ZAMBANKER

Bank of Zambia

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A BANK OF ZAMBIA JOURNAL

PUTTING POLICY INTO PRACTICE

- 2020-2021 research agenda set
- The New Strategic Plan

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Views expressed in this publication are not necessarily those of the Bank of Zambia Management or the Editor

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

Putting policy into practice

By ZAMBANKER REPORTER

The Bank of Zambia recognises the harsh conditions precipitated by the outbreak of the COVID-19 pandemic and instituted measures to contribute to the various interventions implemented to mitigate the impact on the economy. As enshrined in the Bank of Zambia Act, the Bank has the mandate to ensure price and financial system stability. One such avenue through which the Bank is providing support is the Targeted Medium-Term Refinancing Facility (TMTRF), wherein an initial K10 billion fund is available to Financial Service Providers (FSPs) for onward lending to different sectors of the economy.


Tourism is one of the priority areas under the under the Refinancing Facility

The Facility is an exceptional Advance available to FSPs that satisfy the eligibility criteria. The Advance so obtained on the Facility is primarily intended to offer liquidity support to qualifying FSPs for onward lending / refinancing to borrowers in the priority sectors identified as key drivers of economic growth and development. Priority sectors are as identified in the Seventh National Development Plan (7NDP) and these include agriculture, manufacturing, energy and tourism.

A relatively smaller portion of the Facility (40%) will also be made available to FSPs for the support of non-financial corporates in other sectors as well as households, which could have otherwise been viable without the outbreak of COVID-19.

Under the agriculture sector, priority shall be to support primary production of crop and animal products, including the financing of the requisite inputs. That is, the financing of activities involved in the exploitation of vegetable and animal natural resources, comprising the activities of growing of crops and raising and breeding of animals, including fisheries from a farm or their natural habitats.

Manufacturing shall include the physical or chemical transformation of materials, substances, or components into new products. The output of a manufacturing process may be finished in which case it is ready for utilisation or consumption, or it may be semi-finished to become an input for further manufacturing.

In the energy sector, priority shall be given to renewable energy resources, such as, solar, wind, biomass, geothermal and nuclear, while priority shall be given to activities focusing on the expansion of domestic tourism and the promotion of integration of tourist destinations in the Tourism sector.

The primary purpose of the Facility, therefore, is to strengthen and enhance the resilience of the financial sector and support economic recovery in the wake of the COVID-19 pandemic. This is expected to contribute to the broader mandate of the Bank of Zambia in supporting and engendering price and financial system stability.

The Advance accessed from the Facility shall not be applied to non-qualifying

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News in Brief June 2020

By ZAMBANKER REPORTER

2020-2021 research agenda set

In its pursuit of monetary and financial stability, the Bank of Zambia has set the research agenda for 2020 and 2021 to provide a strong conceptual and empirical basis for policy-making. More specifically, the research will increase knowledge of the functioning of the economy and provide high-quality models, tools and analyses that are relevant for the conduct of monetary policy and the fulfilment of the other tasks and functions of the Central Bank.

In coming up with the research agenda, all departments in the Bank were requested to submit topics for possible inclusion in the research agenda. All submitted topics were subjected to an internal review scrutiny to ascertain their policy and operational relevance to the Bank. These topics were then refined and consolidated to form the 2020 – 2021 research agenda. In total, 43 topics have been included in the research agenda, out of which 28 topics are already being worked on by various research teams. Essentially, the research teams consist of staff from Bank of Zambia as well as staff from some of the Central Bank's collaborating partners, the University of Zambia (UNZA) and Zambia Institute of Policy Analysis and Research (ZIPAR). So far, a total of 15 concept notes have been presented with the remaining 13 expected to be presented by the end of July 2020. Once these research papers are finalised by the respective researchers, they will be published under the BoZ working papers series.

Update on the 2020 Finscope Survey

The Bank, with support from other stakeholders in the financial sector is spearheading the implementation of the 2020 FinScope survey, which will cover 12,990 adults from across all districts in Zambia. The FinScope Survey is a nationally representative survey that provides information on the demand, access, use of and behaviour towards financial services by the adult population. It is undertaken over a cycle of 3-5 years and is based on standardised tools and an internationally recognised methodology developed by FinMark Trust.

The survey instrument has been developed by the project team in consulation with local and international stakeholders such as the Zambia Statistics Agency (ZamStats), Financial Sector Deepening Zambia (FSDZ), FinMark Trust and the United Nations Capital Development Fund (UNCDF). The survey instrument was pre-tested by the ZamStats from 29 June – 3 July 2020.

A meeting will be held on 20th July, 2020 with stakeholders to update them on the status of implementation and to discuss the way forward for the remaining activities. The meeting held with the survey with strict adherence to health guidelines in view of the Covid – 19 pandemic.

The next planned activity is the Training of Trainers from 29 July – 5 August and will be followed by the Training of Data Collectors from 17 – 28 August 2020. Data collection is expected to start on 29 August and end on 18 September 2020.

Women's Entrepreneurship Finance Initiative (WEFI) - supporting women-led SMEs in Zambia.

In July 2017, the World Bank established a global Women Entrepreneurs Finance Initiative (We-Fi) aimed at improving the regulatory and business environment in order to support women-led SMES by scaling up access to financial products and services, building capacity, expanding networks, offering mentors and providing opportunities to link with domestic and global markets.

Zambia is one of the beneficiary countries of the We-Fi initiative under the National Financial Inclusion Strategy, a project comprising the World Bank, International Finance Corporation, Ministry of Finance, Ministry of Commerce Trade and Industry and the Bank of Zambia. The Zambia We-Fi program consists of two components:

- Access to credit through financial product development with financial institutions, with an emphasis on movable asset-based lending; and
- Capacity building for women-led SMEs (WSMEs) to improve their credit worthiness.

In this regard, the first stage of the We-Fi Zambia project constituting a market study on movable asset-based financing for SMEs in Zambia will be conducted by A2F Consulting between May and July 2020. The purpose of this study is to identify bottlenecks in the development of movable asset-based lending and design solutions for these market constraints. The study will also help financial institutions better navigate in the high potential market segments and industry sectors.

Mobile Payments Phase II of the National Financial Switch (NFS)

Significant progress has been made in the implementation of the mobile payments phase of the NFS. This phase of the project will pave way for interoperability across mobile money issuers and commercial banks to offer the following services;

- Wallet-to-wallet funds transfers;
- Wallet-to-bank (and vice versa) funds transfers;
- Cash-out on ATM (for e-money customers); and
- Cash withdraw at mobile agent (for bank account holders).

Phase II is very important as it will capture citizens in the low income brackets who maybe outside of the formal financial sector.

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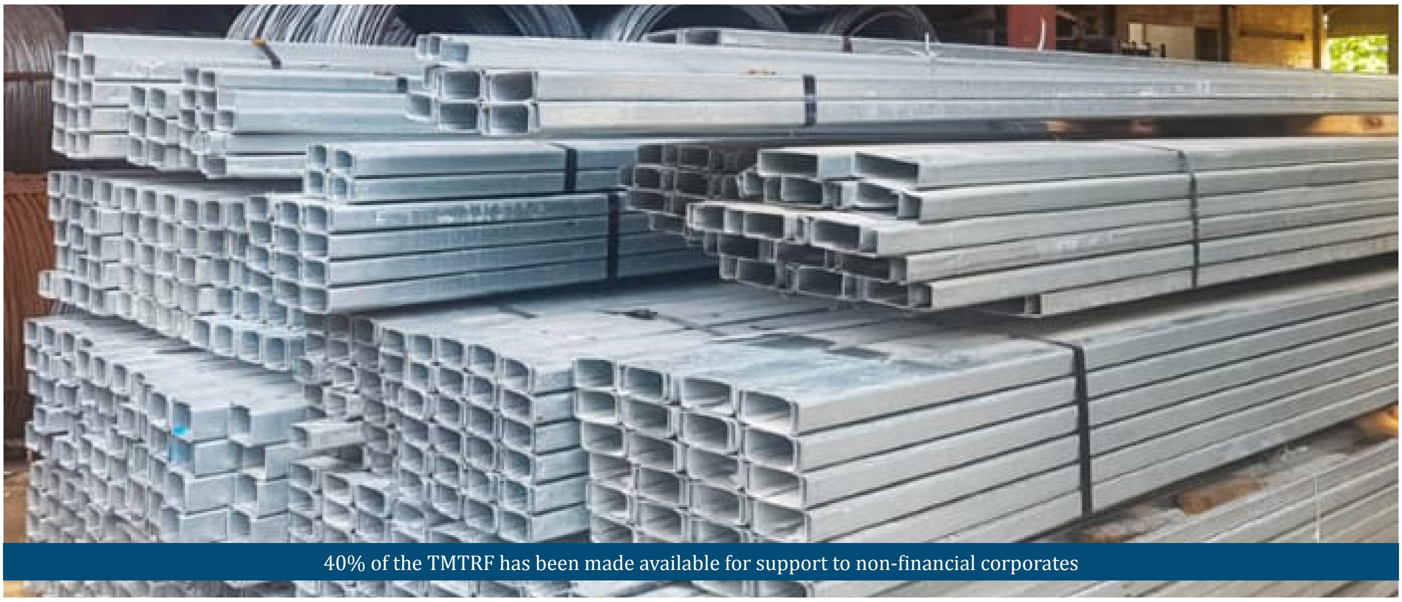
Putting policy into practice



40% of the TMTRF has been made available for support to non-financial corporates

purposes and shall be provided against eligible, clearly specified and verifiable collateral. Access to the Facility is not open ended but subject to borrowing limits and FSPs are expected to disburse the funds to their clients accordingly. Failure to do so may result in imposition of mandatory repayment.

To be eligible, the FSP, should at the minimum: be licensed by the Bank of Zambia; should have a settlement account with the Bank. Where the FSP does not have a settlement account, it will be required to provide a settlement account that it has with a commercial bank; be in a sound financial position as determined by the Bank of Zambia; and be able to provide the Bank with valid and enforceable collateral of the type specified under in the terms and conditions for borrowing.

However, meeting the minimum requirements is not a guarantee to access the Facility. The Bank reserves the right to determine access and can reject or accept an application by an FSP for any other reason it deems appropriate.

The Advance shall not be applied to non-qualifying purposes, such as: investments in foreign exchange holdings; purchases of Government securities; placements with other FSPs; refinancing of any non-performing loans, which arose largely on account of credit underwriting prior to December 2019 and any other non-qualifying purposes as may be determined by the Bank from time to time.

Advances for onward lending to priority sectors of agriculture, manufacturing, energy and tourism shall be for a period of 5 years while advances to qualifying non-targeted sectors, including households, shall be for tenors of between 1 and 3 years. The Bank reserves the right to change the tenor of the Advances as may be deemed necessary, but this will not apply to already existing Advances made under this facility.

The interest rate applicable on the Facility shall be fixed over the life of each Advance at the prevailing Bank of Zambia Monetary Policy Rate (MPR) at the time of granting the Advance plus a fixed spread of 100 basis points. The interest shall be paid annually with a 12-month grace period. Much as FSPs are free to set the interest rate charged to clients on the Advance obtained from the Facility but are obliged to pass on the benefits of the low interest rates on the Facility to their clients and to demonstrate that they have done so.

FSPs that offer an interest rate to the client that is within five (5) percentage points from the rate prevailing on the Facility shall be entitled to an additional borrowing amount equivalent to 20% of the initial borrowing amount as spelt out in Section ten (10) of this document. The interest rate applicable for onward-lending by the FSP shall be fixed over the life of the Advance. The Central Bank however reserves the right to change the pricing mechanism as conditions may dictate, but this will not apply to already exiting Advances made under the Facility.

Access to the Facility shall be subject to borrowing limits. The borrowing limits applicable shall be calculated on the basis of the loan data for the FSP in respect of outstanding amounts of eligible loans at the time of application. The eligible loans shall be the total amount of the outstanding performing loans as at December 2019.

An eligible FSP shall be entitled to an initial advance that does not exceed the initial borrowing allowance. The initial borrowing allowance shall be equal to 50 percent of the FSP's total outstanding amount of eligible loans at the time of the application. In subsequent applications, the FSP shall be entitled to advances that cumulatively do not exceed 100 percent of its total outstanding amount of eligible loans at the time of its initial application.

To qualify for subsequent advances, the FSP should have disbursed the initial amount accessed by clients in the targeted economic sectors as at the time of application. Subsequent applications may be made after the first reporting cycle, that is, the end of the quarter immediately following the funds disbursement from the Facility.

The New Strategic Plan

By ZAMBANKER REPORTER

The Bank of Zambia has launched its four-year Strategic Plan for the period 2020-2023 following approval from its Board of Directors. The Bank's mandate will be achieved through the adoption of two focus areas namely; Financial Stability and Financial Inclusion.

The 2020-2023 Strategic Plan has been formulated after wide consultations with internal and external stakeholders and builds on gains made from the implementation of previous Plans, in particular the 2016-2019 Strategic Plan. Some of the incomplete activities from the immediate past Strategic Plan have been incorporated in the new Plan, while the rest of such activities will be pursued through annual operational plans.

Speaking during its launch, Bank Governor, Dr Denny Kalyalya, said the implementation of the new Plan will critically depend on continued diligence of members of staff as well as effective collaboration with partner institutions.

"The 2020-23 Strategic Plan represents the priority areas we want to concentrate on during this four-year period. In this vein, we decided to direct our attention towards the two focus areas of Financial Stability and Financial Inclusion. In adopting the focus areas, we took into account the achievements attained in the area of price stability. In particular, that significant progress has been made on the operationalisation of the forward looking monetary policy framework. With this achievement, we therefore needed to address key challenges in other areas. The rationale for concentrating our efforts in two areas, is not to fall into the trap of trying to do too many things, and in the end failing to achieve meaningful progress on any one of them," he said.

He explained that the Bank will pursue the following Strategic Initiatives in the area of *Financial Stability: Strengthen Microprudential and Macroprudential Regulation and Supervision; Develop and Strengthen Financial Market Infrastructures Oversight; and Enhance Data Collection, Management, and Application.*

Accordingly, in the area of financial stability, the Bank will focus on strengthening both micro and macroprudential supervision. To this end, microprudential supervision frameworks will be reviewed to: improve the rigour of stress testing; introduce proportionality in the supervision of Financial Service Providers (FSPs); enhance the resilience of financial market infrastructures and implement a robust cyber-security framework for FSPs. Measures will also be taken to improve efficiency by implementing appropriate supervisory technologies.

He added that efforts to implement a customised version of the Basel III standards will continue and culminate in fit for purpose regulations to enhance stability and resilience of FSPs. With regard to macroprudential supervision, the Bank will continue to enhance its oversight of macroprudential risks. This will include strengthening further, the collaboration with other financial sector regulators, such as, the Pensions and Insurance Authority (PIA) and Securities and Exchange Commission (SEC), to facilitate a holistic view as well as timely identification and resolution of macroprudential risks.

