



TERMS AND CONDITIONS
FOR THE
TARGETED MEDIUM-TERM REFINANCING FACILITY

September 18, 2020

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1.0 DEFINITIONS

- 1.1 **“Advance”** means an amount extended by the Bank of Zambia to FSPs under the Facility;
- 1.2 **“Bank”** means the Bank of Zambia established under the Republican Constitution (Amendment) Act No. 2 of 2016 and the Bank of Zambia Act, Chapter 360 of the Laws of Zambia;
- 1.3 **“Borrowing Allowance”** means the maximum amount that a FSP is entitled to borrow under the Facility, computed as a percentage of the eligible loans outstanding at the time of lodging the application for the advance;
- 1.4 **“Eligible Loans”** means performing loans granted by a FSP to the targeted economic sector(s) and other qualifying non targeted sectors as determined by the Bank;
- 1.5 **“FSP”** refers to Financial Service Provider and has the same meaning as in the Banking and Financial Services Act;
- 1.6 **“Repayment date”** means the date the Advance is due for settlement;
- 1.7 **“TMTRF”** stands for Targeted Medium -Term Refinancing Facility.

2.0 INTRODUCTION

- 2.1 The Bank of Zambia (hereinafter referred to as ‘the Bank’) mandate, as provided for under the Republican Constitution (Amendment) Act No. 2 of 2016 and the Bank of Zambia Act, Chapter 360 of the Laws of Zambia, is to formulate and implement monetary and supervisory policies that achieve and maintain price and financial systems stability to foster sustainable economic development. In pursuing this mandate, and as provided for under Section 42 (3) of the Act, the Bank hereby introduces the Targeted Medium-Term Refinancing Facility (hereafter referred to as ‘the Facility’). The main aim of the Facility is to strengthen and enhance financial sector resilience, particularly in the wake of the outbreak of the Coronavirus (COVID-19) and its potentially devastating impact on the domestic economy.
- 2.2 Under this Facility, the Bank will provide liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable non-financial corporates and households. Additional incentives will be given to the priority sectors identified in the Seventh National Development Plan (7NDP) with a view to stimulating private sector led growth. For avoidance of doubt, the priority sectors identified in the 7NDP are agriculture, manufacturing, energy and tourism. Schedule I attached provides the definition of the priority sectors.
- 2.3 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.
- 2.4 Access to the Facility will be granted on the basis of the terms and conditions contained in this document. The Bank reserves the right to vary the terms and conditions as may be necessary.

3.0 TARGETED MEDIUM-TERM REFINANCING FACILITY

- 3.1 The Facility is an exceptional Advance available to FSPs that will satisfy the eligibility criteria as defined under Section five (5) of these Terms and Conditions. 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. 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 supporting and engendering price and financial system stability.
- 3.2 The Advance accessed from the Facility shall not be applied to non-qualifying purposes as defined under Section four (4) 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 as defined under Section thirteen (13).
- 3.3 Interest rates on the Facility shall be priced off the Monetary Policy Rate (MPR) with a 12-months moratorium on both principal and interest. FSPs that shall obtain Advance (s) under this Facility are therefore expected to restructure their portfolios to ensure the benefits, including provisions of repayment holidays, do actually reach their respective clients.

4.0 NON-QUALIFYING PURPOSES

- 4.1 The Advance shall not be applied to non-qualifying purposes, such as:
- a) Investments in foreign exchange holdings;
 - b) Purchases of Government securities;
 - c) Placements with other FSPs;
 - d) Refinancing of any non-performing loans, which arose largely on account of credit underwriting prior to 31 December 2019; and
 - e) Any other non-qualifying purposes as may be determined by the Bank from time to time.

5.0 ELIGIBILITY CRITERIA

5.1 To be eligible, the FSP, should at the minimum:

- a) be licensed by the Bank of Zambia;
- b) 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;
- c) be in a sound financial position as determined by the Bank of Zambia; and
- d) be able to provide the Bank with valid and enforceable collateral of the type specified under Section eight (8).

5.2 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.

6.0 APPLICATION PROCEDURES

6.1 An eligible FSP shall submit an application for an advance in the manner prescribed by the Bank. The application must be supported by relevant documentation as outlined below:

- a) Written application for the Advance from the Facility in a prescribed format;
- b) A Board resolution authorizing the FSP to obtain the Advance from the Facility;
- c) Latest audited financial statements and the latest balance sheet position;
- d) A statement of current holdings of Government Securities as well as a list of other eligible collateral, as specified in Section eight (8) of this document; and
- e) FSPs without settlement accounts at the Bank, should submit bank details of the settlement account held with a commercial bank.

