3. ***Classification*** - a classification of IGF-compliant conduct, products, and services, either by way of a catalog or a taxonomy, becomes necessary to delineate wanted from unwanted economic behavior.
4. ***Data and models*** - techniques that combine financial and sustainability data in models are required to identify which data may be collected and used for data analysis. This includes data-driven models for lending and investment and algorithms for IGF-related operations.
5. ***The IGF ecosystem*** – this entails the supply of specialist services by rating and index providers, specialised auditors, lawyers, data transmitters, technology solution providers, Government and environmental agencies, professionals in the financial sector, and advanced research and educational resources, to support market development and create sufficient demand for successful sustainable finance approaches.
6. ***Infrastructure*** - a well-functioning IGF system requires foundational infrastructure, technical resources, and technical systems, to make monetary transactions and provide financial services.

Regulators can assemble these building blocks by applying five policy tools identified in the Roadmap to IGF as :

1. Internal and external advocacy for IGF.
2. Education and capacity-building of regulators, financial institutions, and the overall ecosystem with a particular view on the interlinkages between the financial and the natural science sustainability world
3. Voluntary standards, particularly best practices for lending and the standardisation of green financial products.
4. Financial incentives through credit guarantees, syndication, and other risk-sharing or green lending programmes, as well as capital relief for prioritised sectors.
5. Mandatory regulation, particularly reporting and disclosure, capital provisioning, and fiduciary duties to address the conflicts of interest emerging in any IGF ecosystems. Depending on the scope and national strategy, mandatory regulation may also be instrumental, e.g. binding classification system (taxonomy), setting IGF-oriented operating, risk and fiduciary standards and/or disclosure rules.

The practical implementation of the IGF Roadmap is illustrated by several country case studies, which among others, demonstrate that there is no-one size fits all approach to IGF as each country has specific climate-related challenges, Government NDCs, financial priorities, and different structures of financial systems.

The report on the Roadmap for Inclusive Green Finance was a joint initiative between AFI, the AFI Inclusive Green Finance Working Group, and a team of academic authors coordinated by the University of Luxembourg, with support from the Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection of Germany (BMUV) and the Ministry of Foreign and European Affairs of the Grand-Duchy of Luxembourg. The report was launched by AFI on 16 November 2022 during the COP 27 at an event hosted at the BeNeLux-EIB Pavilion in Sharm El Sheikh, Egypt.

DEMISTIFYING INCIDENT REPORTING
IN AN ORGANISATION

By Maximo Kangwa

Introduction

As part of the planned series of risk management sensitisation and awareness campaigns, the Risk and Compliance is focusing on demystifying the misconceptions about incident reporting in an institution. Employees are generally reluctant to report incidents or near misses for fear of possible sanctions and exposing operational deficiencies within their work areas. Organisations are, therefore, unable to obtain the real underlying benefits of using incident reporting as a critical tool for efficient and effective risk management. This write up, therefore, is intended to equip employees with the requisite information for incident management.

What is an incident/near miss?

An incident is a situation that might be a disruption, crisis, loss, or emergency, or a situation that could lead to a disruption, crisis, loss, or emergency. For example, physical injury suffered at work, physical injury suffered while travelling to or from work, sexual and or workplace harassment, floods or fire outbreak at workplace, etc.
On the other hand, near miss, "near hit", or "close call "is an unplanned event that has the potential to cause, but does not actually result in human injury, environmental or equipment damage, or an interruption to normal operation. Cases below are some of the examples of Near Misses:

- An employee trips over an extension cord that lies across the floor but avoids a fall by grabbing the corner of a desk;
- An outward-opening door nearly hits a worker who jumps back just in time to avoid a mishap; and
- Instead of using a ladder, an employee puts a box on top of a drum, loses balance and stumbles to the ground. Although the employee is shaken, there is no injury.

Incidents or near misses may be those pertaining to strategic or operational activities.

Misconceptions about Incident Reporting

There are several misconceptions held by employees about incident reporting of which the two outlined below are common:

1. ***Only large incident are worth reporting*** This myth is one of the biggest beliefs commonly held by employees in all kinds of occupations. People often believe that getting a small bruise or cut is not worth taking the time to report. Further, sometimes what starts out as only a small incident can turn into something much bigger and more dangerous

2. ***Hazards or near misses do not need to be reported*** This is clearly a myth. Occupational hazards and near misses are important to report and assess when striving for a 'Zero Harm' safety culture as they can lead to major or even catastrophic incidents if left unreported.