"The Bank will also push for the formal establishment of a Financial Stability Committee and will commence publication of financial stability reports," he said.

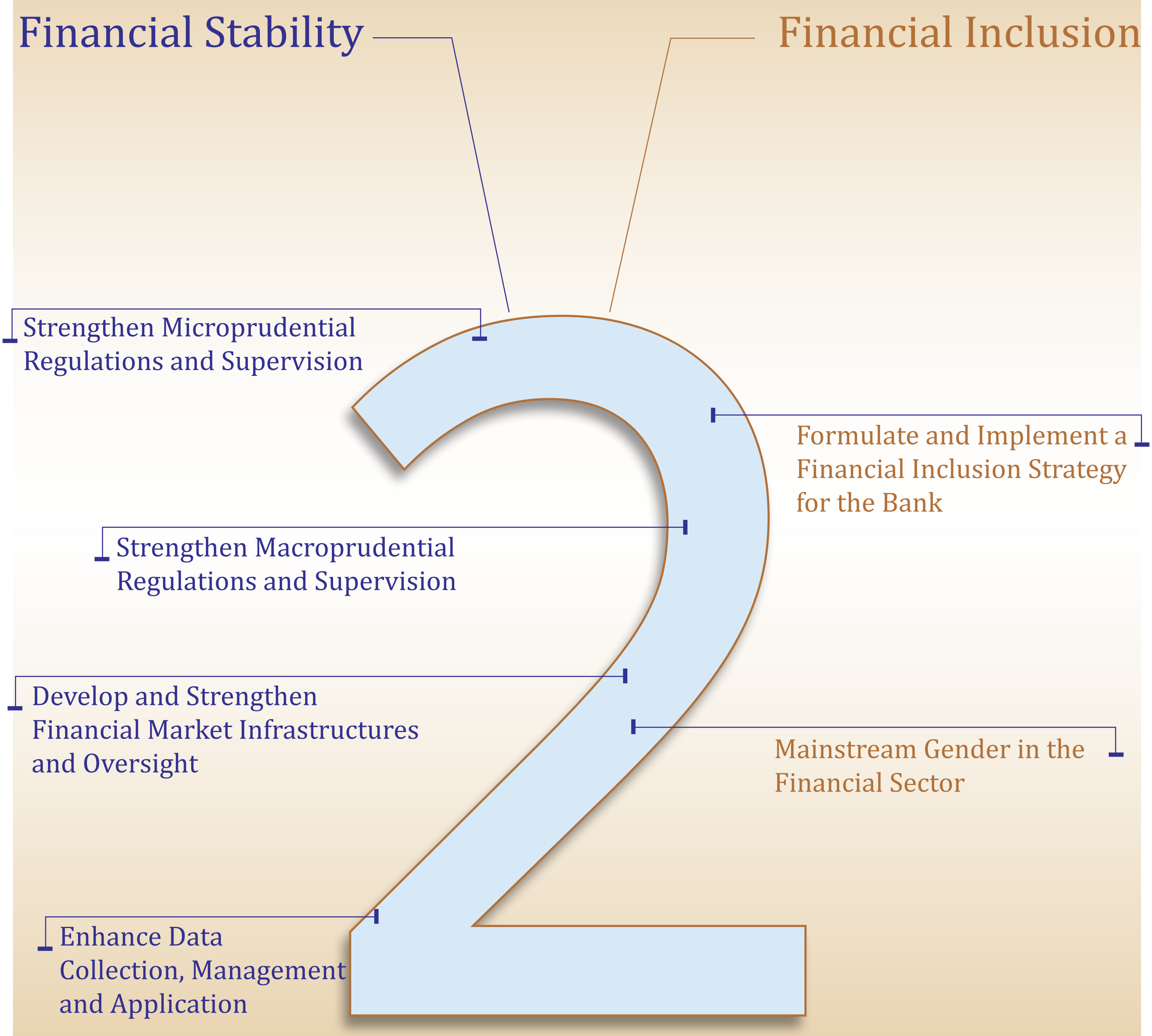
Under the second focus area of Financial Inclusion, the Governor explained that the Bank will continue to leverage on Digital Financial Services (DFS) and its partnership with key stakeholder institutions. In addition, work will be undertaken to: increase penetration of rural finance; create an enabling regulatory environment for broadened access to financial services and products; strengthen protection of children and youth; and ramp up dissemination of financial inclusion information.

He further stated that the Bank will continue its gender mainstreaming efforts with a view to drastically reduce the gender gap for financial inclusion.

"It is envisaged that significant achievements will have been made at the end of this Strategic Period. In particular, the Bank aims at making a significant contribution towards the National Financial Inclusion Strategy (NFIS) with a target of reducing the level of the unbanked adult population from the latest recorded figure of 40.7 percent as at 2015 to 30 percent by 2022. With respect to enhancing financial stability, the Bank aims to enhance the resilience of the financial system by continuing to improve efficiencies in financial intermediation," he said.

The formulation of the new Strategic Plan was guided by the Central Bank's Strategic Management Framework with oversight by the Board of Directors.

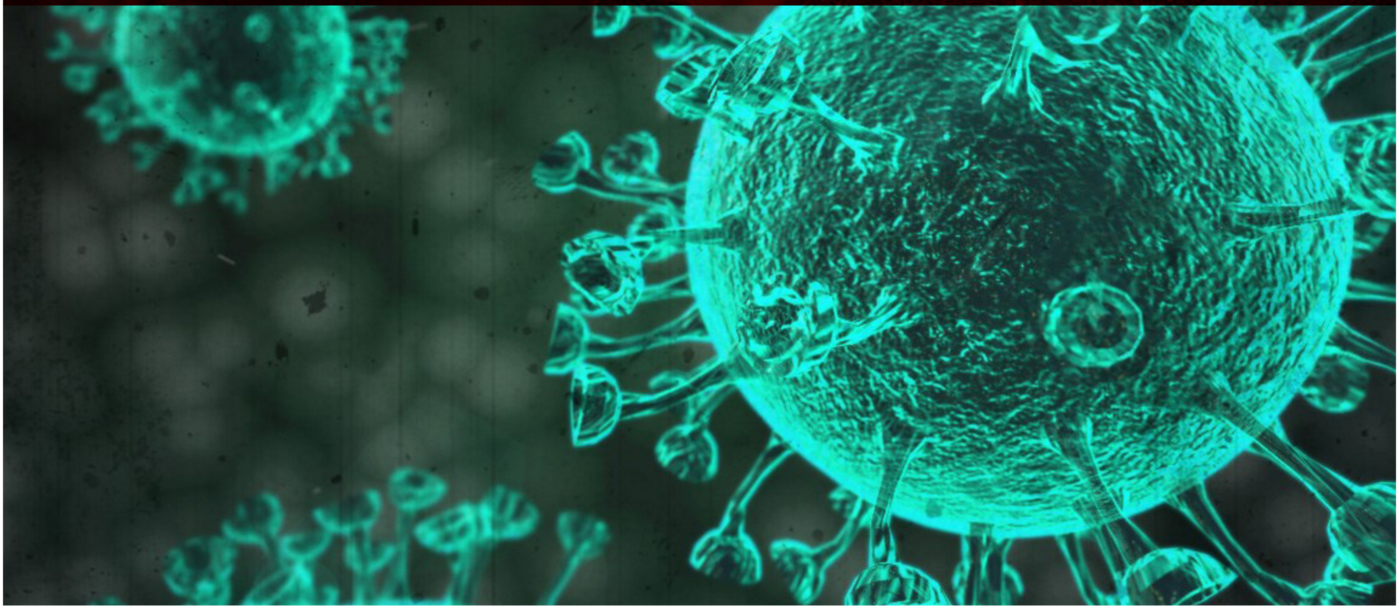
STRATEGIC DIRECTION



COVID-19 forges stronger bonds

By ZAMBANKER REPORTER

Bank of Zambia Governor, Dr Denny Kalyalya, has said the COVID-19 pandemic has had a positive impact on the retail payment system in Zambia, with values processed through the mobile channel rising to K7.80 billion at end April 2020.



Speaking at the launch of the 'Digital Economy Diagnostic Report for Zambia', Dr Kalyalya explained that the Central Bank took a number of measures in the face of the pandemic including the: upward revision of the transaction and balance limits on the e-wallet and money transfer services; temporarily waived fees for person-to-person transfers for values of up to K150; capped the Merchant Discount Rate (MDR) for transactions on the Point of Sale machines to no more than 2% of the value of the transaction; and reduced transaction processing fees for the Real Time Gross Settlement (RTGS) and Electronic Funds Transfer (EFT) systems.

The Zambia Digital Economy Diagnostic, a new report developed by the Government of the Republic of Zambia and the World Bank, finds that Zambia is making significant strides towards the use of digital tools to achieve the social and economic transformation goals set forth in its Vision 2030. The report commends Zambia's rapid expansion of mobile network access and the progress made in digitising government services through SMART Zambia.

The report assesses Zambia's strengths and weaknesses with respect to five pillars that together form the foundation upon which the benefits of digital transformation can be realised. These pillars are: Digital Infrastructure, Digital Skills, Digital Entrepreneurship, Digital Platforms, and Digital Financial Services. The report was developed in collaboration with the Zambia Cabinet Office, seven-line ministries and hundreds of representatives of the Zambian public and private sector.

"These digital financial services, if fully optimised, can bring about increased efficiency in government services directed towards citizens and the business community," said Ellen Olafsen, the lead author of the report. "The foundation is also now in place to fully leverage digital payments in the public and private sector. This is critical today when contactless transactions and rapid transmission of funds to the vulnerable are vital to Zambia's COVID-19 resilience."

The World Bank has noted that the launch of the report comes at a time when the advent of COVID-19 has quickly accelerated the use of–and need for–digital tools, with more than 20 African countries launching digitisation initiatives in response to COVID-19.

The report notes that digitalisation offers an opportunity for contactless business continuity for small and large business alike; rapid and systematic data collection to support crisis response and recovery planning, and efficient, informed and transparent resource allocation to those who need it most. Data and digital systems can also be effectively utilised to improve agriculture, health and education outcomes in secondary towns and rural areas.

The report is expected to provide policy direction to the Government through the financial sector regulators in order to achieve the

Governor (in the middle) showing off the Digital Economy Diagnostic Report during the launch

shared vision of a digitally inclusive economy.

Overall, the Governor explained that in recent years, the digital financial services landscape has changed quite dramatically in Zambia with the usage of digital channels for the delivery of payment and financial services growing considerably.

"The majority of commercial banks have developed and deployed mobile applications that their customers use to access financial services. Similarly, e-money issuers are capitalising on smart and ordinary mobile phones to offer financial services. The number of active mobile money wallets has increased over time. As at end-2016, a total of 6, 513, 725 mobile wallets were registered and of these, 521,098 were actively transacting (meaning on average a transaction being conducted in 90 days), representing 8% of the total registered wallets. As at end 2019, 14, 270, 705 mobile money wallets were registered and 4,852,040 were actively transacting, representing 34% of the total registered mobile money wallets," he said.

Dr Kalyalya noted that on the whole, digital financial services have recorded significant growth, with mobile money payments posting an annual average growth of 126% in value from K2.07 billion processed in 2015 to K49.45 billion processed in 2019. Transactions through Point of Sale machines increased from K3.04 billion in 2015 to K20.09 billion in 2019. This represents a leap of 560% in values of transaction over a four-year period.

On the whole, digital financial services have recorded significant growth, with mobile money payments posting an annual average growth of 126% in value from K2.07 billion processed in 2015 to K49.45 billion processed in 2019. Transactions through Point of Sale machines increased from K3.04 billion in 2015 to K20.09 billion in 2019. This represents a leap of 560% in values of transaction over a four-year period.

He said the performance of other electronic payment streams, such as, the Electronic Funds Transfer (EFT) equally recorded remarkable growth, posting annual average growth of 35% in value from K21.83 billion processed in 2015 to K67.81 billion processed in 2019.

"From these statistics, it can clearly be demonstrated that there is great potential in Zambia to have more people financially included through digital channels and ultimately in the digital economy," he said.

The Governor further stated that the Bank has recorded an increase in the number of innovative products presented for licensing. In accordance with the State of the Digital Financial Services Market in Zambia survey conducted by the United Nations Capital Development Fund (UNCDF), in conjunction with the Bank of Zambia, there were more than 25 FinTechs operating in Zambia as at end-2018. In this regard, the Bank is in the process of developing Sandbox regulations. These regulations will facilitate testing of specific innovations in a controlled environment prior to the deployment of such products in the market.

He added that there has been a growth in Quick Reference (QR) code based payments. The deployment of QR codes will help reduce the cost of digital payment acceptance, especially for small and mid-size enterprises (SMEs) and micro merchants. This will further spur the spread of DFS to individuals and businesses at various levels and transition them into the formal segment of the financial sector.

He thanked the World Bank Group, through its Zambia office and specifically, the Country Manager, Mr. Sahr Kpundeh and his team, for the support provided to Zambia over the years.