6.2 The Bank will consider duly completed applications from FSPs as quickly as is possible and will inform FSPs of its decision once made. Funds will be disbursed to FSPs once they have confirmed that all the formalities for lending to clients have been fulfilled and that they are ready to disburse funds once received.

6.3 The Bank reserves the right to amend the application procedures as and when deemed necessary.

7.0 TENOR OF ADVANCES

- 7.1 Advances for onward lending to priority sectors of agriculture, manufacturing, energy and tourism shall be for a period of 5 years.
- 7.2 Advances to qualifying non-targeted sectors, including households, shall be for tenors of between 1 and 3 years.
- 7.3 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.

8.0 ELIGIBLE COLLATERAL

- 8.1 Funds obtained from the Facility shall be backed by prescribed collateral which shall take into account applicable haircuts. Collateral requirement for commercial banks shall be as specified under table I while for non-bank financial institutions it shall be as per Table II.

Table I: *Eligible collateral for commercial bank and their respective haircuts*

	TYPE OF SECURITY	HAIRCUT
1	Bank or cash balances held with the Bank in Kwacha.	0%
2	Bank or cash balances held with the Bank in foreign currency.	5%
3	Zambian Government Treasury Bills.	5%
4	Zambian Government Bonds.	10%
5	Securities issued by FSPs in Zambia.	25%
6	Securities issued by corporate entities in Zambia.	50%
7	Real estate - office buildings owned by FSPs.	50%
8	Loans on the bank's books classified as Pass and secured by perfected security.	45%
9	Portfolio of salary-backed loans on the bank's books classified as Pass.	50%
10	Dollar denominated loans on the bank's books classified as Pass, secured by perfected security, and with matching foreign currency cash flows.	50%

Table II: Eligible collateral for Non-Bank Financial Institutions and their respective haircuts

	TYPE OF SECURITY	HAIRCUT
1	Bank or cash balances held with financial institutions in Kwacha.	0%
2	Bank or cash balances held with financial institutions in foreign currency.	5%
3	Zambian Government Treasury Bills.	5%
4	Zambian Government Bonds.	10%
5	Securities issued by FSPs in Zambia.	25%
6	Securities issued by corporate entities in Zambia.	50%
7	Real estate, inclusive of commercial and residential property owned by the NBFIs.	50%
8	Guarantees from Shareholders.	50%
9	Loans on the NBFI's books classified as pass and secured by perfected security.	40%
10	Portfolio of salary-backed loans on the NBFI's books classified as Pass.	50%
11	Dollar denominated loans on the NBFI's books classified as Pass, secured by perfected security, and with matching foreign currency cash flows.	40%

8.2 The Bank reserves the right to change the list of eligible collateral as and when necessary and may accept any other type of collateral as determined appropriate.

9.0 INTEREST RATES

9.1 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. The interest shall be paid annually with a 12-month grace period.

9.2 Much as FSPs are free to set the interest rate charged to clients on the Advance obtained from the Facility, they 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 at the time of disbursement of the funds.

9.3 The FSP that offers 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.

- 9.4 The interest rate applicable for onward-lending by the FSP shall be fixed over the life of the Advance.
- 9.5 FSPs are obliged to report to the Bank the interest rate and any other relief offered to their clients as prescribed under Section fifteen (15).
- 9.6 The Bank 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.

10.0 LIMITS ON BORROWING

- 10.1 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.
- 10.2 The eligible loans shall be the total amount of the outstanding performing loans based on the latest financial position as at the time of application.
- 10.3 An eligible FSP shall be entitled to 100 percent of the total outstanding eligible loans. Where the initial Advance applied for is below 100%, the FSP can obtain additional funds but this should not exceed the total amount of the outstanding performing loan portfolio.

