



Bank of Zambia

DEPUTY GOVERNOR – OPERATIONS OPENING REMARKS

**ACCESS TO FINANCE AND NON-FINANCIAL SERVICES FOR SMEs IN ZAMBIA
POLICY WORKSHOP | 14 APRIL, 2021**

Salutations

- Dr. Sahr Kapundeh, World Bank Group Country Manager
- Mrs. Madalo Minofu, Resident Representative of the International Finance Corporation
- Ms. Freda Tamba, Director Non-Bank Financial Institutions Supervision, Bank of Zambia
- Mr. David Mwape, Director Strategy and Risk Management, Bank of Zambia
- All Senior Governmental officials
- All Chief Executive Officers of Financial Services Providers
- All Cooperating partners
- Invited Guests
- Ladies and Gentlemen

It is an honour for the Bank of Zambia to co-host this policy workshop on Access to Finance for Small and Medium Scale Enterprises (SME) in Zambia. The Bank of Zambia would like to express its gratitude to all the institutions which participated in the survey and the World Bank for its financial support to the process.

As you may be aware, the Governments' Economic Recovery Plan (ERP) is centred on private sector driven growth and economic diversification. The ERP also places a particular focus on the important role SMEs play in the process. The survey report is therefore very timely as it gives some key insights to challenges that SMEs face, which I believe will be of interest and importance to all the institutions represented here today. The issues that will be presented include barriers and challenges that SMEs face and the opportunities for unlocking the growth potential of women entrepreneurs. The Bank of Zambia will certainly be interested in the results of the survey findings. These results, along with the FinScope 2020 Survey Report and the annual Credit Market Monitoring report will help us make evidence based policy interventions for increasing access to finance and financial inclusion.

As the financial sector regulator, we have a vested interest in ensuring that the financial sector is innovative, responsive to demand and supports Zambia's economic growth journey, while maintaining stability. It is essential therefore, that the financial sector

continues to expand its portfolio of products and services by leveraging reforms, digital innovations and targeted outreach.

Ladies and Gentlemen,

The COVID-19 pandemic has caused unprecedented economic challenges and devastation globally and Zambia is no exception. SMEs in Zambia have particularly faced severe liquidity constraints, with decreasing demand, supply chain interruptions and an uncertain recovery timeline. While some SMEs are adapting through diversification of their business models, a significant proportion of SMEs are faced with challenges in meeting financial obligations and investing in enterprise growth.

To mitigate the adverse economic impact of the pandemic, the Bank of Zambia was able to quickly and effectively deploy the Targeted Medium-Term Liquidity Facility (TMTRF) of K10 billion. This was in order to enable Financial Service Providers (FSPs) to support businesses and households that were being impacted by the COVID-19 pandemic. By supporting businesses and households, the BoZ expected to mitigate the impact of the COVID-19 pandemic on the financial sector through rising non-performing loans which might have compromised financial system stability.

As at 31 March 2021, the Bank of Zambia had approved a total of K8.7 billion out of which, K6.9 billion is to commercial banks while K1.8 billion is to non-bank financial institutions. Support to SME's under the TMTRF has been constrained on account of some of the specific challenges that SME's have faced in access to finance, even before the onset of the COVID-19 pandemic.

This notwithstanding, the latest Credit Market Monitoring Report shows that credit conditions remain constrained for households and SMEs, with more stringent credit criteria being implemented. Demand for working capital has increased considerably as businesses seek to finance ongoing operations. Additionally, although lending rates have fallen in response to the Bank's TMTRF initiative, they are still unaffordable while collateral requirements remain unchanged. These challenges are exacerbated for women led SMEs.

Ladies and Gentlemen,

Even before the outbreak of the COVID-19 pandemic, the BoZ was engaged in strategies aimed at facilitating increased access to financial services by women entrepreneurs and the SME sector. In 2010, the Bank of Zambia 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 payments systems businesses. This initiative was aimed at supporting women's access to productive assets such as finance, capital and entrepreneurship with the sole purpose of enhancing the provision of suitable financial services for women. To-date, a total of 32 Bank of Zambia employees have been trained as FAMOS facilitators. Thus far, a total of 61 financial services providers have undergone FAMOS check audits.

In 2017, the BoZ augmented its capacity building programmes for FSPs to design women's market programmes by hosting the Global Banking Alliance All-Stars Africa Academy. From this training, several banks have designed notable value propositions to serve women SMEs.

In this context, the survey of women led SMEs in Lusaka, Copperbelt and Eastern Province conducted under the World Bank's Women Entrepreneurs Finance Initiative (WeFi), is even more relevant. This provides us with the latest insight into the firms across sectors and shows that there is a high demand for credit by women led SMEs in the country but that they are unable to access it from financial services providers.

Ladies and Gentlemen,

The results of the survey conducted on Moveable Assets Based Lending shows that despite the successful implementation of the Movable Property Security Interest Act (MPSI), and the establishment of the Movable Property Collateral Registry, which is administered by Patents and Companies Registration Agency (PACRA), we have not seen the anticipated uptake in the use of moveable collateral for accessing credit, when compared to developments in other countries.

This new legal and institutional framework was designed to provide greater legal certainty and transparency for secured lending on movable property. Secured creditors could ultimately have the ability to innovate and introduce new types of asset-based lending products. Therefore, if well utilized, the register would allow women led SMEs who do not have landed property to have access to credit by pledging their movable properties as collateral. In this regard, I would urge financial service providers to embrace this model as a means to support financing of the SMEs.

The Bank will soon implement the regulatory sandbox to support innovations and new product designs by FSP's, 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.

In addition, the Bank has developed a sex disaggregated supply-side financial inclusion data framework and FSP's 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, most especially product and service design, cannot be over stated. We believe this information will inform policy interventions to identify and address barriers faced by SMEs in accessing finance as well as assist with modifying the existing policies, strategies and other measures for increasing financial inclusion. The Bank is also preparing to undertake an SME FinScope survey in 2022, and the results of the survey of women led SME's will provide valuable input into the design of the nationwide survey.

I will end by reaffirming the Bank of Zambia's commitment to supporting the financial inclusion agenda and the development of products and services designed to meet the needs of the Zambian SMEs sector. We recognize the important role SMEs, particularly those led by women, play in our country's economic growth and poverty reduction strategy. We shall continue to enhance our 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 particularly the SME sector.

Thank you all and I look forward to the outcomes of this workshop today!