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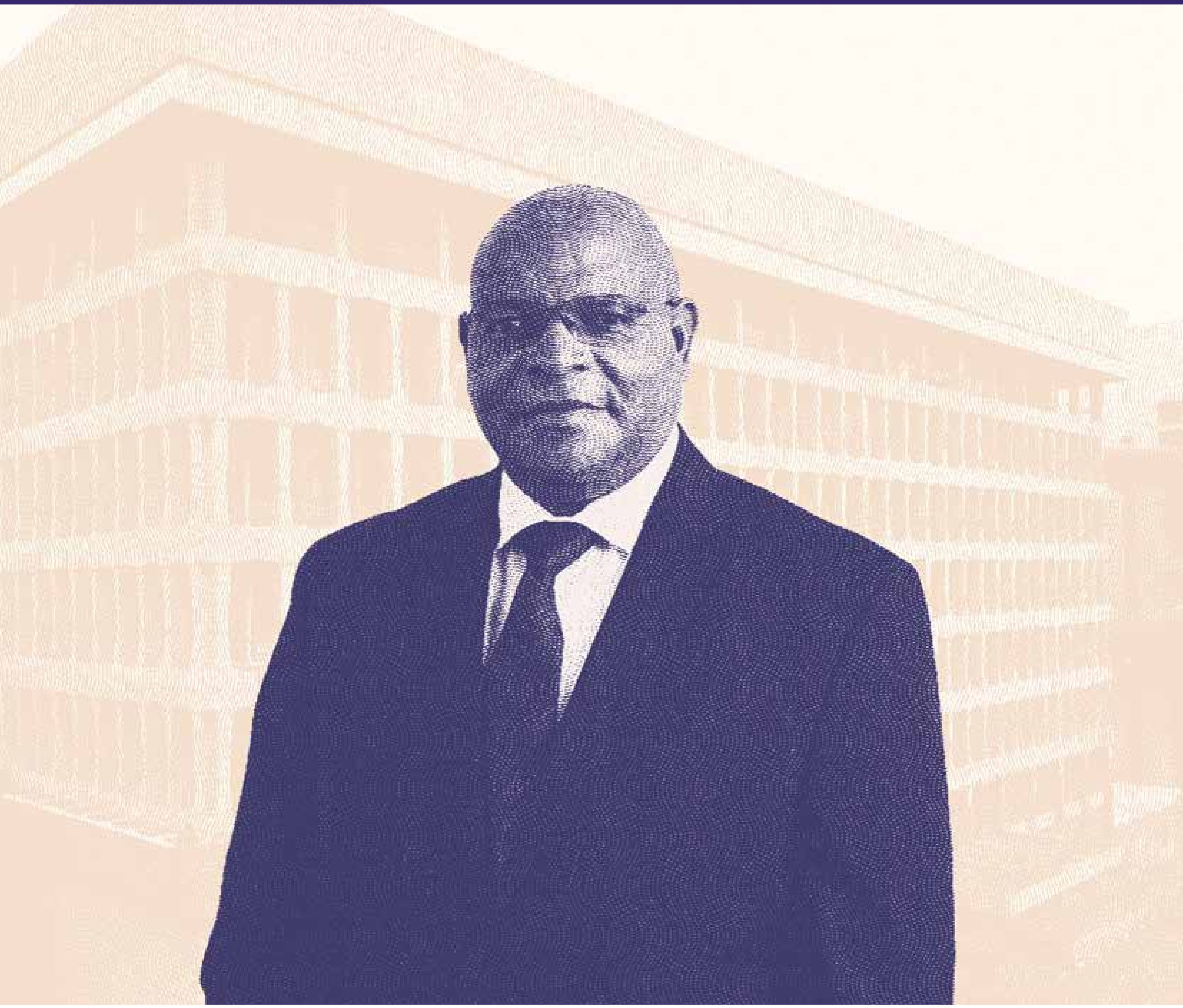
Bank of Zambia

A BANK OF ZAMBIA JOURNAL



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Bank of Zambia

Bank *of* Zambia

WHO WE ARE & WHAT WE DO

MISSION

"To achieve and maintain price and financial system stability to foster sustainable and inclusive economic development."

The Mission of the Bank is drawn from Article 213 of the Constitution (Amendment) Act No. 2 of 2016 and Section 5 of the Bank of Zambia Act, 2022, and it is anchored on the key responsibilities of price and financial system stability. The Bank will take into account sustainability considerations in its activities. Sustainable economic development is the process of development which does not come at the expense of both the current and future potential for meeting human needs. Inclusive economic development means undertaking measures that do not exclude or leave out any member of our society.