Policy and Regulatory Reforms in the AFI Network

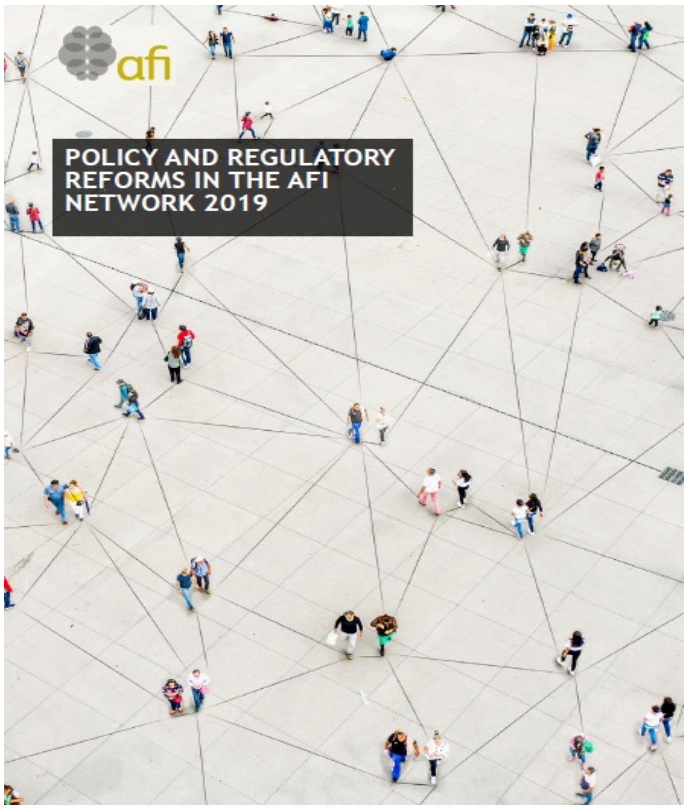
By ZAMBANKER REPORTER

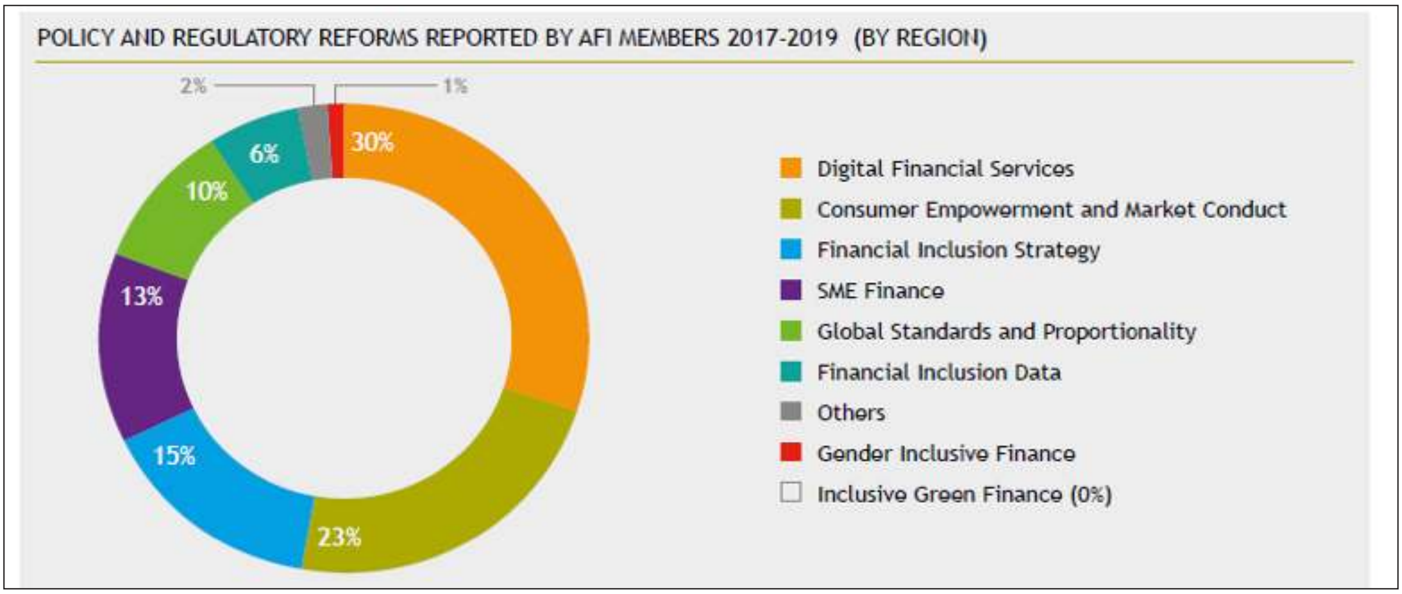
The Alliance for Financial Inclusion (AFI) has released a publication of the report on Policy and Regulatory Reforms in the AFI Network 2019.

The network, which enables its members to formulate and share their knowledge of financial inclusion policies that have delivered tangible results currently comprises of 99 central banks, government ministries and other financial policymaking institutions from 88 emerging market and developing countries, including Zambia. The AFI members' collective will to advance financial inclusion and create an enabling environment for the development of appropriate financial products and services that expand the reach of quality financial services to the poor is captured by the Maya Declaration.

The 2019 report therefore presents a snapshot of the trends in financial inclusion policy and regulatory reforms that members of the AFI network, were developing and implementing in 2019, including some which are the results of preparatory work going back many years.

The regulatory reforms encompass various policy areas, including SME finance, national financial inclusion strategies and proportionate application of gobal standards, women's financial inclusion; FinTech policy and regulations; and regulatory sandbox guidelines; with the largest proportaion were in digital financial services (DFS), consumer empowerment and market conduct. These are illustrated as follows.





While these policy reforms are often led by the main financial policymaker or regulator in AFI member countries, a variety of stakeholders, both national and international, in the public and private sector contribute to the process. https://www.afi-global.org/publications/3365/Policy-and-Regulatory-Reforms-in-the-AFI-Network-2019

Money Lenders Act to be modernised

...as BoZ commits to prosecute promoters and participants of illegal financial schemes

By ZAMBANKER REPORTER

The Bank of Zambia (BoZ) and the Ministry of Finance (MoF) are working on a project to modernise the Money Lenders Act in order to promote integrity in the sector and enhance the regulatory and supervisory role of the regulator, Acting Assistant Director Communications, Ms Besnat Mwanza has said.

Speaking during a sponsored radio programme, Ms Mwanza explained that the revised Act will provide clarity on permissible activities for money lenders and also promote consumer protection which is a challenge at the moment due to the inadequacies in the current Act which predates pre-independence days for Zambia (August 1938).

Ms Mwanza denounced unlicenced entities that are carrying monetary transactions but are not registered and regulated either by the Central Bank or any other recognised regulating body. There are three principal financial sector regulators in Zambia, which are: the BoZ which regulates banks and financial institutions licensed under the Banking and Financial Services Act; the Pensions and Insurance Authority (PIA), which regulates the pension and insurance service providers; and the Securities and Exchange Commission (SEC), which is responsible for oversight of the capital market. Other financial service regulators include the Ministry of Finance, which administers the Money Lenders Act and the Ministry of Commerce which has oversight over the financial cooperatives and credit unions.

Ms Besnat Mwanza

Story continues on page 12

Story continues from page 11

Money Lenders Act to be modernised

'Promoters and participants of money circulation schemes are liable to prosecution under the Banking and Financial Sector Act'

"The BFSA is very categorical under section 157 concerning individuals that engage in money circulation schemes and it reads as follows: (1) A person shall not—conduct, or participate in, a money circulation scheme; or issue a notice, circular, prospectus, proposal or other document inviting the public to subscribe to a money circulation scheme. (2) A person who contravenes subsection (1) commits an offence and shall be liable, upon conviction, to an administrative penalty as specified in this Part", she warned.

In the past, BoZ was only prosecuting promoters of such businesses but going forward, participants (i.e. investors) in such schemes will also be prosecuted for taking part in an illegal activity. There has been a rise in reported cases involving illegal money circulation schemes.

A ponzi scheme, also known as a pyramid scheme, is a fraudulent investment operation that pays returns to its investors from their own money paid by subsequent investors rather than from profit earned by the individual or organisation running the operation. A ponzi scheme usually entices new investors by offering higher returns than other investments, in the form of short-term returns that are abnormally high. Continuation of the high returns requires an ever increasing flow of money from investors to keep the scheme going.

She said one way to describe it is to visualise the pyramid structure; where at the tip, one person registers into an institution running the scheme. This person is required to mobilise 10 subscribers and the institution returns to the first investor his investment plus some additional amount from the collections received from each new recruit of investors; and these 10 subscribers would mobilise 10 subscribers each, and from the funds received from the 100 subscribers, the mobilisers would be paid out and as long as the flow of subscribers is maintained, the mobilisers would start getting returns. As the scheme enlarges and gets closer to the base of the pyramid, a situation would come in where there would be no further prospective investors and it breaks the chain and money flow gets disturbed and the last level of investors would lose their investments.

> "The BFSA is very categorical under section 157 concerning individuals that engage in money circulation schemes and it reads as follows: (1) A person shall not-conduct, or participate in, a money circulation scheme; or issue a notice, circular, prospectus, proposal or other document inviting the public to subscribe to a money circulation scheme. (2) A person who contravenes subsection (1) commits an offence and shall be liable, upon conviction, to an administrative penalty as specified in this Part."

These schemes are prohibited under the BFSA for the following reasons: they are developed to make quick and easy money by enticing potential investors through promise of quick money making; they pay unusually very high returns which cannot be logically supported by any realistic economic activity to earn enough returns to provide the kind of returns promised to subscribers; the schemes depend on payments from future enrolments or subscribers into the scheme to pay existing members, rather than from profit earned from a legitimate commercial activity or business; and the viability or continued existence of the schemes is dependent on the incremental recruitment of subscribers from the public. When new subscribers cannot be found, the schemes fail.

Typically, the red flags for a ponzi scheme may include the following: a promise of higher returns with little or no risk, overly inconsistent returns, unregistered investments, secretive and/or complex strategies and fee structures, issues with paperwork and difficulty receiving payments.

5 ways to identify a Money Circulation Scheme

Bank *of* Zambia

01 An open-group with an unlimited number of members who often do not know each other.

02 The group is managed by a third-party who oversees the pooling and distribution of funds through continuous recruitment of subscribers.

03 Has no well-defined purpose for the money mobilized (pooled funds), and there is no meaningful economic activity to generate the high returns.

04 Group profits depend on continuous recruitment of subscribers with no meaningful economic activity behind it which makes it unsustainable.

05 A risky activity promising high returns that are too good to be true. No guarantee subscribers will get back their investment.

A money circulation scheme is illegal in Zambia under Section 157 of the Banking and Financial Services Act No. 7 of 2017 (BFSA). **Report all suspicious, unlicensed financial service providers to Bank of Zambia or the Police.**

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Purchasing Government Securities in Zambia

...Primary Market vs the Secondary Market

By FINZI MWEZANI

Government securities can be purchased from either the primary market or secondary market. In the primary market, the Government through Bank of Zambia issues the Government securities through auctions. These auctions are usually announced via various media outlets by the Bank of Zambia.

Mr Finzi Mwezani

Primary auctions are conducted on specific dates and specific times. For Treasury Bills, auctions are conducted fortnightly on Thursdays from 08:15 to 11:00 while Government bonds are issued monthly on Fridays from 08:15 to 11:30. This means that bids received after cut off time cannot be processed. In the secondary market however, an investor can purchase Government securities at any time and settlement is done on any business day.

Another note to take is that in the primary market, investors place bids in multiples of ZMW1,000 for non-competitive bids and in multiples of ZMW5,000 for competitive bids. This means that an investor cannot for instance place a bid of ZMW8,150 on the off tender window. They would have to round it down to ZMW8,000 or round it up to ZMW9,000 as bids are placed in multiples of ZMW1,000. Similarly, an investor cannot for instance place a bid of amount ZMW32,000 on the competitive window. They would have to round it down to ZMW30,000 or round it up to ZMW35,000 as bids are placed in multiples of ZMW5,000. On the secondary market however, there is no restriction on the amount to be purchased or sold as long as the securities are available for trading.

The Treasury Bills auctions currently offer 91, 182, 273 and 364 Day tenors and the Government bond auctions have 2, 3, 5,7,10 and 15 year tenors on offer. An investor is restricted to these maturities and cannot get maturities outside the offered maturities. On the secondary market however, an investor is able to customize their maturities. For instance, if an investor is looking for an instrument that has 1 year and 4 months to maturity, in the primary market the closest tenors will be the 364 Days and the 2 year as the auctions offer standardized tenors. In the secondary market, an investor will be able to get the instrument with 1 year 4 months to maturity or an instrument very close to such a term to maturity as there are over hundred instruments with different maturities active in the Zambian bond market.

The pricing in the secondary market is market based that is it depends on market conditions of liquidity and economic perception. More often than not, prices in the primary market and secondary will converge.

The following is a summary of Government Securities operations in Q2 2020.

Treasury Bills (Tbills)

ZMW 5.70 billion at cost was offered in Q2 of 2020 across six (6) Tbill auctions. A total of ZMW 9.39 billion at cost value was received in Q2 out of which ZMW 8.26 billion was allocated. The average subscription rate rose in Q2 to 165% compared to an average of 84% in Q1. The uptake rate in Q2 stood at 145% representing an increase compared to an uptake rate of 80% recorded in Q1.

Figure 1: Treasury bill Yields, Q2 2020

	Last Q1 auction	Q2 Tbill yields per auction					
	07/2020	08/2020	09/2020	10/2020	11/2020	12/2020	13/2020
	25-Mar-20	14-Apr-20	27-Apr-20	11-May-20	26-May-20	8-Jun-20	22-Jun-20
91 Days	16.5002	16.5002	16.5002	16.5002	16.5002	17.4999	16.9999
182 Days	21.2499	21.2499	21.2499	21.2499	21.2499	21.2499	21.0000
273 Days	26.9999	26.9999	26.9999	26.9999	26.9999	26.9999	26.6699
364 Days	**29.2501**	**29.2501**	**29.2501**	**28.9999**	**28.9999**	**28.9999**	**28.0001**
Weighted Average Yield Rate (WAYR)	24.0844	24.8994	27.4795	27.1499	26.3385	25.2942	26.5787

Key observations on yield rate movements in Q2 2020

- The yield rate on the 91 Days tenor remained constant at 16.5002% over the first 4 auctions in Q2 before rising to 17.4999% in auction number 12/2020. However, the yield dropped to 16.9999% as end of Q2. This represents end quarter increase of 50 basis points compared to 16.5002 at the end of Q1.

- The yield rate on the 182 Days tenor dropped by 25 basis points at end of Q2 to 21.0000% from 21.2499% as at end of Q1.

- The 273 Days yield rate dropped to 26.6699% as at end of Q2 compared to 26.9999% as at end of Q1 representing a decrease of 33 basis points.

- The yield rate on the 364 Days registered the highest movement with yield rate dropping by 125 basis points on quarter basis from 29.2501% as at end of Q1 to close at 28.0001% at the end of Q2.

- Despite significant yield drops in the 182, 273 and 364 Day tenors, the Weighted Average Yield Rate (WAYR) as at the end of Q2 rose by 221 basis points to 26.2900% from 24.0844% at the end of Q1. This increase is mainly attributed to the increase in the subscriptions on the 364 Days tenor which accounted for over 90% of the bids in Q2 compared to about 64% in Q1 thereby increasing the weighting on the 364 Days which closed at 28.0001%.

Government Bonds (GRZ bonds)

The auction format of Government bond auctions in Q1 was changed with only 3 tenors offered per auction. The non-benchmark bonds (2, 7,15 year) were offered in January and March 2020 while the benchmark bonds (3,5,10 year) were offered in February 2020. In Q2, the format reverted to all tenors being offered per auction. Three bond auctions were conducted in Q2 2020 with the total of ZMW 3.30 billion offered at cost and a total of ZMW 1.29 billion was received at cost representing an average subscription rate of 37% down from 41% in Q1. Of the ZMW 1.29 billion received at cost, ZMW 1.13 billion was allocated representing an uptake of 34% in Q2 a marginal increase compared to uptake of 31% recorded in Q1.