What is an incident/near miss reporting?

Incident reporting is the process of recording worksite events, including near misses, injuries, losses, crisis and accidents as well as disruptions to an operation. It entails documenting all the facts related to incidents or near misses in the workplace.

It typically involves completing an incident report form when an incident/near miss occurrence has happened and following it up with additional incident follow on forms such as an investigation, corrective action, hazard report and sign off. These follow-on forms ensure that the incident occurrence causes are investigated to potentially mitigate and aim to prevent the same type of incident from happening again. This might involve discovering hazards in the workplace or weaknesses in an operating environment and implementing new risk management or training processes to help employees understand the root causes of what happened in order to prevent it from happening again.

What are the five (5) elements of a good incident report?

A good incident report has the following elements:

- Accurate: it should be clear and specific.
- Factual: it should be objective, avoid opinions and biases, reliable and supported by facts only
- Complete: it should cover the essential questions (what, where, when, why and how)
- Graphic: it should include photos, diagrams and illustrations to help support the facts stated.
- Valid: all people involved should sign.

Why do we need Incident Reporting Incidents of all sorts and sizes occur. It's critical that in all workplaces, employees are empowered to report incidents that happen using an incident report form. When employees report incidents, they are directly contributing to potentially preventing a future incident from happening again. Incident reporting also allows the organisation to properly investigate and establish checks, procedures and implement risk controls in response to what has happened. Thus, the significant benefits of incident reporting include:

- It prevents severe accidents when safety issues are identified and fixed before they become more significant problems;
- It saves time and resources that could otherwise be spent dealing with more severe accidents;
- Boosts the overall well-being of every employee in the organisation;
- Protects the organisation against non-compliance issues associated with health and safety regulations;
- Reporting incidents helps the organisation to keep track of the trends, patterns and discover anomalies;
- Improves other health and safety measures in the worksite, such as reporting potential hazards and risk assessments;
- Creates a robust health and safety culture in the organisation; and
- Helps management know the significant problems in the workplace and develop improved processes and safe procedures for workers.

Methodology: Incident recording

Once an incident or a near miss occurs, firstly, always ensure that everyone is not in any danger. In case of any requirement to attend to any law, regulation of such time-bound mandatory obligations, these must be attended to immediately.

Once safety is secured, and any obligatory time-bound requirements are attended to, record the facts of the incidents as soon as possible. An Incident Report form may be completed by the employee involved in the incident that occurred, witnessed it or a supervisor.
Incident reports should be completed immediately after an adverse event, a near miss has occurred or one becomes aware of it and following it up with additional incident follow on forms such as an investigation, corrective action, hazard report and sign off. This ensures that the involved individuals or witnesses can recall the details of the occurrence with clarity to fill the report form accurately. Additionally, employers may also implement a specific incident reporting time frame in the overall safety management procedures to be adhered to by all staff.

Methodology: Incident Investigation

Once an incident has been reported, it must be followed up with additional incident follow on forms such as an investigation, corrective action, hazard report and sign off. These follow on forms ensure that the incident occurrence causes are investigated to potentially mitigate and aim to prevent the same type of incident from happening again. This might involve discovering hazards in the workplace or implementing new risk management or training processes to help employees understand the root causes of what happened in order to prevent it from happening again.

Investigation provides employers and employees the opportunity to identify hazards or weaknesses in the operations and shortcomings in the safety and health programmes. Most importantly, it enables identification and implementation of the corrective actions necessary to prevent future incidents. This is done by performing root cause analysis, develop lessons learnt to avoid recurrence, develop an action plan and track findings until a case is closed.

There are various methods to conduct incident investigation such as Bow Tie Analysis, 5 Why's, Event Tree Analysis, Fault Tree Analysis and Fishbone Analysis, among others, which can be implemented by an institution depending on its maturity level.

What happens when you don't report incidents?

If an incident is not reported, the same type of incident might happen again. The opportunity to analyse what happened, how, why, what could have stopped it and the root causes and factors involved are all lost if the full details of the incident are not recorded. No matter how small an incident is, everything should be reported. The small stuff can prevent the big stuff from happening.