VISION

The overall goal of the Bank is to formulate and implement monetary and supervisory policies in a dvnamic and credible manner to contribute to the sustainable economic development of Zambia. Being dynamic means the Bank will be vibrant and responsive to changes in the operating environment. The Bank will also endeavour to be credible, meaning that it will engender confidence and trust among its stakeholders in discharging its mandate. In pursuit of sustainable economic development, the Bank will employ strategies aimed at meeting the needs of the present without compromising the needs of future generations.

"To be a dynamic and credible central bank that contributes to the sustainable economic development of Zambia."

FUNCTIONS

The functions of the Bank, as prescribed by Article 213 of the Constitution, are to:

(a) Issue the currency of the Republic;
(b) Determine monetary policy; and'
(c) Regulate banking and financial services, banks, financial and non-banking institutions, as prescribed.

Additional functions of the Bank are prescribed under Section 5 of the Bank of Zambia Act No. 5 of 2022.

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BOZ UNVEILS 2024-2027 STRATEGIC PLAN

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THE EXPORT PROCEEDS TRACKING FRAMEWORK FULLY OPERATIONALISED

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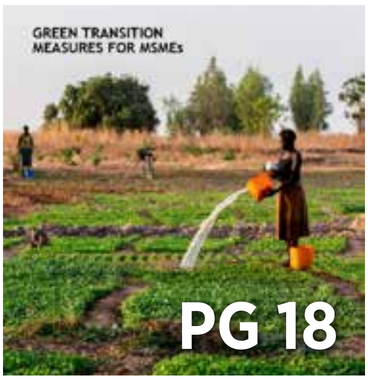
FOREIGN EXCHANGE MARKET GETS A REGULATORY OVERHAUL

The Bank of Zambia has rolled out new guidelines aimed at promoting transparency, efficiency, and effectiveness in the domestic foreign exchange market. These guidelines, titled "The Bank of Zambia Foreign Exchange Market Guidelines, 2024," came into effect on May 24, 2024. The guidelines apply not just to banks and other financial institutions, but to all persons undertaking transactions in the foreign exchange market.

BOZ PUBLISHES FIRST PUBLIC MONETARY POLICY REPORT

The Bank of Zambia published its inaugural Monetary Policy Report (MPR) on 26th February, 2024. By publishing the reports, the BoZ aims to make it easier for external parties to follow, understand and assess its monetary policy. The Report presents a detailed assessment of the path of inflation over the next eight-quarters based on a careful and critical analysis of current domestic and global macroeconomic developments.



THE BANK OF ZAMBIA DRAFT CURRENCY REGULATIONS

The Bank of Zambia, on June 20, 2024, commenced consultations with key stakeholders for input into draft Currency Regulations. Consultations started with the Public Private Dialogue Forum, which encompassed a broad-based representation of the economy. Sectoral consultations have continued and have included the Business Coalition Taskforce, ZNFU, Zambia Association of Manufacturers and the Tourism Council.

NEW FINANCIAL STABILITY REPORT TO BOOST TRANSPARENCY

Bank of Zambia Governor, Dr Denny Kalyalya has stressed that the importance of effective communication can hardly be overemphasised, especially for institutions like the Bank of Zambia whose policy actions have wide implications on the economy and even beyond.

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Bank of Zambia Governor, Dr Denny Kalyalya has stressed that the cost of leaving inflation unaddressed can lead to highly volatile and destabilising price pressures which may have severe long-term impact on the purchasing power of everyone and ultimately, economic growth.

CHIPIMO HAILS RENMINBI SETTLEMENT MECHANISM

Deputy Governor-Operations, Dr. Francis Chipimo has hailed the RMB settlement mechanism as a strategic move to strengthen economic ties and streamline trade and investment between Zambia and China.

INSIGHTS FROM THE 2022 MSME FINANCE SURVEY

In this article, we delve into the key findings from the 2022 MSME Finance Survey Report which, assesses the size and scope of MSMEs in Zambia, highlights the levels of access to finance by MSMEs and identifies challenges faced by MSMEs in accessing finance.

WEATHERING THE DROUGHT...

On February 29, 2024, Zambia declared the drought a national disaster. The drought, attributed to climate change and the El Niño weather phenomenon, carries negative implications for national food security as well as water and energy supply. As the country grapples with a severe drought, the ripple effects are felt across various sectors, with businesses bearing a significant brunt.

BoZ UNVEILS 2024-2027 STRATEGIC PLAN

By Namukulo Mwauluka

The Bank of Zambia (BoZ) has launched its seventh Strategic Plan, aimed at transforming the country's financial sector and driving inclusive economic development for all, through digitalisation. The 2024-2027 Strategic Plan is centered on the theme "Promoting Inclusive and Sustainable Development in a Digitalised World," and is anchored on four key focus areas: price stability, financial stability, financial inclusion, and organisational resilience and growth.

Price stability

The Bank will strengthen the transmission mechanisms of monetary policy by deepening the inter-bank money market. The interbank money market plays a key role in the effective transmission of monetary policy, through the interest rate and credit channels.