Figure 3: Government bond Yields 2020

Government bond Yields 2020

	01/2020	02/2020	03/2020	4/2020	05/2020	06/2020
	24-Jan-20	28-Feb-20	20-Mar-20	24-Apr-20	29-May-20	26-Jun-20
2 years	30.9500		30.9500	30.9500	30.9500	30.9500
3 years		29.7500		29.7500	32.0000	32.7000
5 years		33.0000		33.0000	33.0000	33.0000
7 years	25.0000		25.0000	25.0000	25.0000	25.0000
10 years		23.5000		23.5000	23.5000	31.5000
15 years	30.0000		31.0000	32.5000	32.5000	32.5000
Weighted Average Yield Rate	30.7947	30.5396	30.9497	31.2985	31.8500	32.3806

Key observations on Govt bond yield rate movements in Q2 2020

- There was no yield rate movement recorded on the 2- year tenor which was maintained at 30.9500% as at end of Q2 same as at end of Q1.

- The yield on the 3- year tenor rose in Q2 by 125 basis points to 32.0000% from 29.7500% as at end of Q1.

- The 5- year yield rate was unchanged at 33.0000% in Q2 same as at end of Q1.

- The 7- year yield rate in Q2 was at 25.0000% across all auctions unchanged from Q1.

- The 10- year yield rate rose by 800 basis points to 31.5000% on auction 06/2020 up from 23.5000% from the previous auctions in the first half of 2020.

- The yield rate on the 15- year rose by 150 basis points to 32.5000% end Q2 from 31.0000% in Q1.

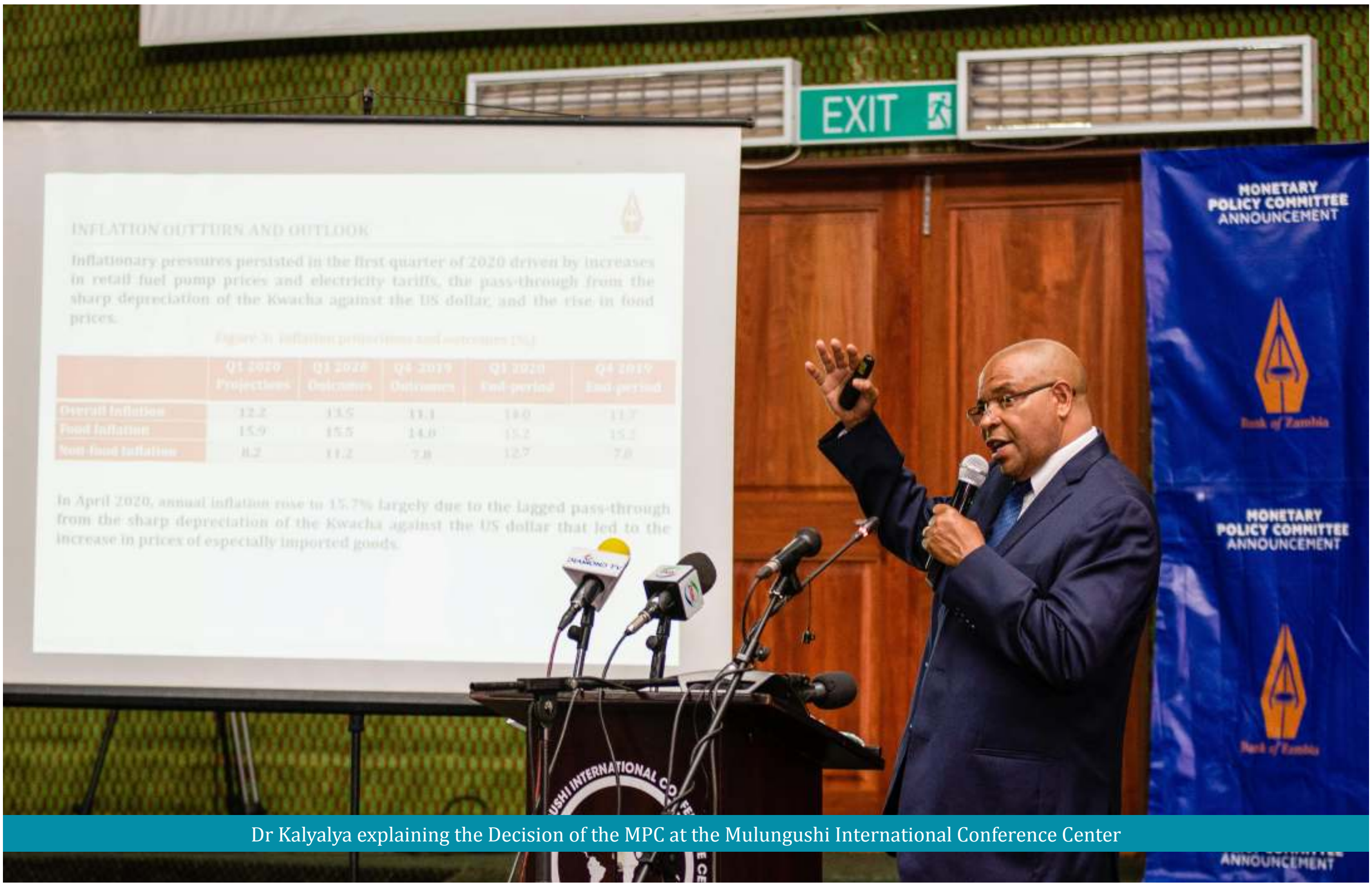
- The average WAYR in Q2 rose by 182 basis points to 31.8430% from 30.7614% in Q1.

For any queries and/or clarifications, get in touch with the Government Securities Unit, Financial Markets Department, Bank of Zambia. Tel +260 399 399, +260 399 343 or email : government.securities@boz.zm

‘There remains scope to do more’

By ZAMBANKER REPORTER

There is need for concerted efforts and strengthened collaboration among all stakeholders to effectively deal with the COVID-19 shock and its effects; in this context, implementation of fiscal and structural reforms that deliver inclusive and sustainable growth remains an urgent imperative.’ Speaking during the first quarter Monetary Policy Committee (MPC) announcement and media briefing at Mulungushi International Conference Center, Bank of Zambia Governor, Dr Denny Kalyalya, explained that in the absence of urgent and appropriate policy response, growth prospects are likely to significantly deteriorate, as the economy is projected to record a recession in 2020.



Dr Kalyalya explaining the Decision of the MPC at the Mulungushi International Conference Center

The MPC cut the Policy Rate by 225 basis points to 9.25% in May, despite the projected path for inflation being higher than the medium-term target range of 6-8%. This was to mitigate the adverse impact of the COVID-19 pandemic on financial sector stability, economic activity, and ultimately on people’s lives and livelihoods. The cut in the Policy Rate therefore complements the broader set of measures already undertaken by the Central Bank. These include the Targeted Medium-Term Refinancing Facility, prudential measures taken to ease the flow of credit to businesses and households and scale up the use of digital financial services.

“With the COVID-19 pandemic, the already challenged domestic macroeconomic environment has worsened. Under these circumstances, the Zambian economy is projected to contract by 2.6% in 2020 from a growth of 1.9%[1] in 2019. This is the first contraction in real Gross Domestic Product (GDP) in more than 20 years. The significant reduction in consumer and investment spending due to disruptions in business operations is expected to weigh on

[1]The 2019 real GDP growth estimate was revised downwards to 1.4% in June 2019.

Members of the press following the 1st quarter MPC Announcement and Media Briefing

economic activity. So far, the sectors known to be most adversely affected are construction, wholesale and retail trade, tourism, manufacturing, electricity as well as mining," he explained.

The Governor stated that results from the First Quarter 2020 Bank of Zambia Quarterly Survey of Business Opinion and Expectations indicate that economic conditions worsened in the first quarter. In particular, the volume of services, new orders and profitability all registered historic lows. He added that the Stanbic Bank Zambia Purchasing Managers Index also reported deterioration of business conditions in the private sector as output and new orders sharply declined amid falling consumer spending and company shutdowns associated with COVID-19.

Inflationary pressures persisted in the first quarter of 2020, driven by increases in retail fuel pump prices and electricity tariffs, the pass-through from the sharp depreciation of the Kwacha against the US dollar and the rise in food prices. Annual overall inflation increased to an average of 13.5% from 11.1% in the preceding quarter. Average food inflation edged up to 15.5% from 14.0%, while non-food inflation rose to 11.2% from 7.8%. Inflation ended the first quarter at 14.0% from 11.7% at the end of the fourth quarter of 2019.


Selected guests who attended the Media briefing

In April, inflation rose to 15.7%, largely due to the lagged pass-through from the sharp depreciation of the Kwacha against the US dollar that led to the increase in prices of imported goods.

Dr Kalyalya also noted that although the projected path for inflation is higher than the February 2020 MPC forecast, it will trend towards the upper bound of the 6-8% medium-term target range at the end of the forecast horizon. Underlying this projection are persistently high fiscal deficits, rising external debt service payments, accumulation of domestic arrears and high production costs. The deterioration in the global economy is also likely to dampen copper prices and export earnings. The afore mentioned factors are expected to exert pressure on inflation through one or more of these channels, the interest rate, expectations and exchange rate. However, expected improvements in maize output and subdued domestic consumer demand in light of the COVID-19 pandemic could result in inflation declining faster than anticipated.

Dr Kalyalya re-appointed Financial Education Champion

Bank of Zambia Governor, Dr Denny Kalyalya, has been appointed Champion of the sub working group on Financial Education for All Ages under the National Strategy on Financial Education 2019 – 2024 (NSFE Phase II). Dr Kalyalya was Champion of the first phase of the National Strategy on Financial Education for Zambia (NSFE I) from 2012 to 2019 during which the BoZ was Secretariat upto the launch of the new strategy (NSFE II).

A visit by winners of the 2019 World Savings Day competition to the Central Bank

The National Strategy on Financial Education for Zambia 2019–2024 (NSFE II) sets out the framework for providing financial education to the Zambian population. The overall objective of providing financial education is for people throughout Zambia to gain the improved knowledge, understanding, skills, motivation and confidence that will help them to secure positive financial outcomes for themselves and their families.

The NSFE II builds on the first phase of the NSFE, which covered the period 2012–2017. Lessons drawn from experience in implementing the first phase were considered in developing the NSFE II.

The NSFE II sets out target groups and financial education programmes that are nationwide in scope and demand driven and that address the gaps and challenges identified during implementation of the NSFE. The goal of the NSFE II is to have "a financially educated Zambian population by 2030." This goal is aligned with and supports Vision 2030 of "making Zambia a prosperous middle-income nation by 2030."

Successful implementation of the NSFE II will make an important contribution to achieving the overarching goals outlined in the National Financial Inclusion Strategy (NFIS). The NFIS envisions citizens with universal access to and usage of a broad range of quality and affordable financial products and

Part of the welcoming party for the 2019 World Savings Day competition visitors to the Central Bank

services. Financial education has a key role to play, not only in improving knowledge about personal finance, but also in transforming this knowledge into action.

During implementation of the NSFE, significant improvements were made in strengthening both financial inclusion and financial capability levels in Zambia. However, findings from the 2017 World Bank report "Zambia: Enhancing Financial Capability" illustrate that much more remains to be done. Several principles ("the guiding principles") underpin the National Strategy on Financial Education for Zambia. These principles were accounted for when selecting financial education programmes for inclusion in the NSFE II and will guide how the programmes will be implemented.

Priority programmes include financial education for school children; out-of-school children; youths in universities, colleges and technical and vocational institutions; adults, through trusted intermediaries; employees in workplaces; adults in informal occupations; and beneficiaries of social cash transfer payments. In addition, financial education will be provided to all age groups through traditional and new media, including a financial education website and annual campaigns. The NSFE II includes an action plan that summarises the priority financial education programmes. Further, more detailed annual work plans will be developed.

A robust monitoring and evaluation (M&E) system will be used to measure progress toward strengthening the knowledge, understanding, skills, motivation and confidence of Zambians to help them secure positive financial outcomes for themselves and their families. It will also ensure that financial education programmes and materials are relevant and cost-effective and that lessons learned from one programme can be applied to other future programmes. The NSFE II contains a results framework, including an activity tracker, that will enable progress to be monitored.

Milestones achieved during the first phase of his appointment included: enhancing advocacy towards the adoption and implementation of the National Strategy on Financial Education for Zambia (NSFE I) across a broad range of stakeholders as well as strengthening the partnership between Zambia and Child and Youth Finance International (CYFI) for the domestication of the Global Money Week which is celebrated as the Financial Literacy Week in Zambia.

The Governor also facilitated partnerships with major stakeholders such as the: Ministry of Finance, Ministry of Education, Pension and Insurance Authority, Securities and Exchange Commission, Competition and Consumer Protection Commission, the Germany Savings Bank Foundation for International Cooperation, the Rural Finance Expansion Program, Financial Sector Deepening Zambia, Bankers Association of Zambia, Insurers Association of Zambia, Capital Markets Association of Zambia, Association of Microfinance Institutions of Zambia and Association of Pension Funds.

Financial inclusion at the heart of BoZ

By ZAMBANKER REPORTER

Assistant Director – Financial Sector Development, Ms Brenda Mwanza says financial inclusiveness is an active priority area for the Bank in view of it's mandate to ensure that financial services are provided to all economically active people and businesses of all income levels. This means that financial services do not have a 'one-size-fits-all' approach but rather, that they should be customised or tailored to suit different segments and geographic regions.


Ms Brenda Mwanza

Speaking during a Bank sponsored radio programme on radio Phoenix, Ms Mwanza explained that approximately 41% of Zambians today face hurdles in accessing financial services for a number of reasons including physical proximity to where these services are located, a genuine lack of information, social barriers, non-suitable products and affordability.

She explained that financial Inclusion refers to the ability of individuals or businesses to access a wide-range of quality and affordable financial services- not just banking – which include access to savings, credit, modes of payments, insurance and investment products to meet their needs.

"Financial inclusion targets different segments of the population such as SMEs, women, youth, rural populations, displaced persons (eg refugees) among others. The Bank has been engaging the financial service providers on the business case and viability of the respective segments and there is more than enough opportunity in this space for different players including microfinance companies, fintechs, payments systems businesses and insurance providers to name a few," she explained.

Ms Mwanza added that the Bank does have a strategic initiative to promote financial services in rural areas where a lot of economic activity takes place. Distribution channels such as agent networks and mobile platforms can be leveraged to provide services that are cost effective, convenient and easily accessible in rural areas.

She noted that the unbanked and rural populations are more engaged in community-based informal services in lieu of access to formal financial services. Some examples of these informal financial services include Savings Groups, Village Banks and Chilimba's.

Story continues on page 26

BoZ Celebrates Labour Day, Awards 33

By ZAMBANKER REPORTER

33 members of staff were awarded in various categories that included: Long Service, Most Disciplined, Most dependable and Most Alert and Vigilant during this year's Vitual Labour Day Awards ceremony.

The following were awarded in the Long Service category: Andrew Boma, Derrick Chola, Jane Sibande, Jane Simuyemba, Josephine Musongo, Jennipher Mpehle, Juliet Mucheleka, John Simutenda Pamela Msiska, Mirriam Matyola, Mweempe Sampa, Yobe Nkhoma, Rhoda Mbazima, Sylvester Kabwe and Towela Lengwe while Messrs Helen Banda, Jane Kayesa, Patricia C Mbewa, Moses Munsantu, Ntalo Musonda and Leya Phiri Tuta were awarded for being the Most Disciplined.

