



**BANK OF ZAMBIA**  
**OFFICE OF THE DEPUTY GOVERNOR – OPERATIONS**

September 19, 2002

CB Circular No.15/2002

**To : ALL COMMERCIAL BANKS**

**SUPPORT FOR COMMERCIAL BANKS LENDING TO THE AGRICULTURE SECTOR**

In the 2002 Budget, the Honourable Minister of Finance and National Planning announced measures to support the growth of the agricultural sector. These included an announcement that the Bank of Zambia (BoZ) would take measures to lower bank lending rates for the agricultural sector, in particular, and the economy in general. In this regard the BoZ is introducing the following *voluntary schemes* for commercial banks that provide finance to the agricultural sector.

1. With effect from September 27, 2002 (i.e. based on the weekly return of September 25, 2002) the BoZ will exclude the new loans and advances as well as leases to the agricultural sector (whose definition is outlined in Annex I) from the total deposit liabilities base used when calculating the required statutory reserves ratio on Kwacha deposit liabilities *for participating commercial banks*. This will in effect lower the *effective* statutory reserve ratio, on Kwacha deposit liabilities faced by commercial banks lending to the agricultural sector.

By this measure the BoZ expects lending base rates on qualifying Kwacha loans and advances to decline by 15%. The resources released to commercial banks through this mechanism are to be channeled solely to the agricultural sector. Any deviation of funds from this purpose and non-compliance with the underlying guidelines (see Annex I) will attract penalties prescribed in paragraph 11 of Annex I.

2. Further, in order to support commercial banks in addressing problem agricultural loans, the requirement to have interest rates on renegotiated loans match obtaining market rates is being waived for all qualifying agricultural loans as defined in Annex I.

Those commercial banks wishing to participate in these schemes should formally notify the Director – Financial Markets in writing.

Annex I outlines the detailed implementation modalities. The reporting format for loans and advances to the agricultural sector is attached as Annex II and III. For further clarifications, kindly contact Director-Financial Markets Department, telephone No. 225008 and facsimile 221189.

A handwritten signature in black ink, appearing to read 'Mwenda'.

**Dr Abraham Mwenda**  
**DEPUTY GOVERNOR - OPERATIONS**

## ANNEX I

### IMPLEMENTATION MODALITIES FOR MEASURES TO SUPPORT LOWER LENDING RATES TO THE AGRICULTURE SECTOR

#### I Introduction

1. In the 2002 Budget, the Honourable Minister of Finance and National Planning announced measures to support the growth of the agricultural sector. These included an announcement that the Bank of Zambia (BoZ) would take measures to lower bank lending rates for the agricultural sector, in particular, and the economy in general. This note outlines detailed implementation modalities for the specific measures BoZ has introduced to support the agriculture sector.

#### II. Support to the agriculture sector

2. The BoZ has introduced *voluntary* schemes to lower the effective statutory reserve ratio for participating commercial banks making new loans, advances or leases to the agricultural sector under this scheme<sup>1</sup>. Under this scheme new loans, advances or leases to the agriculture sector (defined as loans, advances or leases made after the coming into effect of this scheme) will be excluded from the total deposit liabilities base used to calculate the required statutory reserves that each commercial bank must maintain at BoZ.

3. In addition, in order to help banks better address the situation of problem agricultural loans, the requirement to have interest rates on renegotiated loans match a new fully performing loan of similar merit will be waived for all agricultural loans as defined in Annex I (see paragraph 4). In this way, banks have, at senior credit management's discretion, the option to charge lower interest rates on problems loans in existence on coming into effect of this scheme and that may be renegotiated during the period that this scheme will be in effect (see paragraph 8). The monthly reporting requirements for all loans renegotiated and restored to accrual status under this scheme (i.e J-list) is provided in Annex II(a).

#### III. Definition of Agriculture

4. For the purpose of this scheme, agriculture will be defined as follows:

- All cropping;
  - a) Cereals (maize, wheat, paddy rice, sorghum, and millet),
  - b) Root and tubers (groundnuts, soya-beans, mixed beans, sweet & irish potatoes, cassava); and

---

<sup>1</sup> Participating commercial banks are those that agree, through written notification to the Director – Financial Market, to participate in this scheme and abide by the regulations outlined in Annex I.

- c) Industrial/export crops (tobacco, sunflower, cotton, coffee, castor beans, cut flowers, vegetables, paprika)
- Livestock (including dairy) and Poultry (including egg) production;
- Fishing & fish farming;
- Agricultural equipment and infrastructure for cropping, livestock (including dairy), fish and fish farming:
  - a) Equipment (steel structures for tanks, boilers, engines, turbines, pumps, packaging machinery, lifting and loading equipment, generators, compressors, tractor and trailers, prefabricated buildings)<sup>2</sup>
  - b) Infrastructure (dip tanks, irrigation dams, dams for livestock water, greenhouses, fish ponds), and

#### IV. Implementation modalities

##### *Eligible loans and advances*

5. Only new Kwacha loans and advances (i.e. given after CB Circular 15/2002 has come into force) as well as leasing by commercial banks to agriculture (as we have defined it above) are eligible.