Financial stability

In the area of financial stability, the Bank will strengthen the resilience of the financial system through the adoption of Environmental, Social, and Governance (ESG) practices, improving data collection, management, and application and adoption of measures to further strengthen cyber security resilience and fraud mitigation in the financial sector.

Financial inclusion

The Bank will leverage technology to continue pursuing financial inclusion while promoting safety and efficiency in the financial system. It also plans to invest significant resources to reinvigorate the housing finance market and play a catalytic role to influence adoption by financial service providers of relevant housing finance products. This is in line with the aspirations of the Eighth National Development Plan (8NDP) to contributing to deepening and broadening the financial sector. This is an area that has seen much growth in the past with financial inclusion increasing from 59.3% in 2015 to 69.4% in 2020.

Organisational Resilience and Growth

The Bank will implement initiatives aimed at improving internal operational efficiency, refining the Bank's organisational structure, reviewing internal processes to make them more efficient as well as entrenching a desired culture. Some of these initiatives will include upgrading its data centres to Tier III standard and explore investment in appropriate technologies, such as, artificial intelligence/machine learning, to enhance organisational efficiency and capabilities.

Speaking during the launch, Bank of Zambia Governor, Dr Denny Kalyalya stated that the new Strategic Plan is an ambitious document that will not only transform the Bank but also the financial sector, laying a firm foundation for the utilisation of digital technologies to enhance economic development and reduce the number of unbanked individuals in Zambia.

"Building upon the achievements of previous plans, the new strategy aims to foster sustainable economic growth that benefits all Zambians while harnessing the potential of the digital economy," he said during the launch.

The Governor explained that since the introduction of its first formal Strategic Plan in 2004, the Bank has witnessed a fundamental shift towards a culture of continuous improvement and a focus on impactful priorities.

Key Success Factors

The successful implementation of this will be driven by several factors which include:

i. Senior Management Support – The Board of Directors and the Executive of the Bank have shown great interest in the plan during its formulation. Their continued support and interest will be key for its successful implementation

ii. Ownership – The plan needs to be owned by every member of staff to ensure that the initiatives and activities are prioritised and effectively implemented.

iii. Effective Leadership – Leadership at all levels of the organisation is required to inspire, motivate, and guide staff towards the attainment of strategic goals.

iv. Data Driven Management – An effective monitoring and evaluation system will depend on up-to-date data for decision making and control.

v. Effective Collaboration - Some of the initiatives under this strategic plan cannot be implemented without collaboration with the Government and the financial sector. Stakeholder engagement will be a key factor to ensuring that no one is left behind.

The Bank started formal strategic planning in 2003.

Previous Strategic Plans

The Bank's first strategic plan was an interim plan from the year 2003 to 2004. This plan was a short-term plan that allowed the Bank to develop its first full strategic plan in 2004.

2020-2023 Strategic Plan

This plan had two focus areas, and these were financial stability and financial inclusion. Key achievements during this plan included:

i. Enactment of the new Bank of Zambia Act, Number 5, 2022 in 2022 and its coming into force in August 2023.

ii. Development in collaboration with the Zambia Revenue Authority of the Electronic Balance of Payments System (e-BOP) to improve compilation of Balance of Payments statistics through comprehensive tracking of exports and the proceeds thereof.

iii. The upgrade of the Real Time Gross Settlement (RTGS) and Central Securities Depository (CSD) systems to enhance resilience and efficiency.

iv. Implementation of an Investor Portal (IP) to allow online participation of investors in auctions of Government Securities.

v. Successful migrated to the new ISO 20022 Standard for Electronic Data Interchange.

vi. Development and operationalisation in 2021 of a regulatory sand box to promote innovation in the development of new financial products.

vii. Development and operationalisation of a stress testing framework and policy to improve risk identification and management and improve assessment of capital adequacy.

viii. Promotion of the use of Digital Financial Services, and

9. Reduction in the formal financial inclusion gender gap from 9.9% in 2015 to 5.8% in 2020.

2016 to 2019 Strategic Plan

This strategic plan had five (5) objectives as follows:

i. To achieve average Inflation of between 6% and 8% over the Strategic Plan period.

ii. To strengthen the resilience of the financial sector against economic and financial shocks.

iii. Increase formal Financial Inclusion by 16 percentage points in order to contribute to enhanced living standards.

iv. To entrench Gender Mainstreaming within the Bank and the financial sector so as to contribute to Gender equality in Zambia, and

v. To Develop and strengthen the Bank's Talent Management and Technologies so as to achieve operational efficiency and effectiveness.