Chilombo Chakamisha, Christine Makoselo, Godwin Zumani, Love Mwale, Chanza Sikazwe and Timothy Kalenga were awarded for being Most Dependable as the following were awarded for being the Most Alert & Vigilant: Kafula Longa, Handiya Mweemba, Godwin Sichone, Miriam Matyola, Maurice Katongo and Justine Sichuunda.

No.	Title	First Name	Last Name	Award
1	Ms	Jane	Simuyemba	30 Years
2	Mr	Yobe	Nkhoma	30 Years
3	Ms	Rhoda	Mbazima	30 Years
4	Ms	Josephine C	Munsongo	30 Years
5	Ms	Miriam N	Matyola	30 Years
6	Ms	Jennipher P	Mpehle	30 Years
7	Mr	Derick M.	Chola	30 Years
8	Ms	Juliet C K	Mucheleka	30 Years
9	Mr	Andrew	Boma	30 years
10	Ms	Jane	Sibande	30 years
11	Ms	Towela	Lengwe	30 years
12	Ms	Mweempe	Sampa	30 years
13	Ms	Pamela	Msiska	30 years
14	Mr	Sylvester M.	Kabwe	15 Years
15	Mr	John	Simutenda	15 years
16	Ms	Jane	Kayesa	Most Disciplined
17	Ms	Helen	Banda	Most Disciplined
18	Mr	Ntalo	Musonda	Most Disciplined
19	Mr	Moses	Musantu	Most Disciplined
20	Mr	Leya Phiri	Tuta	Most Disciplined
21	Ms	Patricia C	Mbewa	Most Disciplined
22	Ms	Chilombo	Chakamisha	Most Dependable
23	Mr	Chanza	Sikazwe	Most Dependable
24	Mr	Timothy	Kalenga	Most Dependable
25	Mr	Love	Mwale	Most Dependable
26	Mr	Godwin	Zumani	Most Dependable
27	Ms	Christine M	Makoselo	Most Dependable
28	Mr	Handiya	Mweemba	Most Alert and Vigilant
29	Mr	Godwin	Sichone	Most Alert and Vigilant
30	Ms	Mirriam	Matyola	Most Alert and Vigilant
31	Mr	Kafula	Longa	Most Alert and Vigilant
32	Mr	Maurice	Katongo	Most Alert and Vigilant
33	Mr	Justine	Sichuunda	Most Alert and Vigilant

PHOTO FOCUS

LABOUR DAY AWARDS RECEIPIENTS

Godwin Zumani - Most Dependable

Christine M Makoselo - Most Dependable

Patricia C Mbewa - Most Disciplined

Maurice Katongo - Most Alert and Vigilant

Justine Sichuunda - Most Alert and Vigilant

John Simutenda - Long Service

Director Board Services, Ms Namwandi Ndhlovu handing over a wheelchair to Zambia Federation of Disability Organisations (ZAFOD) President Mr Nakawala Chiyala. The wheelchair was donated to ZAFOD for an 8 year old disabled child.

ZNBC staffer, Mr Grevasio Zulu interviewing Governor during the Sunday Interview

PHOTO FOCUS

FROM THE RADIO PHOENIX PROGRAMME SERIES

Dr Chipimo explained that the Targeted Medium-Term Refinancing Facility provides liquidity to FSPs for onward lending to businesses and households

Assistant Director Payment Systems, Ms Mirriam Kamuhuza explaining the evolution of Digital Financial Services in Zambia as Manager Payment Systems, Mr Jimmy Couvaras listsens on

Acting Assistant Director - Communications, Ms Besnat Mwanza spoke about the operations of the Central Bank in general during the series.

Governor Kalyalya spoke about monetary policy formation and implementation as well as the Mid-Term Refinancing Facility.

Assistant Director Financial Markets, Mr Jacob Mkandawire discussed Government Securities

Senior Inspector-Regulatory Policy Mr Banji Milambo tackled the Credit Reporting.

2019 under review

This article is an excerpt of the 2019 Bank of Zambia Annual Report. It reviews global and domestic macroeconomic developments in 2019 and outlines the role played by the Bank of Zambia (BoZ or Bank) in fulfilling its mandate of price and financial system stability. It also provides an update on the implementation of the 2016-2019 Strategic Plan.

The 2018/2019 drought negatively impacted food supply

Monetary policy in 2019 continued to focus on maintaining inflation within the medium-term target range of 6-8%. However, towards the second half of the year, the focus of monetary policy shifted to bringing inflation back to the target range in the medium-term as some of the previously identified risks to inflation began to materialise and projections indicated that it would persist above the target range. In particular, the impact on food supply of the drought experienced during the 2018/19 farming season turned out to be larger than anticipated. To counter inflationary pressures that had intensified, the Bank raised the Policy Rate to 10.25% in May 2019 from 9.75%, and by another 125 basis points to 11.5% in November. To address the volatility that had emerged in the foreign exchange market and thus rein in inflationary pressures from this channel, the Bank also raised the Overnight Lending Facility (OLF) rate to 18% in May from 15.75%, and by a further 10 percentage points to 28% in November. In addition, the statutory reserve ratio, on both Kwacha and foreign currency deposits, was increased to 9.0% in December from 5.0%. For maximum effect, the compliance requirement for statutory reserves was changed to daily from weekly.

The aforementioned monetary policy measures notwithstanding, inflation in 2019 averaged 9.1% compared to 7.5% in 2018. It breached the 8% upper bound in May and ended the year at 11.7%, up from 7.9% in December 2018. The rise in inflation was mainly due to the persistent increase in food prices attributed to the drought. Among the immediate and direct adverse effect of this development were reduced supply of the staple food item, maize and related products, and electricity. In addition, the pass-through from the depreciation of the Kwacha against the US dollar turned out to be another important contributor to the rise in inflation. Accounting for the depreciation of the Kwacha was subdued supply of foreign exchange amidst escalating demand for the importation of petroleum products, electricity, and agricultural inputs. Furthermore, adverse market sentiments, associated with Zambia's credit rating downgrades, weighed on the Kwacha.

Liquidity conditions in the money market were tight on account of net Government revenue, the upward adjustment in the statutory reserve ratio to 9% from 5%, and currency demand. In response to the tight liquidity conditions, commercial banks did not wholly roll over their maturing securities.

A moderation in the tight liquidity conditions also came from the net purchase of US$812.0 million by the Bank of Zambia for international reserves build up.

Demand for Government securities remained subdued in 2019, mainly due to tight liquidity conditions. Both Treasury bills and Government bonds were undersubscribed resulting in a deficit of K0.2 billion on the amount on offer. However, due to pressing financing needs, the Government made some private placements and that resulted in the observed rise in the stock of Government securities, which rose to K80.2 billion (face value) from K58.4 billion (face value) at end-December 2018.

Interest rates remained high in 2019, largely reflecting high Government financing requirements and tight liquidity conditions. The weighted average composite yield rates for Treasury bills and Government bonds rose to 24.4% and 28.7% from 18.3% and 18.9% in 2018, respectively. Further, commercial banks' nominal average lending rate increased to 28.0% from 23.6%.

As a result of increased lending to Government, domestic credit grew by 16.8% in 2019 from a growth rate of 15.0% in 2018. Excluding lending to Government, domestic credit growth slowed down to 16.4% in 2019 compared to 17.5% in 2018. The slowdown was mainly attributed to reduced growth of credit to households on account of delays by Government in remitting loan deductions.

Annual broad money (M3) growth slowed down to 12.5% in December 2019 from 16.5% mainly due to the contraction in net foreign assets.

Preliminary data indicate that the overall balance of payments deficit narrowed to US$102.5 million in 2019 from US$387.8 million in 2018, driven by a surplus on the current account. The latter recorded a surplus of US$241.6 million (1.0% of GDP) in 2019 against a deficit of US$341.5 million (1.3% of GDP) in 2018. This was largely on account of a higher contraction in imports relative to exports as well as a decline in imports of services. The contraction in imports was largely due to subdued economic activity while export earnings were adversely affected by the fall in copper prices and copper export volumes.

The average realised copper prices declined to US$5,972.6 per metric tonne from US$6,385.8 per metric tonne, reflecting subdued global growth on account of trade and geopolitical tensions, weather related disasters, as well as uncertainty surrounding Brexit. Copper export volumes declined by 20.4% to 836,233.9 mt mainly due to lower production on account of lower importation of copper ores and concentrates. The global economy is estimated to have expanded at a slower pace of 2.9% in 2019 than the 3.6% recorded the preceding year. The combined surplus on the current and capital accounts turned out to be insufficient to cover net outflows from the financial account resulting in a drawdown of international reserves, primarily for external debt service payments. Gross international reserves declined to US$1.45 billion at end-December 2019 from US$1.56 billion at end-December 2018.

Pressures on the fiscal front persisted in 2019 largely reflecting higher than programmed spending on capital projects and external debt service payments. The depreciation of the Kwacha against the US dollar compounded expenditure pressures. Preliminary estimates indicate that a cash fiscal deficit of 8.2% of GDP was recorded in 2019 against a budget target of 6.5%. The continued accumulation of domestic arrears constrained working capital for the private sector and posed risks to the stability of the financial sector through high non-performing loans.

During the year under review, real GDP growth slowed down on account of a variety of factors. Key among these were adverse weather conditions, electricity load shedding, liquidity challenges, delayed payments for goods and services supplied to the Government, exchange rate volatility, and subdued aggregate demand. Preliminary data show that real GDP growth declined to 2.0% in 2019 from 4.0% in 2018. This mainly reflects the contraction in agriculture, electricity generation and mining output. However, the information and communication technology sector contributed the most to the observed overall growth, followed by the wholesale and retail sector.

The overall financial performance and condition of the banking sector was rated satisfactory as at end-December 2019. This was on account of satisfactory capital adequacy, earnings performance, and liquidity positions. The performance of the non-bank financial institutions sector was rated fair as regulatory capital, liquidity management and sensitivity to market risk were satisfactory while earnings performance was fair. However, asset quality continued to be a source of supervisory concern for institutions under the regulatory ambit of the Bank, particularly non-bank financial institutions.

With regard to the payment system, all the 14 banks offering ATM card services were operational on the National Financial Switch in 2019. In addition, on October 1, 2019, a total of 13 banks started using the point of sale functionality.

The Bank made significant progress in the implementation of the 2016-2019 Strategic Plan, which came to an end on 31 December 2019. Overall, the Bank achieved a completion rate of 86%. The inadvertent six-month delay and other operational challenges contributed to this outturn. The Bank formulated a successor Strategic Plan for the period 2020-2023 taking these factors and other lessons into account. The 2020-2023 Strategic Plan, which will be implemented effective January 2020, focusses on financial stability and financial inclusion. The theme for the Plan, "Building an Inclusive and Resilient Financial Sector," aptly captures this focus. The motivation for this was the need to strengthen the financial stability function of the Bank, having built a firm basis for price stability. Another factor taken into account in formulating the Plan was the observation that the overall risk profile of the Bank had generally improved from the previous year, largely on account of risk action plans that were implemented to mitigate identified risks. Furthermore, the Bank continued to test contingency arrangements for financial market infrastructures and other prioritized processes against business disruptions.

Story continues from page 20

Financial inclusion at the heart of BoZ


Picture courtesy of FSDZ

Cooperating partners in the financial sector have enhanced financial education for saving groups.

Clarifying the confusion between village banking and savings groups, Ms Mwanza stated that there is a distinct difference between village banking and savings groups, based on their area of emphasis.

"Village Banking is a microcredit methodology which focuses on loans. That is, groups of self-selected members or low income enterpreneurs who know each other come together to share and guarantee one another's loans. Loans within the group enable members to borrow working capital to invest and grow their businesses, send their children to school and provide for other household needs.[1] Village Banking enables communities to provide mutual support to each other.

Savings Groups on the other hand focus on encouraging their members to 'save' (put money aside) for a specific time horizon or towards an individual or common goal. Savings groups also comprise of self -selected members who know and trust each other who combine the activity of savings with making loans to members. However, the savings component tends to be compulsory whilst obtaining a loan is voluntary. The benefits in the group are dependent on members saving and repaying back loans, so that members of the group are guaranteed of receiving their share-out (accumulated savings and interest on loans) at the end of the cycle.

And giving the Bank's position on village banking and/or savings groups, Ms Mwanza said the Bank of Zambia recognised that village banking and savings groups provide 'informal financial access' which supports the welfare and productivity in communities, whilst fostering social cohesion.

She explained that the BoZ does not license, regulate or supervise village banking or savings groups because they are closed-user groups owned and managed collectively by their members.

"Village banking and savings groups are comprised of self-selected members who know each other and come together on the basis of trust. These groups have their own Constitutions which defines their composition, rules and operating procedures. As such, the constitutions of most groups differ and can present challenges in standardising rules," she said.

Responding to a question on whether there was a difference between village banking and a money circulation scheme, Ms Mwanza explained the difference being that a money circulation scheme involves the pooling and distribution of funds by continous recruitment of subscribers . This is an open group with an indefinite number of members who do not necessarily know or trust each other. In addition, there is often no commercially viable business to generate funds for the group hence its dependence on recruiting more members which is unsustainable. There is no guarantee that members will get back the funds that they have put in the money circulation scheme.

Regarding recent statements issued by the Bank on the importance of linking these informal financial services to formal financial services, Ms Mwanza explained that this service is mainly to offer a safe storage for the groups funds and to help reduce the risk of holding large sums of physical cash. It is also a mechanism to conduct savings and loans transaction more efficiently, safely and conveniently via internet or mobile banking.

"The link between a financial service provider and a savings group is not intended to disturb or change the way in which the savings group conducts itself, but enhance operational efficiency."

At the same time, these linkages contribute to financial inclusion by first granting the savings group access to a transactional account eg a group bank account or mobile money account. This then extends to the opening of accounts for individual group members who were previously unbanked once they have become comfortable and confident with the group transactions" she said.

She added that it is therefore important for the financial service providers to create appropriate customer centric products and engage in financial literacy and sensitization programs to facilitate these linkages.

[1]https://finca.org/our-work/microfinance/financial-services/village-banking/

5 ways to identify a genuine Village Banking group and Savings Group

Bank *of* Zambia

01 A closed group of a limited number of self-selected people who know and trust each other.

02 The group is self-managed and members are guided by jointly agreed rules and procedures called a constitution.

03 The purpose of the group is for members to save money and lend out the savings to each other to meet various needs.

04 The group earns a return from interest paid on loans and savings.

05 Members receive their payouts (accumulated savings and interest earned) at the end of the cycle.

Bank of Zambia (BoZ) licenses, regulates and supervises entities that conduct formal banking and financial services as defined by the Banking and Financial Services Act, 2017. BoZ does not regulate or supervise village banking/savings groups.