Conclusion

Incident management is a critical tool in ensuring effective and efficient risk management in an institution. This includes incident reporting, investigation, implementing corrective measures and continuous monitoring. Incident reporting directly contributes to potentially preventing a future incident from happening again, strengthen the control environment, allows an organisation to properly investigate and establish checks, procedures and implement risk controls in response to what has happened and above all ensure a healthy and safe working environment. This process should not be seen as a recipe for reprimanding an employee but as an enabler.

Effective use of Incident Reporting is extremely critical for identifying and reviewing underlying risks and issues across an organisation. It is therefore important that incident reporting is embedded in an organisation to ensure a blame-free culture and maintain confidentiality in large scale incident investigations and management. Engagement of all stakeholders on the importance of incident management is critical and this must be supported by Management.

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

WHEN IT'S TOO GOOD TO BE TRUE

By Silvia Siwale

If it sounds too good to be true… it usually is! This is a quote most of us are familiar with, however, the allure of high returns with little (or no) risk is often a tempting one. In Zambia, history is littered with examples of investments that promise unrealistic returns collapsing and losing investors money. Probably the most famous examples of this are Heritage Coin investment, Ikulile Initiative Enterprise, Isungile Payment System, Comsave Credit Union (COMSAVE) and ONO Savings and Credit Association (OSCA) among other too good to be true investment schemes or money circulation schemes.

Real life stories

Masa is a self-driven 43-year-old who used to work for a reputable firm in Lusaka. One day, he got an unexpected call about an investment opportunity. He says the caller sounded very professional and seemed to have had excellent knowledge of investment matters. As Masa needed extra cash to expand his side hustle, he decided to explore this new opportunity by investing an initial K40,000 from which he could make an additional K25,000 in the next six months. Six months down the line, Masa was paid his K65,000 as promised and decided to reinvest. Mwaza, the investment company sales executive, encouraged him to invite his associates to also invest, which he did on a commission basis! Altogether, Masa had over a 100 of his friends invest in Milimo Investments. His friend's investment amounts ranged from K500,000 to K10,000 in a space of two years.

The recruitment commission was good and gave Masa the impetus to look for more investors. He had a good working relationship with Mwaza and always called her to meet new investors from his office as per their agreement. On a fateful day, Masa tried to call Mwaza for their usual investor meet ups but her phones were off. He sent her messages on both her personal and official email addresses but these too went unanswered. He found this strange and decided to visit Mwaza's office only to be told that the occupants had moved to an unknown location. It was at this point that he suspected something was amiss and rushed to the nearest police station. He also reported the matter to the Bank of Zambia and the Drug Enforcement Commission who informed him, after their investigations, that Milimo Investments was a scam. Unfortunately, the DEC could do very little to protect investor interests because the scammers had transferred most of the funds from the local accounts to offshore accounts at the time they had moved in. The directors and employees could also not be found as they were of no fixed abode. Masa broke the news to his friends, who harassed him and demanded that he, being the person who introduced them to Milimo Limited, pays them back their money in full! Masa was under immense pressure from the depositors, some of whom sued him. He sold most of his property to make part payments to some of the vocal depositors but this still didn't solve the problem. Masa eventually resigned from his job and spread his separation package across the depositors just to calm them as he continued to search for Mwaza and her colleagues. His friends were convinced that he had connived with the criminals to swindle them and kept pressuring him to pay them back their dues. These developments not only affected Masa's finances but had a tore on his health. He suffered a severe stroke and has been bed ridden for the past two years. Meanwhile, the depositors have had no recourse to their funds.

These tales of woes have been endless to us at the Bank.

It is always exciting to see an offer that has higher returns. However, even though the future of closing the deal is thrilling, the process ahead is essential. And this process is called due diligence. Due diligence refers to the process of researching a business you are considering investing in. Gaining a deeper understanding of the company is the goal of due diligence. During the due diligence process, you would typically seek to learn more about:

- Whether the entity in question is registered with the relevant regulatory authorities for example, the Bank of Zambia, the Pension and Insurance Authority as well as the Securities and Exchange Commission (SEC);
- The company's track record in terms of whether management takes responsibility for resolving issues, whether they are willing to engage, whether they deliver on their promises;
- Who the key stakeholders are, including key employees,
- Any key risks that the business might be facing; and
- Whether a high level of corporate governance is evidenced? Does the entity have a longstanding reputation?