2012 to 2015 Strategic Plan

This strategic plan had five (5) strategic objectives which included:

i. Implementing initiatives to promote price stability and achieve target inflation – The policy rate and inflation targeting framework were developed during this period.

ii. Establishing and maintaining governance and monitoring structures for the maintenance of financial systems stability – Financial Stability unit was established, and Basel II standards were implemented.

iii. Enhancing the national payment system coverage and efficiency – National Payment System Act was enhanced and the national switch project initiated.

iv. Increasing financial inclusion – Financial inclusion was increased by 15 basis points.

v. Implement and maintain the BOZ Integrated Management Model for operational competence, efficiency, and service delivery.

2008 to 2011 Strategic Plan

This plan had three core objectives, and these were to enhance the monetary policy framework, enhance the supervisory and regulatory framework and promote financial inclusiveness. The plan in addition had four supporting objectives covering enhancements to the Bank's financial management, human resource management, corporate governance and risk management, and the enhancement of operational competence, efficiency, and service delivery.

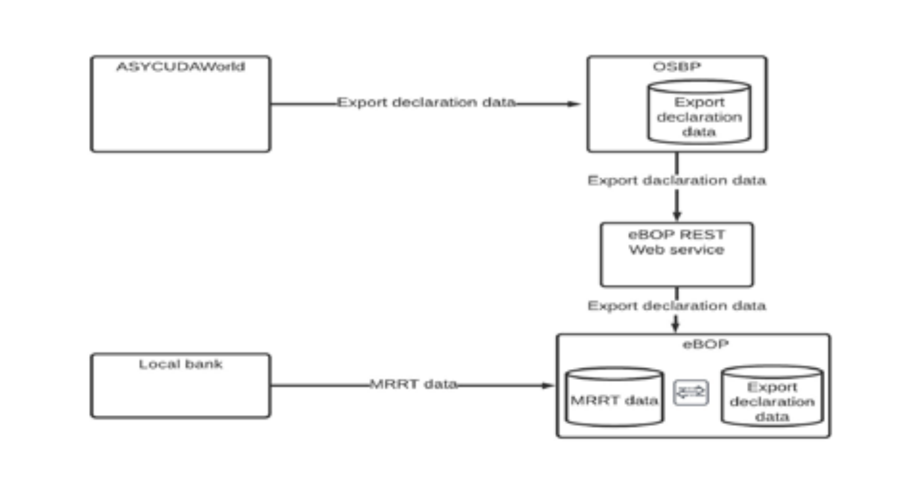
2004 to 2007 Strategic Plan

This plan had twelve strategic objectives. The first nine objectives targeted improvements to the delivery of the Bank's mission. The next two related to increasing operational efficiency of the Bank and the last objective was aimed at promoting the Bank's image.

The author is Manager - Project Management Office, Strategy and Change Management Department and has been engaged with strategic management in the Bank since 2014.

THE EXPORT PROCEEDS TRACKING FRAMEWORK FULLY OPERATIONALISED

Early results indicate improving compliance levels, with most banks submitting export receipts as required



The e-BoP Monitoring System, which was launched in December 2019 to enhance the compilation of external sector statistics has now been fully operationalised through the implementation of the Export Proceeds Tracking Framework that came into effect on January 1, 2024, as announced by the Minister of Finance in the 2024 Budget Speech.

Under this Framework, all export earnings are required to be reflected in an account at a bank domiciled in the Republic of Zambia.

Exporters will retain full rights and control to use the funds as they deem fit as long as they comply with Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing (AML/CFT/CPF) obligations as has been the case under the current foreign exchange arrangement.

In line with the Bank of Zambia Act, 2022, the Bank has issued Directives compelling all exporters to route export earnings through a domestic bank account. The Bank is continuously sensitising all stakeholders to ensure the success of the Framework.

The Bank is currently undertaking countrywide sensitisation programmes on the Framework.

Early results indicate improving compliance levels, with most banks submitting export receipts as required. The framework is already enhancing the accuracy and reliability of balance of payments statistics by providing a comprehensive database of trade and financial transactions. While challenges remain, such as a gap between reported and estimated export values, the BoZ is optimistic about the framework's potential, especially as it expands to include the export of services.

The Framework is operationalised through the interface of two reporting systems, ASYCUDAWorld and e-BoP Monitoring System.

Key figures as at June 30, 2024:

- Total export receipt value on the e-BoP: $2,387.5 million
- Estimated total export value: $3,821.5 million
- Reconciled export receipts on e-BoP: $933.7 million
- Top export sectors: Mining, manufacturing, wholesale, and retail trade
- Main source of reconciled export receipts: Hong Kong, China, and the United States.

Ms. Mwenechanya

Excerpt from a presentation by Senior Economist - International Flows Monitoring, Statistics Department, Ms Mwika Mwenechanya during the Zambia International Trade Fair.