6. Except as provided for under paragraph 10 of this scheme, non-performing loans and advances, as defined under the Banking and Financial Services (Classification and Provisioning of Loans) Regulations, 1996 (Statutory Instrument No 142), are not eligible. Loans and advances made through on-lending facilities such as the Enterprise Development Fund (EDF) are also not eligible under this scheme.

##### *Tenure of scheme*

7. This scheme will run for a minimum period of three years. BoZ will monitor and assess the operations of the scheme on a continuous basis to ensure that the intended objective of providing real relief to the agricultural sector, through lower lending rates, is achieved.

##### *Lending rates to agriculture<sup>3</sup>*

8. BoZ expects that, at the minimum, commercial banks will pass on the reduction in the cost of maintaining statutory reserve at BoZ to all new borrowers in the agricultural

---

<sup>2</sup> A limited definition is adopted here, principally to minimize the opportunities for abuse. Additional items may be added (or subtracted) by BoZ in consultation with the Banker Association of Zambia (BAZ) and the Zambia National Farmers Union (ZNFU).

<sup>3</sup> As defined in paragraph 2.

sector by reducing their lending base rates by 15%. In addition commitment fees and other charges must not exceed 4%.

### *Operational Issues*

9. Commercial banks will be required to maintain records of all loans disbursed under this scheme and reports on such loans should be submitted in the prescribed format attached as Annex II. Furthermore, participating commercial banks will have to provide additional information as outlined in Annex III, regarding new loans to the agricultural sector, in the Weekly Return of Selected Assets and Liabilities that commercial banks submit to BoZ every Friday.

10. Regulation 11(1)(a) of the Banking and Financial Services (Classification and Provisioning of Loans) Regulations, 1996, shall not at the discretion of any bank's senior credit management apply to any agricultural loan or advance already made or in existence at the coming into force of this scheme and subject to renegotiation under these Regulations, provided that:

- a) Bank senior credit management has given 14 days prior notification to the BoZ; and
- b) The bank continues to comply with all the BoZ prudential guidelines and regulations currently in force.

11. Current penalties for the issuance of incorrect returns or the late submission of returns shall apply. Furthermore, if the information submitted on qualifying loans and advances is found to be incorrect, these loans and advances will be excluded from the calculation of the required statutory reserves to be held at BoZ (see Annex III). Commercial banks will have to make good on their required statutory reserve ratio and the current charges for non-compliance with statutory reserve ratio will apply for the period over which incorrect data was submitted. It should be emphasized that the information supplied through these returns will be subject to on-site verification. The BoZ may charge additional penalties to those specified here.

**ANNEX II**

**Exposures to the Agricultural Sector Return  
(Kwacha Denominated Exposures)**

Reporting Bank:.....

Period ending:.....

Name of Borrower	Branch	Sector (Cropping, Livestock and/or Fish Farming)	Authorised Limit	Date Approved	Date of Expiry	Principle Amounts Outstanding (should not include any interest component even if capitalised)	Draw-down since the last reporting date	Date of draw down	Effective Rate of Interest	New/Roll over	Status Current/Non-current

Authorised Signatory.....



ANNEX IIIa

COMMERCIAL BANKS' WEEKLY RETURN OF SELECTED ASSETS AND LIABILITIES

Reporting Bank .....  
 Position as on Wednesday .....

	Total
1. Core Liquid assets	
(a) Zambia Notes and Coins	
(b) Current account Balances at BOZ	
(c) Treasury Bill Holdings	
(d) Term Deposits	
2. Statutory account Balances at BOZ	
3. Liabilities to the Public (a+b)	
(a) Kwacha Deposit Liabilities to the Public	
(b) Bills Payable	
(c) Foreign Currency Deposit Liabilities to the Public(\$'000)	
4. New Lending to Agriculture 1/	
5. Deposit Liability to the Public less New Agric Lending (3-4)	
6. Government Deposits	
7. Loans and Advances outstanding (Of which loans in million of US \$)	
8. Core Liquid Assets Ratio	
9. Minimum required liquid assets(35% of 3a+3b)	
10. Excess/shorfall in liquid assets	
11. Statutory Reserve Ratio	
12. Minimum Statutory Reserves (15% of 5)	
13. Excess/shorfall in statutory reserves	
14 Minimum F.C. Statutory Reserves (15% of 3c) in US\$.	
14a. Statutory Reserves in US dollars	
14b. Statutory Reserves to be reserved in Kwacha	
16. Foreign Currency Statutory Reserve Balance in K.	
17. Minimum F.C. Statutory Reserves (15% of 14b) in K. (at BOZ mid rate)	
18. Excess/shorfall in F.C. Statutory Reserves (16-17)	

Notes:

1/ Breakdown of agriculture loans to be given in Annex IIIb

**ANNEX IIIb**

**COMMERCIAL BANKS' WEEKLY BREAKDOWN OF AGRICULTURAL LOANS**

Reporting Bank .....

Position as on Wednesday .....

Account No.	Client Name	Date of Disbursement	Amount