The process of undertaking due diligence is highly involving and can be a significant undertaking, but it is an essential step. It can lower the chances of making a bad investment, from paying more than you should for an investment, increase your chances of seeing a return on your money and/or losing your money altogether. Detailed due diligence therefore provides valuable information that helps investors make more informed decisions.

While it's not always easy to spot investment fraud, there are also some telltale warning signs that may indicate if an investment is too good to be true.

Keep an eye on these investment red flags:

Returns seem exceptionally high

Never trust anyone who promises a high return in a short period. Above market return is the number one characteristic of investment fraud. It's the bait designed to hook you. Low risk, no risk, or a guarantee is the second sign of investment fraud. The more you are guaranteed, the more you should examine what you are being guaranteed against.

The investment is unregistered

Unregistered investments do not have to abide by the same laws and regulations that protect investors investing in publicly-traded financial products. Therefore, get verification from financial sector regulators if unsure of the agent or company offering financial services. The examples of money circulation schemes given above all had registration certificates from either the Patent and Company Registration Agency (PACRA) or Department of Cooperatives and even tax registration certificates from Zambia Revenue Authority (ZRA). Nonetheless, they didn't have registration or licensing from regulators of services they were offering to the public.

The investment has no underlying asset for profit generation

Although the investments promise high returns in very short time, these fraudulent investment schemes have no genuine products or services that are actually sold or even underlying assets for generation of profit. Your due diligence must therefore include asking the promoters to clearly demonstrate how the scheme generate the too good to be true profits for the investors.

The investment seems too sophisticated

Investment strategies explained with terminology overkill and sophisticated investments are worth being wary of. Unsophisticated investors can be vulnerable to investment fraud because they rarely perform due diligence.

You're unable to cash out

Depositors should be weary if they are being encouraged to roll over' promised payments with higher investment returns. Delays in withdrawing money may point to illegitimacy. Only fixed-term securities with periodic redemption rights, certain partnership interests, and other liquidity constraints agreed to in writing prior to investing should limit depositor's ability to access their cash when it comes time to exit.

High-pressure tactics or excessive recruitment drive

Be wary when you are contacted repeatedly and are told that you need to act quickly and invest or you will miss out. Recruitment of new members is the lifeline for circulation scheme as it continuously requires new participants. If recruitment stops, no one gets paid; the scheme collapses.

Suspicious account deposit instructions

When you are asked to deposit funds into different accounts for each transaction. Scammers may claim this is for security reasons or because they are a global entity.

The author is Manager-Media and Publications in the Executive Department.

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FREQUENTLY ASKED QUESTIONS IN CONSUMER PROTECTION

By Moses Munsantu

What are unwarranted charges and fees?

The Bank of Zambia has promulgated into law the decision to prohibit unwarranted fees that financial service providers charge its consumers. The imposition of unwarranted charges and fees on the members of the public is an affront to the rights of the consumers of financial services. The Bank of Zambia has also determined that the imposition of unwarranted charges and fees threatens strides towards financial inclusion in the country.

Consumers can read the Prohibition Against Unwarranted Charges and Fees and Regulation of Specific Charges Directives of 2020), Gazette Notice No. 286 of 2020 to acquaint themselves with charges and fees by financial service providers that are permissible under the Banking and Financial Services Act.

What is the use of a Key Facts Statement in Credit?

The Bank of Zambia issued a circular in 2015 for the removal of interest rate caps and consumer protection measures. The circular includes a document called a Key Facts Statement which the financial service provider is required to bring to the attention of the borrower. The Key Facts Statement reiterates the need for transparency in the pricing of credit products and the need to engage in responsible lending. The Key Facts Statement summarises basic information that the borrower should be aware of such as the Principal amount, the chargeable interest rate (and whether the interest rate is variable or fixed), the tenure of the loan, other cost of the loan such as the arrangement fees, insurance fees, the total interest payable by the time the loan is discharged, the total amount payable to the financial service provider for tenure of the loan. The borrower is required to sign the Key Facts Statement to acknowledge that they have understood the basic terms and conditions of the loan they are getting from the financial service provider.