11.0 DISBURSEMENTS

- 11.1 To drawdown the funds on the Facility, the FSPs shall be required to demonstrate how it will ensure that the benefits obtained on the Facility are extended to its respective client(s). The Bank of Zambia will closely monitor the performance and use of the Advance obtained from the Facility through regular reporting as provided for under Section fifteen (15) of this document.
- 11.2 Further to the requirements under 11.1, FSPs shall provide name(s) of client(s), sector, terms for the on-lending, collateral obtained if any, and any other pertinent supporting information.
- 11.3 Once the Advance has been approved and communicated accordingly, the offer shall remain valid for a period of 14 days beyond which it shall lapse. Consideration to extend the validity period shall be on a case by case basis and only with justifiable reasons;
- 11.4 Once the offer has been accepted, there shall be a drawdown within 30-day. In case of a partial initial drawdown, the remaining amount should be exhausted in a maximum of two drawdowns within a maximum period 30 days between drawdowns. Consideration to

extend the drawdown period shall be on a case by case basis and only with justifiable reasons;

12.0 NORMAL REPAYMENT

- 12.1 All the principal amount obtained from the Facility shall be repaid in one bullet payment at maturity. The amount shall be transferred to a designated settlement account as shall be guided by the Bank.
- 12.2 Any outstanding amount arising from part payment as provided for under Section thirteen (13), shall be settled in one bullet payment at maturity. The amount shall be transferred to designated settlement account as shall be guided by the Bank.

13.0 EARLY REPAYMENT

- 13.1 Commencing eighteen (18) months after accessing the Facility, the FSP shall have the option to repay part of or the entire Advance before the maturity date.
- 13.2 In order to exercise the early repayment option, the FSP shall notify the Bank that it intends to repay at least one week before the planned early repayment date.

14.0 MANDATORY EARLY REPAYMENT

- 14.1 FSPs shall be subjected to mandatory early repayment of the Advance if:
- i. The FSP fails to report in the prescribed format or provides the required information past the due date; and
 - ii. The FSP breaches any of the eligibility requirements or misapplies the Advance accessed.
- 14.2 The Bank shall notify the FSPs that are subject to Mandatory Early Repayment a month before the mandatory early repayment due date. This mandatory early repayment notice shall not constitute a notice of an event of default.
- 14.3 Failure by the FSP to settle, in full or in part, the amount due under the Mandatory Early Repayment by the repayment date may compel the Bank to invoke the default clause as provided for under Section sixteen (16) of this document.

15.0 REPORTING REQUIREMENTS

- 15.1 FSPs shall submit accurately completed reporting templates to the Bank on a monthly basis for the first three (3) months and thereafter on a quarterly basis by the specified due date until full repayment of the Advance.

- 15.2 FSPs shall be subjected to regular examination of accuracy in respect of data submitted in 15.1 above.
- 15.3 If a FSP fails to comply with the obligations set out in 15.1 and 15.2 above:
- i. borrowing limits shall be set at zero; and
 - ii. the full amount of the Advance shall become payable in line with Section fourteen (14).
- 15.4 Where errors in the data submitted in the reporting templates are identified and notified by either the FSP or the Bank, the Bank shall conduct an assessment of the impact of the relevant error and undertake appropriate action, including the possibility of requiring mandatory early repayment.

16.0 DEFAULT

- 16.1 An event of default shall occur when the FSP fails to repay the Advance in accordance with the terms and conditions of the Facility.
- 16.2 When an event of default occurs, the Bank shall realize the collateral pledged with further recourse to the FSP where the collateral is inadequate.

17.0 OTHER GENERAL CONDITIONS

- 17.1 The imposition of any sanctions under these terms and conditions, including Mandatory Early Repayment, shall be without prejudice to the Bank's right to exercise its regulatory powers as provided for in the Bank of Zambia Act and Banking and Financial Services Act.
- 17.2 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.
- 17.3 The Facility became effective on April 15, 2020.

SCHEDULE I – DEFINITION OF PRIORITY SECTORS

As provided for under Section 2.2 of the Terms and Conditions, priority sectors shall be as identified in the Seventh National Development Plan (7NDP). These shall include agriculture, manufacturing, energy and tourism. What shall constitute these priority sectors, shall be as defined within the context below, or as approved by the Bank of Zambia on a case by case basis.

Agriculture

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

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 utilization or consumption, or it may be semi-finished to become an input for further manufacturing.

Energy

Priority shall be given to renewable energy resources, such as, solar, wind, biomass, geothermal and nuclear.

Tourism

Priority shall be given to activities focusing on the expansion of domestic tourism and the promotion of integration of tourist destinations.