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'Grow credit with good habits'

By ZAMBANKER REPORTER

Senior Analyst – Research and Regulatory Policy Mr Banji Milambo has advised consumers of financial products to establish good credit habits to build and improve their credit history. Speaking on a sponsored radio programme, Mr Milambo explained that consumers with a positive credit report, reflected in good credit history are likely to qualify for lower interest rates and fees, freeing additional money for emergencies, retirement and other smaller unexpected expenses.


Mr Banji Milambo

A credit report is a document that shows the details of the money one has borrowed and repaid or are repaying.

Mr Milambo explained that a credit report is important because it helps lenders (such as banks and microfinance organisations) predict how likely one is to repay a loan and make payments when they are due. He said if one applies for a loan, for instance, the credit provider use the applicant's credit information to decide whether to give the loan, and on what terms (for example, interest rates or repayment terms).

"In Zambia, a credit report is produced by the Credit Reference Bureau (Zambia) Ltd trading as TransUnion Zambia. The creation of a credit report involves a number of stakeholders but it contains information gathered by the lender about the payment behaviour of a borrower. For example, when an individual receives a loan, their information and repayment behavior is used to create a credit report. The negative and positive information is collected by the lender and then sent to the credit reporting system," he stated.

Borrowers can access one credit report for free every year by sending a formal request to the Credit Reference Bureau (Zambia) Ltd trading as TransUnion Zambia. This can be done by contacting TransUnion by telephone on 0211 220 530/36 or visiting them.

Mr Milambo explained that TransUnion will only issue the credit report once they receive the completed request form and a copy of an NRC because a credit report is a confidential document. Further, TransUnion will only share a credit report with a person who meets the requirements of confidentiality in line with the Banking and Financial

Assistant Director-Bank Supervision Ms Lyness Mambo scrutinising her Credit Report when TransUnion Zambia officials visited the Bank.

Services Act, the Credit Reporting Act and other laws that serve to preserve the confidentiality of personal information.

Some of the issues to look out for once a borrower has received the credit report is to make sure that the information on the credit report is correct. In particular, the borrower should check out incorrect information, look out for fraud and take stock of one's debt.Incorrect information can seriously affect a credit report and that it is up to the borrower to fix them. He advised borrowers to ensure that their names are spelled correctly and that their personal details (like address or employer) are correct.

He advised that borrowers should look out for accounts they don't recognise and loans that have been paid off, but still show up as "open". He also advised concerned parties checking their credit report to spot potential fraud and protect themselves from the impact of identity theft.

"It can often take several months to repair the damage caused by criminals, but if you check your report regularly, you will be quick to notice any changes to your profile. Further, monitor all your debts and accounts in your credit report. This will give you a

Some of the issues to look out for once a borrower has received the credit report is to make sure that the information on the credit report is correct. In particular, the borrower should check out incorrect information, look out for fraud and take stock of one's debt.

different perspective on your financial situation and help you better plan for and manage your finances," he said.

He added that in the event that one finds the information on the credit report inaccurate, they should notify the credit reporting agency disputing the contents of the credit report, clearly stating what information is deemed to be incorrect and providing reasons for the dispute. This is important because the credit reporting agency will need to make the dispute known to all parties that are in possession of the report.

The next step would be to establish the source of the incorrect information. This can be done by checking personal credit report or making a request to the credit reporting agency. Only the person who submitted the incorrect information can effect a change or correction to the credit report. Therefore, if it is determined that the incorrect information was submitted by Bank X, then only Bank X can review its submission to make a determination as to whether there was indeed an error and request the credit reporting agency to make a change.

If the error resulted from the credit reporting agency, then the credit reporting agency is required to immediately correct the error by amending the records on its database and issuing a correct credit report to relevant parties.

If the issue is not satisfactorily resolved, the matter can be referred to the Bank of Zambia for arbitration or the Courts for litigation. Where the matter is presented to the Bank of Zambia. The Bank will first establish whether the matter was subjected to the dispute resolution mechanism of the service provider. The Bank will also require that adequate information is provided, by both disputing parties, in order to make a determination on the complaint.

Gender gap narrowing in the Bank

By ZAMBANKER REPORTER

Bank Governor, Dr Denny Kalyalya, has announced that there has been a narrowing of the gender divide in senior positions as well as in the establishment of gender balanced teams at almost all levels in the Bank.

Addressing staff during Labour Day celebrations, whose theme was "Reducing Developmental Inequalities through Sustainable Job Creation" the Governor said the Bank will continue promoting gender equality in the work place by implementing an integrated approach to gender equality.

"To this end, the Sexual Harassment Policy was reviewed and changed to the Anti-Harassment Policy. The objective of this Policy is to ensure all employees are treated equally, with dignity, decency and respect at the work place. To date, our 'people' policies have been updated to align them to our aspirations of achieving equity and equality," he explained.

Dr Kalyalya further noted that the creation of sustainable jobs has been promulgated in this year's theme as a means to reduce inequalities and that the Bank will continue to play its role in supporting employment creation through formulation and implementation of appropriate monetary and financial sector policies.

Earlier, the Governor said the Coronavirus or COVID-19 pandemic has caused and continues to cause unprecedented human misery and adverse economic impact, globally and locally. He said for Zambia, the already very challenging macroeconomic situation characterised by low growth, high fiscal deficits, rising inflation and debt service obligations as well as low international reserves has been made worse by the pandemic. He added that although the full impact of COVID-19 on public health and the economy cannot be determined at the moment, indications are that it will be unprecedented.

He explained that COVID-19 has affected many aspects of people's lives and significantly altered work arrangements. As a response to human resource challenges posed by the pandemic, the Bank has provided guidelines for work arrangements and adjustments made to ensure mission critical services continue to be offered with the Central Bank's staff either working from home or proceeded on leave.

"Unusual times call for unusual actions and therefore the need for all of us to collaborate to make sure this transition is well managed. Let me take this opportunity to remind ourselves that Management's priority during these torrid times is to ensure all employees remain safe as guided by the Ministry of Health. The Bank has therefore put in place measures aimed at ensuring all members of staff stay safe.

Among these measures are: regular washing of hands with soap and water; the use of alcohol based sanitisers, which have been provided to all employees; wearing of masks at all times for all employees within the Bank premises; social distancing–avoiding close contacts, such as, handshakes and hugs, holding meetings virtually; and restriction on non-essential travel," he emphasized.

Licensing

Two Non-Bank Financial Institutions were licensed between December, 2019 and June, 2020 while three had their licenses cancelled as per details here below:

NEWLY LICENSED INSTITUTIONS		
NAME	**CATEGORY**	**DATE**
Lawak Bureau de Change Limited	Bureau de Change	16 June 2020
LOLC Finance Zambia Limited	Housing Finance Institution	16 June 2020

CANCELLED LICENSES		
NAME	**CATEGORY**	**DATE**
M and T Bureau de Change Limited	Bureau de Change	6 May 2020
Choice Bureau de Change Limited	Bureau de Change	30 December 2019

BoZ participates in Money Journey Exhibition

By ZAMBANKER REPORTER

The Lusaka National Museum, with support from the Bank of Zambia, hosted an exhibition called the 'History of Currencies/ Monies from Ancient to Contemporary times in Zambia'. The Exhibition was mounted at selected shopping malls in Lusaka and was a product of a research undertaken by the Museum to document the historical development milestone of Zambian currency.

The Central Bank provided some banknotes and coins. The exhibition aimed to educate and raise awareness on the transition of the country's currency and to demonstrate the practical ways in which the Museum serves as an education resource.

Bank property converted into a Guest House

By ZAMBANKER REPORTER

The Bank of Zambia has officially launched works on converting 3761 Mwasumina road residential property in Itawa into another Bank of Zambia Guest House. The house, which is one of three institutional houses in Ndola will undergo a face lift and be turned into a 4 bedroomed guest house to cater mainly for members of staff and government officials travelling to Ndola and the Northern Region.

The Bank has converted one of its residential properties in Itawa into a guest house

Over the years, the Bank of Zambia main guest house at 3702 Mwasumina road in Itawa has seen an increase in occupancy rate to over 65% on average and has become an ideal lodging destination for senior Government officials and Bank of Zambia staff. The guest house has over the years hosted a number of high profile visitors including Zambian Heads of State, Vice Presidents as well as visiting Heads of state from other countries attending the Zambia International Trade Fair.

Guest house supervisor Ms Shikundu Fikoloma told the Zambanker that she was happy with management's decision to convert the other property into a guest house as it would add more rooms to the already existing rooms and 3761 Mwasumina would serve as an extension of the main guest house. Visitors would have an option to choose to lodge at either of the two guest houses.

The Works on the conversion of 3677 Mwasumina are expected to be completed by end September 2020 and official opening is expected in October 2020.

Customer Complaints Handling and Resolution -Requirements for the financial sector and the payment systems sector.

Mr Lungisani Zulu

By LUNGISANI ZULU

That consumer protection assures the integrity, effectiveness, efficiency and security of the financial sector can hardly be contested. After all, the wheels of commerce move faster, to the benefit of the business, when oiled by happy consumers.

On 30th April, 2020 the Bank of Zambia issued the Bank of Zambia Customer Complaints Handling and Resolution Directives, 2020 which prescribe minimum requirements that financial service providers and other regulated entities must comply with in the handling of customer complaints.

In this article, I highlight some of the key requirements of the Bank of Zambia Customer Complaints Handling and Resolution Directives, 2020 which regulated entities are required to comply with.

Firstly, it is important to appreciate that the Customer Complaints Handling and Resolution Directives apply to all financial service providers regulated under the Banking and Financial Services Act No. 7 of 2017, all licensed payment systems and payment systems business, which include mobile money operators, regulated under the National Payment Systems Act, 2007 as well as credit reporting agencies, currently the only one being the Credit Reference Bureau Africa Limited Trading as Transunion, regulated under the Credit Reporting Act. In short, the directives apply to any entity that gets a license from the Bank of Zambia under any of the statutes where the Bank has a regulatory mandate. These entities are broadly in the financial sector and the payment systems sector.

So, then, what are the requirements imposed on players in the aforementioned sectors as regards customer complaints handling and resolution.

Firstly, every regulated entity is required to establish customer complaint handling procedures which include having a dedicated unit, section or department responsible for receiving and resolving customer complaints. As a customer, you must be informed of how to make complaints to this same dedicated unit or section.

Secondly, the Board of directors of the regulated entity are required to develop a written policy and internal procedures for dealing with complaints made by customers. This policy must be reviewed by Bank of Zambia.

Thirdly, when a customer lodges a complaint, the regulated entity is required to give a response in plain language so that it is clear what the decision is and the reasons for the said decision. A record of all complaints received must be kept for a period of two years by the regulated entity. If the complaint is received at a branch of the regulated entity, it must be reported to the central data base with clear references about the branch which received the matter.

Further, regulated entities must ensure that the internal handling processes established conform to minimum standards and that complaints are dealt with in a timely and responsive manner. When a decision is made, the customer must be informed of available internal and external resolution mechanisms to seek redress in case the customer is unhappy. External mechanisms include appealing to the Bank of Zambia, consumer protection authority or indeed seeking the intervention of the courts of law.

Finally, regulated entities are required to follow three stages in resolving a customer complaint. Stage one stipulates rules on receipting and documenting the complainant as well as investigating and dealing with the complaint. Stage two provides for rules for final internal review of the complaint by the chief executive officer while stage three provides for other interventions in resolving the complaint outside the regulated entity.

Worth of note is that under the directives, the Bank of Zambia takes the role of an appellate alternative dispute resolution mechanism after the regulated entity has dealt with the matter, and not before. Customers should therefore ensure that they direct their complaints to the entity concerned and only bring it to Bank of Zambia, for review, if they are not satisfied with the redress provided by the regulated entity.

I trust this helps to highlight the key requirements of the Bank of Zambia Customer Complaints Handling and Resolution Directives, 2020 which all entities in in the financial sector and the payment systems sector under the Bank's regulatory mandate must comply with. From a customer's perspective, it helps to know what one's rights are as regards complaints so as to better enforce the rights.

Lungisani Zulu is Senior Counsel in the Legal Services Department

NEW FACES

By ZAMBANKER REPORTER

The Bank recruited 3 members of staff in the second quarter of 2020 under the Human Resources and Procurement And Maintenance Services (PMS) Departments.

Mr Likando Nchimunya Nabuyanda joined the Bank under the PMS Department on 4th May, 2020 as Manager - Maintenance And Office Services. Mr Nabuyanda has over 7 years of work experience in the urban water supply and sanitation sector. Prior to his engagement by the Bank of Zambia, he worked as the Operations and Maintenance Coordinator at Lusaka Water and Sewerage Company Limited, where he was responsible for coordinating all maintenance activities on water and sewerage infrastructure for efficient service delivery.

He holds a Master's degree in Integrated Water Management from the University of Queensland in Australia and a Bachelor's degree in Electrical/ Mechanical Engineering from the Copperbelt University in Zambia.

Ms Margaret Mkandawire joined the Bank on 20th April, 2020 as Administrative Assistant in the Human Resources Department. She holds a Degree in Adult Education and Diploma in Human Resource from the University of Zambia and Secretarial certificate from Kabwe Trades Training Institute. Ms. Mkandawire worked for University of Zambia as Secretary, She is a member of the Professional Secretaries Association of Zambia.

Mr Lweendo Hanzwena Malungo joined the Bank on 14th April, 2020 as Assistant Director - HR Administration And Organisation Effectiveness under the Human Resources Department. He joins the Bank from the Copperbelt

Energy Corporation PLC (CEC) where he served as Senior Manager – Human Resources. Prior to his stint at CEC, Mr Malungo worked for Mopani Copper Mines PLC as Human Resources Advisor.

He received both his Master of Arts degree in Human Resources Management and the Bachelor of Science degree in Production Management from the Copperbelt University, while he obtained his Bachelor of Laws (LLB) degree from the Zambian Open University. Mr Malungo is a Fellow of the Zambia Institute of Human Resources Management (ZIHRM) and an Associate Member of the Chartered Institute of Arbitrators (CIArb), Zambia Branch.

By ZAMBANKER REPORTER

SEPARATIONS

Eleven members of staff separated from the Bank as per details here below:

Mr Sylvester Kabwe separated from the Bank VESS on 30th June, 2020. He was Principal Examiner - Deposit Taking Micro financial Institutions in the Non-Bank Financial Institutions Supervision Department at the time of his departure. He joined the Bank on 8th March, 2004.

Mrs Jane Simuyemba separated from the Bank through statutory early retirement on 24th June, 2020. She was Records Officer in the Finance Department at the time of her departure. Ms Simuyemba joined the Bank on 15 August, 1989.

Ms Mwila Cheelo separated from the Bank through statutory early retirement on 21st June, 2020. She was Switchboard Operator in the Procurement And Maintenance Services Department at the time of her departure. Ms Cheelo joined the Bank on 2nd February, 1987.