How can consumers protect themselves from financial fraud?

Customers can protect themselves from financial fraud by implementing some of the following measures

- Keeping all personal information, identity cards and bank cards safe at all times.
- Keeping PIN numbers secret.
- Never to give card, bank account or mobile wallet details to any person, caller or website unless their identity and authenticity can be verified.
- Not to be distracted when using bankcards at ATMS and report any suspicious activity.
- Not to let anyone else use your card or share your PIN with another individual.
- Not to disclose confidential information to anyone.
- Customers are encouraged to cultivate a healthy level of suspicion. If one receives a call, informing them of details or activity on their bank account or mobile wallet, this should be treated with suspicion. Immediately report this to the bank or wallet provider.
- Customers should not easily get deceived into believing that they have won some money or a prize for a competition they may have not taken part in and disclose confidential information.
- To check monthly bank statements carefully for suspicious transactions.
- To report promptly the theft or loss of a card or make use of the card blocking feature of mobile banking that most banks provide.
- To exercise care when using your card to make payments on the internet. Make sure that you disclose your Card Verification Value (CVV) only in secure payment websites.
- Not to reply to spam or unsolicited e-mails that promises some benefit. If the email asks to click on a link, chances are that it is a fraud, delete it immediately.
- Not to save account and card information on websites as this present a risk when un-authorised people access information.
- Always type in the details when making online purchases. You are better off dealing with the inconvenience of typing in your details rather have a hacked account.

How does one deal with financial fraud?

If you suspect you have been a victim of financial fraud, notify your financial service provider immediately.

What should consumers do when their financial service provider does not assist them?

In a case where the complaint is not resolved by the financial service

provider within time limits as guided in the Bank of Zambia Customer Complaints Handling and Resolution Directives of 2020, the customer can bring the matter to the attention of the Bank of Zambia.

How can consumers avoid being victims?

- Consumers need to understand the terms and conditions of the loan or service they are getting from the financial service provider
- A consumer should not sign a document that they do not understand simply because they want money, the aftermath may have far reaching consequences than initially envisaged
- Only obtain a loan when it is necessary and you are capable of paying back.
- Always obtain a loan account statement that shows your repayment amounts (it shows the breakdown of principal amounts and interest repayment).
- Always obtain a statement that shows you have paid off the loan when it has been fully settled.
- Always shop around in order to obtain favorable rates or a service that meets your needs given the many financial service providers that exist in the market. Take interest in reading newspapers and check the cost of borrowing that are published each quarter for various financial service providers.
- However, there is also a warning that non-payment or failure to pay your loan on time may affect your credit profile negatively, thus affecting your ability to obtain a loan from financial service providers in future.
- Consumers must keep records of their financial transactions with the financial service provider as these may become useful during times when there is a dispute.

Where do consumers report their financial sector complaints

- The first contact should be made with the financial Service Provider which should be followed up with a written submission letter indicating all details of the transaction.
- Depending on the nature of the complaint, this can be resolved promptly or can take a few days (the financial service provider should provide an indicative date when the matter is expected to be resolved depending on the complexity of the matter). This is to allow for thorough investigations.
- If this process fails, that is when a consumer can get in touch with the Bank of Zambia with a written submission which should also include any follow ups made to the financial service provider.
- This process provides the Bank of Zambia with information to engage the financial service provider. One of the key roles of the Bank of Zambia is to ensure consumer protection through a mechanism that facilitates prompt resolution of consumer complaints.

What should consumers do when their financial service provider does not assist them?

In a case where the complaint is not resolved by your financial service provider within time limits as guided in the Bank of Zambia Customer Complaints Handling and Resolution Directives of 2020, you can bring the matter to the attention of the Bank of Zambia.

Does the Bank of Zambia address all consumer complaints?

According to the Bank of Zambia Customer Complaints Handling and Resolution Directives of 2020, BoZ will not attend to a complaint that:

- was not first reported to the financial service provider for resolution;
- was not reported within 6 months of response from the financial service provider;
- is waiting resolution or already resolved by another institution e.g Court;
- where legal action has already commenced;
- has previously been resolved through BoZ; and
- involves a business decision based on commercial considerations e.g rejection of loan application.