FOREIGN EXCHANGE MARKET GETS A REGULATORY OVERHAUL

By Zambanker Reporter

The Bank of Zambia has rolled out new guidelines aimed at promoting transparency, efficiency, and effectiveness in the domestic foreign exchange market. These guidelines, titled "The Bank of Zambia Foreign Exchange Market Guidelines, 2024," came into effect on May 24, 2024.

The guidelines apply not just to banks and bureaux, but to all persons undertaking transactions in the foreign exchange market.

The guidelines are expected to bring greater clarity and structure to the Zambian foreign exchange market. By ensuring all transactions are conducted through authorised channels and promoting transparency in exchange rates, the BoZ aims to create a more stable and efficient market for businesses and individuals.

Key Highlights of the Guidelines:

In these Guidelines, unless the context indicates otherwise the key terms are defined as follows:

- **Authorised Dealers:** commercial banks and eligible non-bank financial institutions licensed by the BoZ to handle foreign exchange transactions.
- **Board Rates:** the exchange rates that Authorised Dealers have displayed on offer to buy foreign currencies from, or to sell to, their clients;
- **Foreign currency:** any currency other than the Zambian Kwacha and is deemed to include any bill of exchange, letter of credit, money order, promissory note, travellers' cheque, or any other instrument of foreign exchange;
- **Person :** an individual, a company or an association of persons, whether corporate or unincorporate and;
- **Prescribed negotiable amount** : the minimum amount of foreign exchange at which a person is allowed to negotiate an exchange rate different from the prevailing board rates. This negotiable amount shall be determined by the Bank of Zambia and communicated through Authorised Dealers.

Transactions in the Foreign Exchange Market

1. A person conducting transactions in the foreign exchange market shall abide by the following provisions:

    a. The buying or selling of foreign currency is prohibited unless one of the parties to the transaction is an Authorised Dealer.

    b. For a person resident or registered to operate in Zambia, the trading of Kwacha for foreign currency shall only be done with an Authorised Dealer.

    c. A person buying or selling foreign currency for Kwacha in quantities up to the prescribed negotiable amount shall transact at rates displayed on the Authorised Dealers' Board rates. Amounts above the negotiable amount may be transacted at negotiable rates. Currently, the prescribed negotiable amount is US$1 million.

2. A person who contravenes this part commits an offence and is liable, on conviction, to a fine not exceeding two thousand five hundred penalty units or to imprisonment for a term not exceeding two years, or to both.

3. The Bank may impose an administrative penalty on a person for failure to comply with the provisions of these Guidelines.

The Bank of Zambia may require a person to provide it with information relating to that person's transactions in the foreign exchange market.

BoZ PUBLISHES FIRST PUBLIC MONETARY POLICY REPORT

By Zambanker Reporter

The Bank of Zambia published its inaugural Monetary Policy Report (MPR) on 26th February, 2024. By publishing the reports, the BoZ aims to make it easier for external parties to follow, understand and assess its monetary policy.

The Report presents a detailed assessment of the path of inflation over the next eight-quarters based on a careful and critical analysis of current domestic and global macroeconomic developments. It also provides an assessment of the MPC view on the balance of risks to the inflation projection.

Speaking during the launch, Bank of Zambia Governor, Dr Denny Kalyalya said that it is the expectation of the Central Bank that such an assessment will help provide greater clarity to stakeholders on the basis upon which the MPC arrives at its decisions.

"It is also expected that the MPR will serve as a credible and reliable reference document for other economic policy makers, researchers, academics, and the public at large on economic developments in the country," he said.

The Bank has been preparing these reports to support its monetary policy decisions, but only for internal use. However, under the new Bank of Zambia Act, 2022, it is a requirement that the MPR is published.

The Report complements existing communication channels, including press releases, press conferences, and social media updates. The Monetary Policy Report, which is an online publication will be published on the BoZ website soon after each MPC Meeting.

"This Report is also part of the attributes of the *forward-looking monetary policy framework* that we adopted in 2012 wherein communication of decisions is an important prerequisite. We, at the Bank of Zambia, are, therefore, excited that today we have reached and achieved this significant milestone, notwithstanding the enormous responsibility this place on our shoulders, especially those of the Monetary Policy Committee (MPC) members," he said.

The Bank adopted the *forward-looking monetary policy framework* in April 2012, because the *monetary aggregate targeting framework* it had been using was no longer that effective in achieving the inflation objective, due to the changes that had happened and were happening to the structure of the economy. In addition, it was observed that the changes in monetary aggregates were no longer reliable indicators of current and future developments in inflation. It had also become difficulty to signal the stance of monetary policy, which we believe is critical to anchor inflation expectations.

THE PUBLICATION OF THE MPR REPRESENTS A MAJOR MILESTONE FOR THE BOZ, DEMONSTRATING ITS COMMITMENT TO TRANSPARENCY AND A DATA-DRIVEN APPROACH TO MONETARY POLICY.