Mr Francis Mpundu separated from the Bank on 15th June, 2020 through statutory early retirement. He was a General Worker in the Procurement And Maintenance Services Department at the time of his departure. He joined the Bank on 24th September, 1991.

Mr Thomas Matongo separated from the Bank on 7th June, 2020 through statutory early retirement. He was Note Examiner in the Banking, Currency & Payment Systems Department at the time of his departure. He joined the Bank on 21st June,1991.

Mr Willard C. Mweene separated from the Bank through VES on 1st June, 2020. He was Senior Security Officer – Operations in the Security Division at the time of his departure. He joined the Bank on 10th February, 2000.

Mr Chanza Sikazwe resigned from the Bank on 24th May, 2020. He was Senior Legal Counsel in the Legal Services Department at the time of his departure. He Joined the Bank on 4th May, 2015.

Mr Vincent Linyama separated from the Bank on 23rd April, 2020 through statutory early retirement. He was Assistant Manager - Transport in Procurement & Maintenance Services Department at the time of his departure. He joined the Bank on 8th November, 1993.

Ms Vainess Chawe separated from the Bank through statutory early retirement on 10th April, 2020. She was Administrative Assistant in the Human Resources Department at the time of her departure. Ms Chawe joined the Bank on 20th January, 1992.

Ms Petronella Mpundu separated from the Bank on 7th April, 2020 at the expiry of her employment contract. she was Senior Analyst - External Lending/Borrowing in the Economics Department at the time of her departure. She joined the Bank on 02nd August, 2005.

Mr Stephen Mwale separated from the Bank on 1st April, 2020 through statutory early retirement. He was Store Keeper - Receiving in Procurement & Maintenance Services Department at the time of his departure. He joined the Bank on 21st November, 1988.

Obituary

The Bank lost Senior Economist - Economics Department Mr Jonathan Misapa, through death on 21st June, 2020. Mr Misapa joined the Bank on 1st October, 2002.


Ms Mulemwa Moongwa

Zambia: Financial Literacy Legend

By MULEMWA MOONGWA

In 2009, Zambia undertook its second survey to determine the level of access to financial services utilizing FinScope, an international research tool for the measurement of financial inclusion. The survey found that that overall financial inclusion increased to 37.3% in 2009 from 33.7% in 2005 (In 2015 financial inclusion rose to 57.3%). The 2009 Finscope also established among others, that some of the characteristics inherent to individuals that prevented them from accessing financial services, included low levels of financial literacy, as well as a low level of awareness and understanding of financial service. The Finscope Report therefore included a recommendation for policy makers and stakeholders to coordinate efforts to develop a strategy that would improve financial literacy in Zambia .

Until recently, the cost of maintaining a Savings Account was prohibitive for most Zambians, today, most financial services providers offer zero-charge savings facilities.

It is against this background that the Government launched the National Strategy on Financial Education in July, 2012 in July 2012 through the Ministry of Finance and the Ministry of Education to promote financial literacy and contribute to financial inclusion in line with its national vision to attain middle income status and reduce poverty by 2030. The Strategy sought to promote financial inclusion in Zambia, with the following strategic objectives: 1) To have a financially educated Zambian population; and, 2) For Zambian people to have improved knowledge, understanding, skills, motivation and confidence to help them secure positive financial outcomes for themselves and their families.

To this end, various initiatives have been introduced to improve the financial literacy and capabilities of all citizens. . One significant initiative is , the Financial Literacy Week which was introduced in March 2013 . The Financial Literacy Week was a local adaptation of the Global Money Week an initiative of the Amsterdam based Child and Youth Finance International (CYFI), an expert driven multi stakeholder network dedicated to the financial protection and empowerment of children and the youth across the globe. Since 2012, one hundred and seventy (175) countries signed on to dedicate resources each March to focus on the financial education of children and youths. , Given Zambia's FinScope survey, the reach of the Financial Literacy Week was also extended to adults. The organisation of the campaign is currently organised by a Secretariat hosted by Bankers Association of Zambia, and previously by the Financial Education Coordinating Unit at Bank of Zambia.

In 2012 CYFI introduced Global Financial Inclusion Awards as recognition of the efforts by countries to reach the targeted audience and the involvement of

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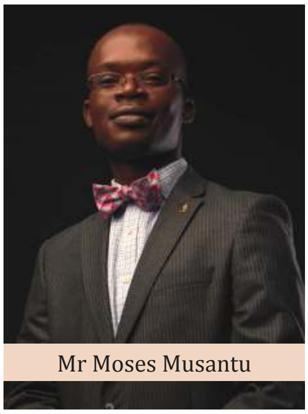
Balancing innovation, competition and consumer protection – Part 2

By MOSES MUSANTU

In the previous edition, we discussed how innovations in products, services and technology have significantly expanded the reach of financial services, including new economic activities and previously excluded segments such as small businesses and communities in the lower income groups.



Mr Moses Musantu

It was observed that financial regulators face a dilemma of protecting consumers of digital financial services (DFS) without imposing high compliance costs on DFS Provider. This has brought to the fore the need for regulators to rethink the approach to regulation and supervision of DFS for consumer protection. In discussing how to achieve the balance between policies, innovation, competitive marketplace and consumer protection evident by an informed consumer, four (4) policy interventions were discussed namely:

1. Identification of associated risks;

2. Establishment of an enabling policy and regulatory framework;

3. Consumer Protection and Market Conduct Principles; and

4. Collaboration and Partnership in DFS provision.

In this second part of our discussion, we shall highlight the last three policy interventions that can be instituted in order to achieve the desired balance.

1. Development of a Robust Supervisory Framework

The Alliance for Financial Inclusion (AFI) and Basel Committee on Banking Supervision have underscored the significance of establishing institutional structures as well as enhanced capacity in monitoring, overseeing and supervising market conduct for the provision of DFS by DFS providers and their agents. Consumer protection supervision should be comprehensive, risk-based, with the purpose of focusing on riskier areas and DFS providers while optimising the use of supervisory resources. It is strongly recommended that authorities should have adequate capacity in the form of technical skills, resources, supervisory tools and systems. Some of the supervisory tools and systems to be employed include offsite and onsite examinations, thematic reviews, market monitoring/research and mystery shopping as well as other technology enabled supervision techniques.

The supervisory work should inform development of regulations that takes into account best practices, consumer research and behavioural economics. There is also a growing call for evidence based supervision such as systematic collection of data at various levels (policy, institutional, provider, program levels) in order to assess gender gaps, analyse trends and design policy to tackle gaps in DFS. The supervisory work should further ensure that DFS providers have adequate management of operational risks by having appropriate operational manuals, internal control procedures and contingency plans in place that can be reviewed by regulators.

The regulator should have enforcement powers which should be presented in a clear and transparent way in the regulatory framework. In addition, regulators should ensure that mandated rules are enforceable and that they have the capacity to provide appropriate oversight. The enforcement action should be with the view of imposing a specified behaviour change or change in the practices of the FSP and should be applied in accordance with the gravity of a situation. Furthermore, inter-agency coordination and international corporation is key to enforce compliance to set standards.

2. Consumer Awareness Initiatives

The need for better market conduct and enhanced digital financial literacy initiatives is never out of fashion even in the advent of the glory of financial technology. This is important because most consumers do not have a sophisticated understanding of financial services, especially given the dynamic changes in financial services delivery through digital innovations. Awareness and understanding of DFS empower consumers to make informed decisions about accessing and using them.

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Covid 19-the reality for women

....key areas for the financial sector to be aware of

Ms Stella Nkhoma

By STELLA NKHOMA

- COVID-19 is not gender-blind, the response to it should not be either.

- Evidence from outbreaks similar to COVID-19 indicates that women and girls can be affected in particular ways, and in some areas, face more negative impacts than men.

- In fact, there is a risk that gender gaps could widen during and after the pandemic and that gains in women's and girls' accumulation of human capital, economic empowerment and voice and agency, built over the past decades, could be reversed.

- Organizations such as the World Bank Group are working to ensure that projects responding to COVID-19 consider the pandemic's different impacts on men and women.

- Health vulnerabilities are especially related to disease exposure in the short-term. There is a larger share of women in the health sector, and as home and family caregivers, which makes them more exposed to contagion.

- The shift in resources towards addressing the public health emergency can entail disruptions to key health services for women and girls, such as reproductive and sexual health services. There is for instance evidence of increases in both teenage pregnancy among out-of-school girls and maternal mortality due to lack of critical resources in similar crises. Pregnant women can be particularly vulnerable in this context.

- Globally, women will likely experience a significant burden on their time given their multiple care responsibilities as school closures and confinement measures are adopted, possibly leading to reductions in working time and permanent exit from the labor market.

- Especially in lower income countries, women are largely engaged in informal work and other vulnerable forms of employment (e.g. self-employment in small subsistence businesses, domestic work), which often leaves them out of formal social protection measures targeted to workers. Female cross-border traders and small-holder farmers can particularly suffer the consequences of the declines in food and crop production, increases in food prices and closed borders.

- Women are over-represented in some of the occupations that will be hardest hit, such as retail, travel, leisure and hospitality, and men in construction or manufacturing.

- Specific programs to support women´s return to economic activity will also play a central role (e.g., public works, access to training and credit, direct provision of productive inputs to female farmers). Ensuring access to care support when work outside of the house is resumed will also be necessary.

- An increase in gender-based violence (and its severity and frequency) due to confinement has also been observed across countries.

- Gender inequality begets gender inequality, and this process is only exacerbated in times of crisis or in the face of major shocks such as the outbreak of COVID-19.

- In understanding the impacts of and designing policy responses to the current crisis it will be especially important to:

  (i) Pay attention to existing gender differences and how they are likely to mediate gender impacts and roles; and

  (ii) Formulate policies that take pre-existing conditions into account to provide a tailored approach.

Ms Stella Nkhoma is Gender Mainstreaming Specialist in the Strategy and Risk Management Department

Maintaining employee engagement during Covid-19

By SIPHIWE N. MWABA

The world is different today than it was a few months ago due to the Covid-19 pandemic. This global pandemic has forced institutions including the Bank to make drastic changes to the workplace, and as a result, caused complete disruption to the employee experience and engagement levels. It is not surprising that after this rapid period of workplace change, many employees may feel stressed, tired, frustrated, disconnected and demotivated. Therefore, what can be done to build morale and maintain employee engagement during this crisis?

Ms Siphiwe Mwaba

What is employee engagement?

Employee engagement is understood in different ways. In the field of organisational psychology as described by the Australian Psychological Society, Employee Engagement is seen as a 'state of mind' characterised by the following three key factors:

1. Vigour – which refers to high levels of energy and mental resilience, and a willingness to invest effort in one's work.

2. Dedication – intense involvement in work tasks that one experiences as significant and meaningful.

3. Absorption – the state of being focused and positively engrossed in one's work, to the extent that time seems to pass quickly.

Others have characterised employee engagement as feeling energetic, enthusiastic, alert and feeling pride towards their work outcomes.

Signs of disengagement are noticed when employees lack energy and motivation, only put in enough effort to do the bare minimum, do not appear to be committed to the task at hand and lack focus. From this perspective, employees effectively decide how much they will engage with their work and expend effort based on the support and resources provided by the organisation. According to research conducted by Gallup, engagement is related to a range of outcomes, including job performance, satisfaction, commitment, turnover intentions, stress, burnout and organisational citizenship behaviours. Engaged employees are much more likely to provide a high level of service, less likely to make mistakes and will experience greater levels of subjective wellbeing.

Boosting Employee Engagement during the Covid Pandemic

Many aspects of the workplace can negatively impact engagement, such as administrative hassles, conflict, organisational politics, a lack of resources, role conflict and excessive workloads. While important to watch out for these, there are also many factors we can focus on to drive engagement, particularly increasing employee resources and promoting wellbeing.

A recent study by the Psychological Society identified the following strategies to help maintain employee engagement during COVID-19:

1. Continue to invest in your Leaders/Supervisors

Psychological Research shows that leadership directly impacts on engagement, particularly through building trust, ensuring support and building psychological safety. The Covid pandemic requires most leaders to adapt to managing and leading in a very different environment, while also leading and supporting staff through change. It is more important than ever that leaders build their capability to navigate through these challenges. Not only will this ensure they lead others effectively, but it will also enhance their own engagement levels. Building capability does not have to be face to face but can take the form of one-on-one or group coaching, rather than formal learning.

2. Leaders/Supervisors should regularly check in with employees

Leadership positively impacts engagement, particularly through the provision of support and feedback. Regular contact between employees and leaders is important to ensure employees are receiving sufficient support. Now more than ever, it is important that leaders take the time to find out how their employees are doing, provide direction, help them with any challenges or barriers they may be experiencing, determine what support they require, ensure sufficient resources are available, set and review work goals and tasks, and give meaningful feedback and positive reinforcement.

3. Show appreciation and acknowledge effort

Recognising employee efforts and achievements has been shown to increase engagement, motivation and job performance. Acknowledging employees and showing appreciation, through simple gestures such as feedback and expressions of gratitude,

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Working past resistance to change

By DR MUSONDA SIMWAYI

Every establishment, system and plan changes over time. Change is necessary because it reassesses organisational relevance and brings about new ideas to enhance internal capabilities. It affects employees in one way or the other. Usually, when change happens resistance is manifested as a natural response. It can either be destructive or constructive depending on prevailing circumstances. In their work on resistance to change theory, John P. Kotter and Leonard A. Schlesinger (1979) conclude that there are four common situations in which people's resistance to change germinates and grows: self-interest, misunderstanding and lack of trust, different evaluations and low tolerance for change.

Dr Musonda Simwayi

Many practitioners are of the mistaken view that all resistance to change is a bad thing. This is totally untrue as resistance can be constructive and bring about great outcomes. If it were not for resistance, bad initiatives would be implemented along with good ones. When employees resist change, it forces the powers that be to slow down, re-strategise and create supporting plans.

It must be stressed that not all change initiatives are suitable hence high levels of resistance are required in order to realise that they are not sensible. Initiators of change might not realise unsuitable such initiatives are until they are resisted against.

It is therefore critical for policy makers and change specialists to anticipate and plan for resistance whenever change initiatives are being implemented in organisations. However, starting the process of anticipating and planning for resistance is the same as opening Pandora's Box. Once opened, the consequences, both positive and negative, can last for a long time.

Challenging destructive resistance to change

The starting point is to comprehend that resistance to change is not the main problem to be solved, rather it is usually a symptom of underlying problems. It therefore serves as a warning signal to understand and resolve real problems.

One of the underlying problems is lack of or inadequate communication about why change is needed. This can be addressed through honest communication about the issues and the proposed actions. Ultimately, this helps people see the logic of change.

Effective education helps address misconceptions about the change, including misinformation or inaccuracies. Education and communication are unlikely to achieve very short-term effects. They need to be delivered consistently and over a long-period for maximum impact.