BOOK PREVIEW: LIKE OUR NOBLE EAGLE

By Silvia Siwale and Milimo Munsanje

Emmanuel Siwingwa, Network Specialist in the ICT Department, has authored a 209 paged stand-alone novel. The title of the book 'Like our Noble Eagle' is a call to patriotism. 'Like our Noble Eagle' addresses national issues like fighting corruption, tribalism and the lack of patriotism. It is good fun, full of laughs, clever details, and characters that seem exaggerated, but in whom you may see a little of yourself.

The story line flows well and can be enjoyed by people of all ages although the primary target is the youth. One scene naturally leads into the next, and it is ridiculously simple to find yourself reading past your deadlines. Whether they be set by you, someone else, or the setting of the sun.

Emmanuel uses the genre 'comedication', which is a combination of comedy and education to tell his story. What ensues is a story of three odd friends that met at Mpelembe high school and graduated to study in the United Kingdom. Kango is one of the favorites. He is a nuisance in many ways and yet disarmingly gentle. Kango was known for his random stunts, from learning how to greet in the British manner to falling in love with the most beautiful girl at secondary boarding school. On the other hand, you have Njekwa, who found pleasure in seeing Kango down, with the author consistently being found in between this bittersweet friendship.

One thing that stands out is the writer's expression of love for his country, Zambia. How he believes that if we all played our part, our country can be and will be great. You could almost feel his burning passion when he speaks of patriotism in the second chapter.

Look out for chapter three for a light moment. Kango winning his way to the most beautiful girl in secondary school. The Adventures during their secondary school days. You will love to know of one of Kango's weird stunts. You will be shocked to know how Kango wraps up an event.

In the eighth chapter, the author talks about how we are all born in different circumstances. In one of the character's words; having a torn shirt on your back is indeed a form of poverty. But it is of the temporal sort. The trick is never to let that reach your mind.

There is also a story on gender matters wherein the author expresses admiration at the strengthen of women and at the same time expresses concern at an undeniable fact that the female gender is disadvantaged in many spheres and that he has habitually taken it upon himself to warn his daughter that

society is generally harsh on women and uses different lenses to judge them if they made mistakes.
We spoke to him and he said 'I think patriotism is a bankable asset to a nation. A patriotic citizenry is more productive at any level from family to national. I am of the view that even as we yearn to be something better, we should look long and hard at what we are and be grateful for it. For example, Zambia is one of the most peaceful countries in Africa. This is a fact - not just mere speechmaking. Suppose we parted ourselves on the back for this little fact? Suppose we went further in being patriotic and made a point to protect all national assets like public infrastructure, the environment and so on? Surely that is not such a terrible thing, is it?'

About the book, Emmanuel says his greatest achievement in writing this was to overcome the fear of doing it all. 'I was afraid of being ridiculed. I thought people would say things like 'what is an engineer doing turning to literature?' 'What a misplaced passion, the country is in dire need of engineering services as it is'. I think fear of failure is the greatest hindrance to human progress. In writing the book, I thought I could use a little side-skill to contribute something positive to the affairs of my country. I do love my daytime job thank you very much. But I think most of us need to do slightly more than just turn up for our salaried jobs. This is a call to public service.'

He says the book has been very well received so far and is available in Bookworld, Grey Matter and many online platforms like Amazon and Smashwords.

There was actually only one thing that we felt this book was lacking — and that's a decent ending. Granted, the "story" as it is, does come to some sort of a conclusion, but everything just stops.

MY SUCCESS IS NOT YOUR SUCCESS

By Zelipa Mitti

What is your dream job? Have you always had one? Do you have a clear picture of what you want to do with your career? Let me tell you a secret. Each time someone would ask me about my dream job, I would lie. For a number of years I made up dream jobs. I wanted people to think I had big aspirational goals in life when I really did not. I told some people that I wanted to run Google - if you're going to lie might as well go all out right? I told others that I wanted to own a multi-billion dollar media company but the truth is I don't have what it takes to be an entrepreneur, also I simply don't want to. I spent years trying to impress people with these made-up lofty goals partly because I wanted to fit in and also because it scared me to admit that I had no idea what I wanted to do with my life.