The Monetary Policy Committee (MPC) formulates the monetary policy of the Republic on behalf of the Bank and prepares this report. The Committee comprises nine (9) members, as prescribed under the Act, three of whom should be external and non-public officers. So far, eight (8) members have been appointed, two of these are external. The third external member is yet to be appointed.

"The monetary policy framework that we are currently using requires a huge amount of high frequency data to gain an in depth and better understanding of recent economic developments and to forecast inflation over the next eight quarters. In this context, the Bank has been collecting real sector data directly from firms through the *Quarterly Survey of Business Opinions and Expectations and the Credit Conditions Survey,*" he said.

The Bank undertakes in-house policy research, procures technical assistance from various sources, including think tanks, and reaches out to other institutions for collaborative research.

"For those participating in our surveys, we want to express our profound gratitude for their cooperation. I should hasten to add that under the new Bank of Zambia Act, it is a statutory requirement for respondents to provide information when the institution formally asks for it," he said.

NEWS IN BRIEF

THE BANK of ZAMBIA DRAFT CURRENCY REGULATIONS

The Bank of Zambia, on June 20, 2024, commenced consultations with key stakeholders for input into draft Currency Regulations. Consultations started with the Public Private Dialogue Forum, which encompassed a broad-based representation of the economy. Sectoral consultations have continued and have included the Business Coalition Taskforce, ZNFU, Zambia Association of Manufacturers and the Tourism Council.

The Currency Regulations aim to reinforce the use of the Kwacha in domestic transactions. However, Foreign currency accounts and foreign currency loans will not be affected by these regulations.

The broad goals of the Currency Regulations are as follows:

- Enforce the existing law in the Bank of Zambia Act, 2022, strengthen the implementation of monetary policy, and enhance financial system stability; and
- Complement other broader policy measures, such as, the e-BoP Monitoring System, Export Proceeds Tracking Framework, Interbank Foreign Exchange Market (IFEM) Rules and Foreign Exchange Market Guidelines.
- Ensuring all parties have a fair share of the adjustment.

EXTENSION OF OPERATING HOURS FOR THE ZAMBIA INTERBANK PAYMENT AND SETTLEMENT SYSTEM

In line with the Bank's Strategic Plan 2024 to 2027 and the National Payment Systems Vision and Strategy 2023 to 2027, the Bank of Zambia has made a strategic decision to work towards the implementation of 24/7 operations of the Zambia Interbank Payment and Settlement System in order to support the growth of the 24/7 economy.

This strategic move will enable the Bank to support continuous receipt of Government revenues, empower customers to transact digitally at any time of the day as well as mitigate settlement risks.

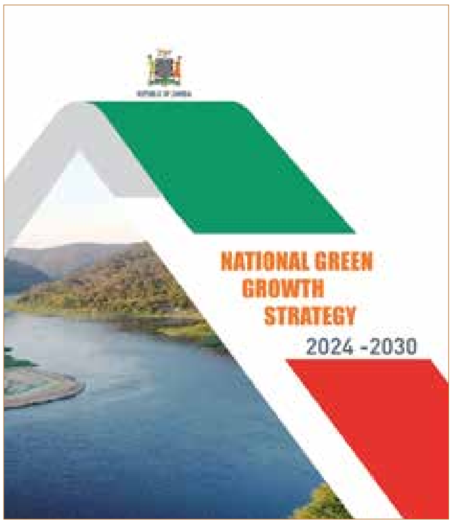
NATIONAL FINANCIAL INCLUSION STRATEGY (NFIS) 2024 – 2028

The NFIS (2024 to 2028) was launched on 13 March 2024 by the Minister of Finance and National Planning, at Mulungushi International Conference Centre. The NFIS (2024 to 2028) aims to attain 85 percent financial inclusion (formal and informal) by end-2028 from the current baseline of 69.4 percent as per the 2020 Finscope Survey.

SECOND MONEY LAUNDERING/ TERRORIST AND PROLIFERATION FINANCING NATIONAL RISK ASSESSMENT

Cabinet approved Zambia's second Money Laundering/Terrorist and Proliferation Financing (ML/TPF) National Risk Assessment (NRA) during a special meeting held on 25 September 2023. This approval underscores the Government's commitment to effective combating of financial crimes. The NRA was officially launched on 6 March 2024, and will run until November 2024, with the Financial Intelligence Centre serving as the coordinator of the process.

The Bank of Zambia, as a major stakeholder in the NRA and its outcomes, is leading three out of the 12 NRA working groups, namely the Financial Inclusion, Banking Sector, and other Financial Institutions working groups, The Bank of Zambia is also a member of the Virtual Assets and Virtual Assets Service Providers working group.