Another problem could be lack of involvement of key stakeholders in bringing about change. Involvement in a change programme can be an effective way of bringing "on-board" people who would otherwise resist. Participation often leads to commitment, not just compliance. A common issue in any change programme is just how much involvement should be permitted. Delays and obstacles need to be avoided.

Kotter & Schlesinger identified what they called "adjustment problems" during change programmes Most people (though not all) will need support to help them cope with change. Key elements of facilitation and support might include additional training, counselling and mentoring as well as simply listening to the concerns of people affected. If fear and anxiety is at the heart of resistance to change, then facilitation and support become particularly important

Co-option involves bringing specific individuals into roles that are part of change management (perhaps managers who are likely to be otherwise resistant to change). Manipulation involves the selective use of information to encourage people to behave in a particular way. Whilst the use of manipulation might be seen as unethical, it might be the only option if other methods of overcoming resistance to change prove ineffective.

In this article, four (04) enablers have been introduced. The remaining ones will be tackled in the next three articles. The first four (04) are as follows:

1. Focus should always be on people. There must be affirmative action to search for the best among people. Both leaders and the led should trust each other in an open and honest environment.

2. Organisations should make effort to make good decisions regarding members of staff otherwise the likelihood to generate bad results is high. Hence, in order to successfully navigate an organisation through change initiatives it is critical for management to balance both human and organisational needs.

3. Be open-minded and do not stop hiring young, competent and talented people. You cannot have enough of such people because they are the future.

4. Actively involve both genders in the change management process..

Dr Musonda Simwayi is Assistant Director Change Management and Innovations in the Strategy and Risk Management Department

Adapting to the new normal

By SILVIA SIWALE

The COVID-19 pandemic has provoked a shift in the conduct of meetings and events, with many moving from in-person gatherings to more virtual ones. In line with this development, the Central Bank has issued temporary rules permitting virtual meetings only, save for exceptional circumstances. Other measures include social distancing, provision of protective equipment, enhanced hygiene procedures as well as increased information sharing in line with the Ministry of Health Guidelines. Senior management has further called for appropriate flexible working arrangements wherein staff are allowed to work remotely.


Ms Silvia Siwale

This has caused a considerable change in the "ordinary" practices of our daily work routines, with our ICT team working amazingly hard to fulfil the new needs of the Bank! The virtual meetings have ranged from strategic level meetings to operational and administrative meetings and include among others: Board Meetings, Board Committee Meetings, Management Meetings, departmental meetings, trainings, meetings with Government ministries, Chairpersons and heads of financial institutions and partner institutions. Here below are some of the meetings attended virtually:

In April, the Governor Dr Denny Kalyalya, Directors Economics, Financial Markets and Bank Supervision attended the 2020 Spring Meetings of the World Bank Group and the International Monetary Fund virtually from 17-19 April, 2020.

The World Bank and the International Monetary Fund (IMF) Spring Meetings 2020 recognised the "devastating effects" of the COVID-19 pandemic and emphasized the critical role of multilateral cooperation in containing the pandemic and mitigating its health, social and economic consequences.

Deputy Governor-Administration Ms Rekha Mhango attended the Alliance for Financial Inclusion's (AFI), Gender and Inclusive Finance Committee (GIFC) on 15 April, 2020. The Deputy Governor is a member and current Chair of the Committee. The GIFC is a permanent committee of the AFI Board of Directors and is responsible for providing leadership and strategic guidance on the network's initiatives on gender and women's financial inclusion.

A BOZ team comprising Jean C. Kamanga, Lungisani Zulu and Grace Mukulwamutiyo attended a Ministry of Justice Internal Legislative committee virtual meeting on Microsoft Teams to review the following Bills (for onward submission to Cabinet): Financial Intelligence (Amendment) Bill, 2020; the Companies (Amendment) Bill, 2020; the Non-Governmental Organisation (Amendment) Bill, 2020; Mutual Legal Assistance in Criminal Matters (Amendment) Bill, 2020; the Extradition (Amendment) Bill, 2020; and The Land (Perpetual Succession) Amendment Bill, 2020. The meeting drew attendances from different government departments and other sectors.

Five members of staff, drawn from different departments have been attending international training organised by the Central Bank of Egypt via zoom. The five include Edward Kapili, Melina Malipilo, Jean K. Couvaras, Mwiza Mhango and Prisca Chitambala.

The training dumbed "African Future Leaders" is an interactive competency-based program designed to identify those who possess leadership traits, who are capable, innovative, and motivated enough to generate ideas for improving processes, quality, and service. The learning objectives of this training are to enhance leadership skills through improving the ability of leaders to resolve conflicts, coaching, managing high-performance and mastering the different leadership styles to lead various types of teams; enhance the participants' analytical and planning skills through individual projects as well as list a variety of technical issues that have strong impact on the Banks' performance. This includes managing different types of risks, corporate governance and the different financial tools as well as market trends. The participants will be informally assessed based on their participation during virtual sessions and preparing the required case studies.

Experiences

Jean C. Kamanga

Virtual meetings have become a regular part of my day-to-day life since physical contact was limited by the Covid 19 pandemic. Some of the technologies I have used to attend most of my meetings include: video conferencing, live streaming and online conversations. The meetings I have attended have not only been more structured, following set communication protocols but they have also been more efficient-saving the Bank, time and resources. The flexibility of attending meetings from anywhere and at whatever time has also worked to my favour.

In times like these, it is important for one to focus on how they can utilize the resources available to them to continue to be productive. It is also important to have a holistic look at your processes and see how you can improve efficiencies in the new normal.

Like they say, it's no longer just about working hard, but working smart. That for me, is the biggest lesson and opportunity that Covid 19 has presented to the World. The companies and employees that have been able to adapt to the new environment

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Adapting to the new normal

much faster have made positive strides. This is an opportunity for accelerated learning for everyone, and leveraging on the strengths and opportunities available to overcome the Covid 19 challenges. It is time to break the box, and be more innovative in finding solutions to achieve our intended objectives.

Melina Malipilo

Being one of the participants on the African Future Leaders Program offered by the Egyptian Central Bank is a privilege and it's an opportunity I don't take lightly. The program was initially scheduled to be held in Egypt but due to the outbreak of Covid-19, the program switched to virtual mode. On receipt of the notification via whatsapp announcing the commencement of the program, my initial thought was how will I manage to add it to the already existing work load.... notwithstanding I mentioned it to my Superiors who were very encouraging and pledged to support me in all ways within their control. The program kicked off and has been nothing but enlightening. Taking the course virtually has been a great experience as it has allowed me to carry on with my usual office assignments and at the same time benefit intellectually from the materials and interactions with both the facilitators and the participants. Virtual learning has also given me an opportunity for immediate implementation of what is learnt. Has it been all smooth? definitely not as some lessons clashed with meetings or deadlines on assignments I could not postpone. In such instances the course providers were very accommodative as the lessons were recorded allowing for catching up. It has not been an easy task but has provided me an opportunity to manage my time and to ensure both my work and school received the much needed attention. One down side was internet connectivity which was unrealiable and could be frustrating at times but all in all being part of a virtual training program has been worthwhile. On a lighter note it has allowed me to identify which ISP to use when and where as well as areas of my house which are perfect for strong signal

Lungisani Zulu

Even in the midst of Covid-19, the Bank needs to continue to procure goods and services. Thanks to virtual meetings, its business as usual as I have been able to attend tender evaluating meetings for various services the Bank intends to acquire including auditing services. I have also attended various virtual meetings of committees of the Bank.

Ms Silvia Siwale is Acting Manager Media and Publications

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Maintaining employee engagement during Covid-19

results in many positive outcomes. In its most simple form, recognition provides positive reinforcement, leads employees to feel valued, provides important feedback that they are doing well, builds confidence, increases loyalty and commitment, and reduces the risk of burnout. In our current state of disruption and uncertainty, recognition is one of the simplest and easiest strategies to continue with, as it requires little effort and doesn't cost anything. Consider informal ways you can recognise and reward the work of your team members during this time.

4. Enable teamwork and collaboration

Teamwork is a core driver of engagement. Being part of a group and working with others to achieve common goals increases our sense of belonging, purpose and meaning, positively impacting on engagement and wellbeing. For teams working virtually, and even for those that are in a temporary stand down, connecting with colleagues is more challenging than usual. Make technology available to enable connection and encourage its use. Provide your staff with opportunities to talk to colleagues, develop personal relationships, discuss opinions, share ideas and collectively problem-solve. This will increase social support and opportunities to influence decision-making, thus enhancing engagement and wellbeing. Consider mechanisms through which you can encourage team work via shared decision-making, group collaboration or team communication.

5. Ensure work continues to be meaningful, challenging and interesting

Job design is an important consideration in maintaining engagement. Recent workplace changes, such as moving to remote work arrangements, may have resulted in unintended changes to jobs. For example, some employees may now have fewer tasks to complete, more mundane and less stimulating tasks, or may not find their work as meaningful due to diminished impact and less interpersonal interactions. This is important as research shows that task variety and task significance positively impact engagement. Consider where the nature of work may have significantly shifted for people and ensure there are sufficient opportunities for employees to use their skills and personal strengths to engage with a range of tasks, and to derive meaning from their work. If employees have capacity, find out their interests and allocate project work or special activities to help offset the more routine and administrative tasks. Consider seeking feedback from your employees on how they are feeling towards their work, and explore opportunities – where relevant – to build more meaningful work or projects that foster creativity or lateral thinking.

Ms Siphiwe N. Mwaba is Manager Shared Services & Compensation

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balancing innovation, competition and consumer protection – Part 2

Digital financial literacy and education policies should include awareness raising, risk mitigation, consumer compensation, consumer rights and responsibilities as well as consumer complaint and redress process. Awareness-raising campaigns should include vulnerable groups, youth and gender-focused digital financial literacy initiatives.

3. Gender considerations

Research has shown that trust and security are at the core of DFS adoption by women who work in the informal sector. Women's low financial literacy, income and unfamiliarity with DFS providers discourage them from using DFS. The policy interventions should therefore have a gender consideration component so as to increase women's access to quality and affordable DFS globally by halving the financial inclusion gender gap. Some of the relevant gender-based recommendations include enactment of gender-centric regulatory interventions and development of policy guidelines on marketing and customer engagement and consumer protection that promote gender-focused, approachable design of DFS with specific safeguards to protect disadvantaged groups, such as deepening financial literacy, risk awareness and strengthening authentication.

In conclusion, the DFS remains a game changer in so far as achieving the desired financial inclusion agenda. A comprehensive financial consumer protection framework as discussed will result in promotion of fair treatment of customers and building confidence and trust in DFS markets, which in turn can lead to financial inclusion, sustainable (financially inclusive) economic growth and financial stability.

Mr Moses Munsantu is a Senior Analyst in the NBFIS Department.

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Zambia: Financial Literacy Legend

stakeholders in financial inclusion. The Financial Literacy Week campaign that was introduced in 2013 has won Zambia consecutive annual awards from CYFI for its outreach activities. These comprise:

- BoZ awarded the 2014 Global Money Week trophy for Africa at the UN Headquarters, New York
- BoZ, PIA, SEC, Ministry of Finance and Ministry of General Education received the 2016 CYFI Global Money Week Award as Regional Finalists for Africa, at the awards in Stockholm, Sweden
- BoZ, received an award as a finalist from sub-Sahara Africa for the 2015 CYFI Global Money Week Award in London, UK
- BoZ received the 2017 CYFI Country Award for Africa for the National Strategy on Financial Education at the G20/CYFI Global Inclusion Awards, Germany, 2017.
- BoZ (with the Organising Committee) nominated as a finalist for the 2018 Africa Country Award for the Global Money Week, Riyadh, Saudi Arabia, 3 July 2018
- BoZ nominated as a finalist of the international Global Money Week Excellence Award at the CYFI Global Inclusion Awards, Johannesburg, South Africa, 19 June 2019

The Awards for Zambia were received on behalf of the country by the Bank of Zambia Governor's office as the national patron of the Financial Education campaign at different colorful ceremonies that were hosted in different locations over the years including the United Nations Headquarters in New York and the Konserthuset in Stockholm.

In June 2019 , the CYFI transferred its Global Money Week initiative to the Organisation for Economic Co-operation and Development (OECD) at a colorful global handover ceremony that was hosted in Johannesburg South Africa.

Based on the proposed schedule of activities that was proposed , we are optimistic that Zambia was on its way for another award in 2020 if not for the COVID Pandemic. We exhibited resilience in conducting the 2020 Financial Literacy Week campaign in March through a change in format into a media campaign.

As we reflect on the impact of the pandemic on o our plans by the pandemic, we celebrate the victories that have placed Zambia in a league of its own on the continent and beyond. The achievements of Zambia's Financial Literacy Week are a best practice of unity purpose. Each year financial services providers from the banking, insurance, microfinance, pensions and capital markets sectors work tirelessly in partnership to ensure their branch networks across the country contribute staff, other resources and leverage their communications networks to reach the masses.. This is done in collaboration with e educators, non governmental organisations, cooperating partners and government departments across the country that continually support the campaign Coordinating Secretariat, in a show of unity of purpose. .

The campaign Coordinating Secretariat is hosted at the Bankers Association of Zambia and its membership is comprises the Ministry of Finance, financial sector regulators namely , the Bank of Zambia, the Pensions and Insurance Authority (PIA), Securities and Exchange Commission (SEC) ,the sector associations notably ,the Bankers Association of Zambia, the Insurers Association of Zambia, the Capital Markets Association of Zambia , the Association of Microfinance Institutions of Zambia and the Zambia Association of Pension Funds, as well as Financial Sector Deepening Zambia, the German Savings Banks Foundation For International Cooperation and the Rural Finance Expansion Programme.

Ms Mulemwa Moongwa is an Independent Events Consultant that has worked with the Coordinating Secretariat on the Financial Literacy Week campaign

Village Banking/Savings Group VS Money Circulation Scheme

Bank of Zambia

Village Banking/Savings Group	Money Circulation Scheme
Legal status Community-based activity organized outside the formal financial sector.	**Legal status** An illegal activity prohibited by law
Definition Self-managed group that does not involve a third party outside the group membership.	**Definition** Third-party oversees the pooling and distribution of funds through continuous recruitment of subscribers.
Formation and membership Have a purpose of saving and lending money informally to meet members' needs.	**Formation and membership** Scheme is formed and managed by a third-party previously unknown to members. The subscribers are often strangers to each other and membership is open with no limitations on numbers.
Purpose Group profits are made from members' savings and interest on loans.	**Purpose** Has no well-defined purpose for the money mobilized (pooled funds), and there is no meaningful economic activity to generate the high returns.
Profitability Members should receive their savings at the end of the cycle all things being equal.	**Profitability** Promises high returns that are too good to be true. Business model depends on the continuous recruitment of new subscribers, which makes it unsustainable with no guarantee your investment will be returned. Risky!

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