Let me ask you this, what is success? What was the first answer that popped up in your head? Was it having more money- maybe seven figures on your pay slip or from your business? Was it traveling full-time or having fancy cars? If you can't easily answer what success means to you on your own terms, it's time for some self-reflection. So many of us feel the pressure to be ambitious and to set big goals for our lives. Sometimes those goals aren't even what we want but rather what we think will impress others. All too often we adopt other people's versions of success without really questioning what we value most. This can lead us down a path of achieving things that look like success to others, but don't bring lasting satisfaction or fulfillment in our personal lives. Mental health experts suggest that if you've experienced sadness, grief, disappointment, or emotional numbness after achieving major life milestones like graduating, getting married, purchasing a home, winning a certain award, etc. then it's likely that your definition of success may not be in alignment with your inner values.

Some questions that may be helpful for you to start outlining your own version of success include:

- What do you want your daily life to look like?
- What excites you?
- In your work, what is most fulfilling to you?
- What parts of your daily life drain your energy?

Think of someone that you consider successful. Write down 1-3 reasons why you consider this person successful. Are these the things you want for your life moving forward?

The bottom line is we do not need to frame ambition in the world's definition of what success should look like. The world may measure success in wealth, or education, but success can and does look different on each one of us. In my case, I did not and still do not need a dream job to aspire to in order for me to make something of myself. One should define what success means for them, and then live in alignment with that life that makes them the happiest. Any other way is not success for you - it doesn't matter if it worked for someone else. Don't get me wrong, there is nothing wrong with having ambition. Be hungry for life. Just make sure you're hungry for what you really want and not for what you think sounds most appealing to others. For some, success may be in the sincerity of their relationships with people, for others it may be in living authentically. One's ambition could be for owning their time and living life on their own terms. For some, a job is just part of the experience. So ask yourself, what does success look like for me? And make sure your answer is your own.

The author is Web Editor in the Executive Department

BOZ CHAMPIONS THE 8TH ZUFIAW SPORTS FESTIVAL

By Masauso Phiri

Bank of Zambia (BoZ) scooped seven trophies at the recent 8th Zambia Union of Financial Institutions and Allied Workers (ZUFIAW) Sports Festival which took place at the Olympic Youth Centre in Lusaka.

The Bank was awarded in the following categories: Men's Football (1st), Women's CEO Race (1st), Women's football (1st), Men's 100m (1st), Women's Netball (2nd), Men's 4 X100m Relay (2nd), Women's 4 X 100m Relay Race (2nd), and Chess (3rd).

After a two-year absence due to the Covid - 19 pandemic, the festival took place under the theme "Promoting a healthy and productive lifestyle during and beyond Covid - 19". Speaking after being awarded the trophies, BoZ men's football team captain Eng. Joseph Manzi said the team is thankful to the Governor Dr. Denny Kalyalya for making it possible for the members to participate in the tournament.

"On behalf of the team I would like to thank the Governor for according us the opportunity to come and participate at this sports festival, I'm glad that our staff members have also utilised this chance to scoop about seven trophies" he said. Mr Manzi stated that interactions through sport can help promote co-operation and industrial harmony in work places.

Meanwhile, during the official opening of the ZUFIAW sport festival, National Sports Council of Zambia (NSCZ) Acting General Secretary, Mr Raphael Mulenga, who represented the Minister of Youth, Sport and Arts, Hon. Elvis Nkandu, MP emphasised the need for wellness in companies to promote good health adding that facilities such as the OYDC should be utilised. Mr Mulenga said the Government endeavours to promote a positive working relationship between employers and employees hence it encourages events like sports festivals which bring workers together.

"It is important to note that this harmony between employers and employees contribute to national development through the provision of efficient and effective labour and within the context of economic growth," he said.

And ZUFIAW President, Mr Alfred Chifota said the union has rolled out health and sports related activities across the country with the aim of fostering good working relationships between the Union and Management.

The launch was attended by several representatives from the Federation of Free Trade Unions in Zambia, financial institutional heads, social partners and OYDC staff, among others.