GREEN FINANCE INITIATIVES GAIN MOMENTUM

The Bank of Zambia, Pensions and Insurance Authority (PIA), and Securities and Exchange Commission (SEC) have formed a Green Finance Mainstreaming Working Group to drive the adoption of green finance practices in Zambia.

During the first quarter, the working group held a workshop and conducted stakeholder consultative meetings for the inception of two (2) workstreams relating to the Tagging, Reporting and Taxonomy workstream and the Green Finance Strategy and Implementation Plan workstream.

The project aims to develop a green tagging system for the financial sector by integrating biodiversity conservation, climate change indicators and markers into the reporting systems of Zambia's financial sector.

The Green Finance Strategy will run for five (5) years from 2025 and targets to integrate green finance practices across Zambia's financial landscape.

NEW FINANCIAL STABILITY REPORT TO BOOST TRANSPARENCY

By Zambanker Reporter

Bank of Zambia Governor, Dr Denny Kalyalya has stressed that the importance of effective communication can hardly be overemphasised, especially for institutions like the Bank of Zambia whose policy actions have wide implications on the economy and even beyond.

Speaking during the launch of the Financial Stability Report (FSR), Dr Kalyalya said effective and timely official communication is important for informed decision making by stakeholders. Under the new Bank of Zambia Act, 2022, the Bank will be publishing the FSR, at least once a year. The aim being to share the Financial Stability Committee's (FSC) assessment of systemic risk developments over the previous six months and provide an outlook.

The Act has established the FSC to provide oversight of financial stability function by formulating appropriate macroprudential policies which the Bank of Zambia is obliged to implement. The Committee consists of eleven (11) members drawn from the relevant regulatory institutions, including the Bank of Zambia, Securities and Exchange Commission, and the Pensions and Insurance Authority. Currently, three positions have yet to be filled on the Committee. These are a representative from the Ministry of Finance and National Planning, and two independent members. After each meeting, in April and October, the FSC will be issuing a statement to inform the public about the state of financial system stability.

"It is our expectation that this will enhance transparency and strengthen the Bank's accountability to stakeholders in its discharge of the financial stability function. It is also helpful in managing stakeholders' expectations and potential speculative behaviour. Our hope, as the central bank, therefore, is that the publication of the FSR will enhance the public's understanding of our actions as we execute our statutory mandates," he said.

Publicly communicating risk assessments plays a fundamental role in supporting financial stability by:

i. Encouraging prudence by borrowers and lenders by publishing financial vulnerability and risk assessments;

ii. Enhancing market discipline through increased transparency about financial vulnerabilities and risks, including the provision of relevant data, so that market participants can better price and manage risk;

iii. Fostering accountability: The fact that macro prudential policy is communicated to the public enables the public to scrutinise the actions taken and this in turn helps in enhancing accountability; and

iv. contributing to the development and implementation of macroprudential policies, including by analysing the effects of such policies, investigating how financial innovation affects financial stability, and identifying regulatory arbitrage.

The decisions of FSC will be data driven, and risk based. The FSC shall rely on a myriad of financial and economic data sets to analyse past and current developments as well as the country risk outlook.

Additionally, the Bank will start collecting qualitative data directly from financial intermediaries through the Financial Stability Survey. Through this tool, the Bank will have the opportunity to gauge market participants perception of risks and vulnerabilities and enhance its analysis of financial stability risks.

LEAVING INFLATION UNADDRESSED WILL BE MORE PAINFUL IN THE LONG-TERM

By Zambanker Reporter

Bank of Zambia Governor, Dr Denny Kalyalya has stressed that the cost of leaving inflation unaddressed can lead to highly volatile and destabilising price pressures which may have severe long-term impact on the purchasing power of everyone and ultimately, economic growth.

Speaking during the second quarter Monetary Policy Rate announcement and media briefing, Dr Kalyalya acknowledged that addressing inflation may require bold reforms, which could have temporary challenges. However, he emphasized that these short-term difficulties are far outweighed by the long-term benefits of price stability.

Bringing inflation under control in the medium-term is a priority for the Bank, in line with its price stability mandate. Price stability is necessary for a healthy economy and is beneficial for the public over time.

The Monetary Policy Committee, at its May 13-14, 2024, Meeting, decided to raise the Monetary Policy Rate by 100 basis points to 13.5 percent. The decision was informed by the continued movement of inflation away from the target band of 6-8 percent and persistent rise in inflation expectations, which if left unchecked, has potential to undermine macroeconomic stability and efforts towards robust and sustained growth. The decision, augments earlier actions channelled at addressing the persistent inflationary pressures, acting mostly through the exchange rate channel, and addressing rising inflation expectations.

"We strive to act in the best interest of the nation. Our intention is to improve the transmission mechanism of monetary policy, anchor inflation expectations and enable the Bank to gain more traction on inflation," he said.