PHOTO FOCUS

FROM THE EXHIBITIONS

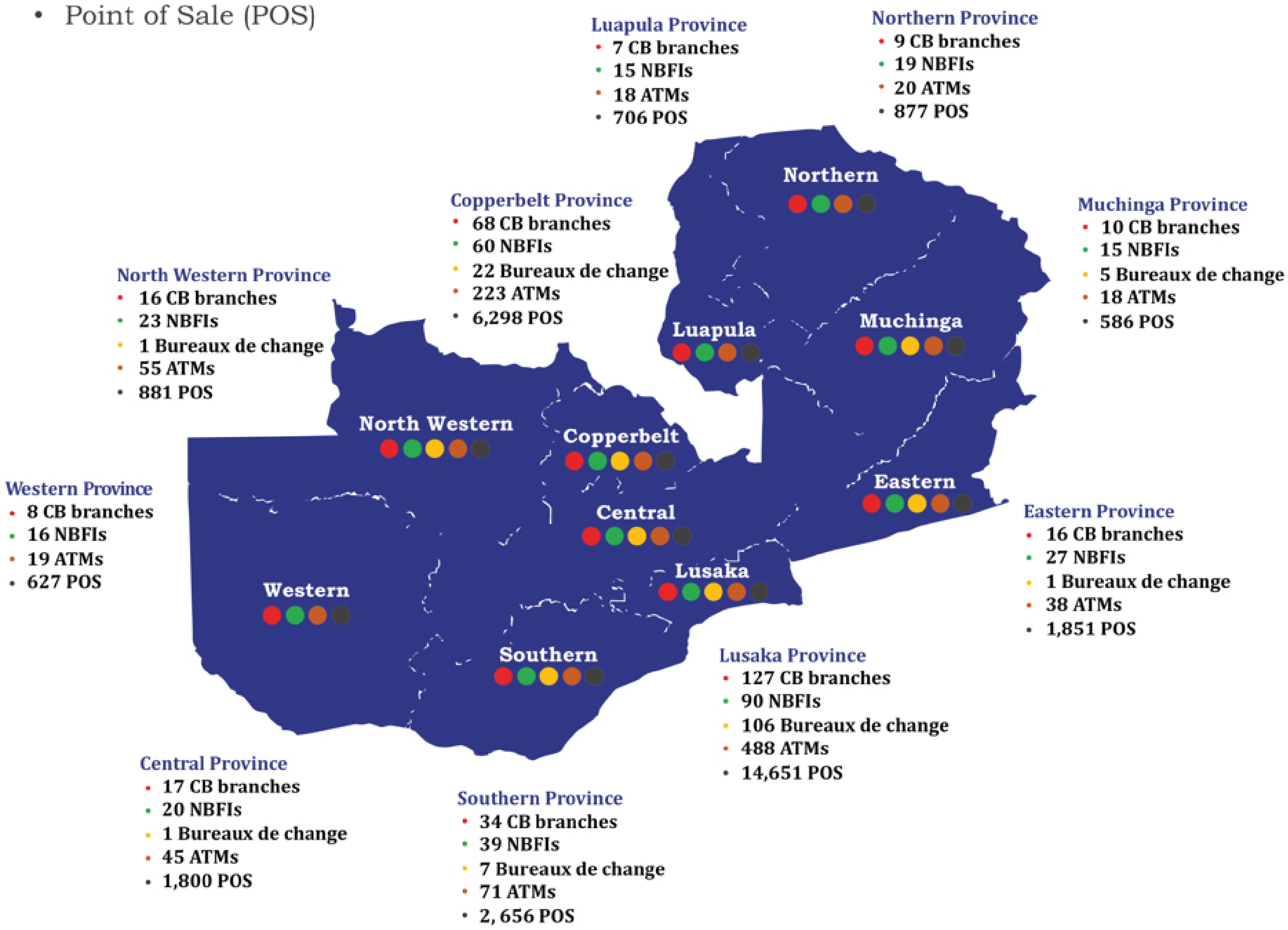

FINANCIAL
INCLUSION
ON FINANCIAL
SECTOR
PROGRAMMES
UN
CDF


18 ATMs
706 POS
Financial service providers have reached out to various parts of the country through wide-spread branch networks and access points.
Copperbelt Province
64 CB branches
60 NBFIs
22 Bureaux de change
223 ATMs
6,298 POS
Northern
Luapula
Muchinga
Eastern
Lusaka

VALUE ADDITION: SUPPORT THROUGH WIDESPREAD ACCESS POINTS

Key Guide

- Commercial Bank (CB) Branches
- Non-Bank Financial Institutions
- Bureaux de Change
- Automated Teller Machines (ATM)
- Point of Sale (POS)



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