He explained that inflation tends to decline in times of increased agricultural production, while periods of reduced output are associated with the rise in inflation, reflecting the significant weight (nearly 54%) of food items in the Consumer Price Index (CPI) basket.

He added that the exchange rate also plays a key role in inflation developments given the high import dependence of the economy. In this regard, exchange rate depreciation tends to be associated with rising

inflation while an appreciation lowers inflation.

"Therefore, the prominent role that food and the exchange rate play in driving inflation underscores the need for structural reforms to enhance agricultural productivity and diversify the sources of foreign exchange earnings," he said.

Annual overall inflation increased for the tenth consecutive month to 13.8 percent in April 2024 from 13.7 percent in the previous month. The rise in inflation was largely explained by higher maize grain prices, increased demand for solid fuels and sustained depreciation of the exchange rate with notable items whose prices increased being bread and cereals, solid fuels, sugar, vegetables, garments, milk, cheese and eggs, meat products, oils and fats, fish, and motor vehicles.

The higher prices of bread, cereals, meat products, fish, milk, cheese and eggs were due to constrained supply of maize grain while increased prices of solid fuels and vegetables were largely attributed to adverse weather conditions. In addition, the increase in prices of sugar, garments, non-durable household goods and motor vehicles were on account of the exchange rate depreciation.

Consequently, food inflation increased to 15.7 percent from 15.6 percent, whereas, non-food inflation remained unchanged at 11.2 percent.

Meanwhile, the Governor stated that the current drought conditions across the country are likely to amplify the existing challenges, particularly in agriculture and food security. The drought, which was declared a national disaster and emergency by H.E President Hakainde Hichilema, has led to a significant downgrade of domestic growth forecast for 2024 to 2.3 percent from the earlier projection of 4.4 percent by the Ministry of Finance and National Planning, with agriculture and energy (electricity supply) being the most adversely affected sectors.

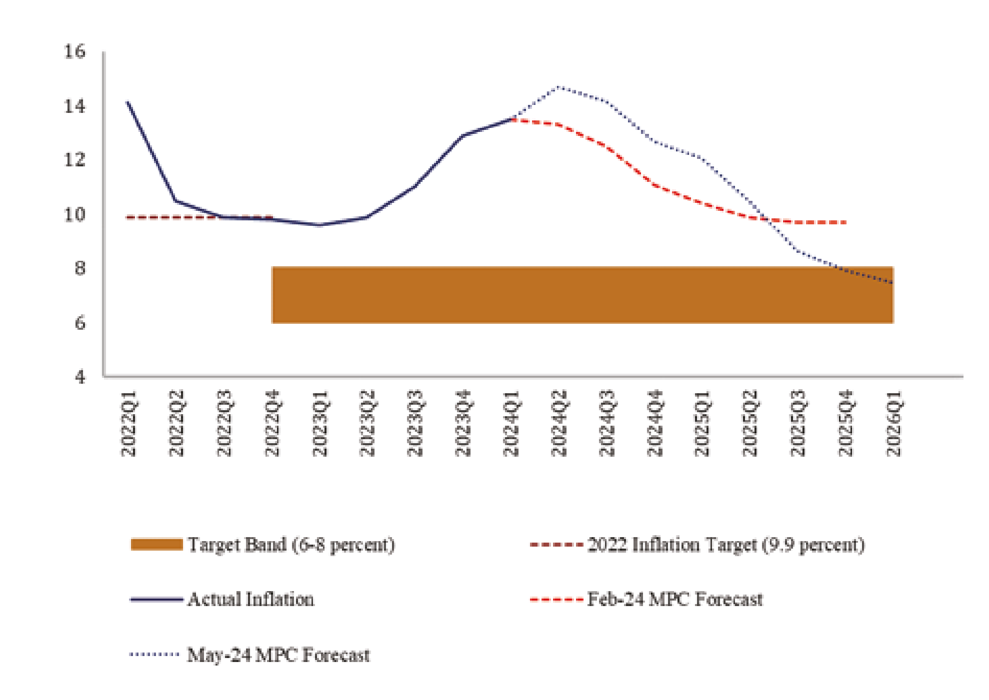
The drought has also necessitated the importation of significant amounts of the staple food (maize grain) and electricity leading to a projected deterioration in the current account. Further, additional fiscal resources are required to accommodate the adverse impact of the drought, notably the threatened food security and livelihoods for a considerable proportion of the population.

For the financial sector, climate change related risks are likely to materialise through credit exposures (increased non-performing loans due to borrowers' reduced incomes and therefore, reduced ability to service debt obligations) as well as liquidity, market, and operational risks.

"This calls for proactive interventions by all concerned stakeholders in mitigating these risks, and getting involved in finding solutions that are driven by climate mitigation and adaptation investments, thereby enhancing financial system stability and contributing to national food security and energy resilience," he said.

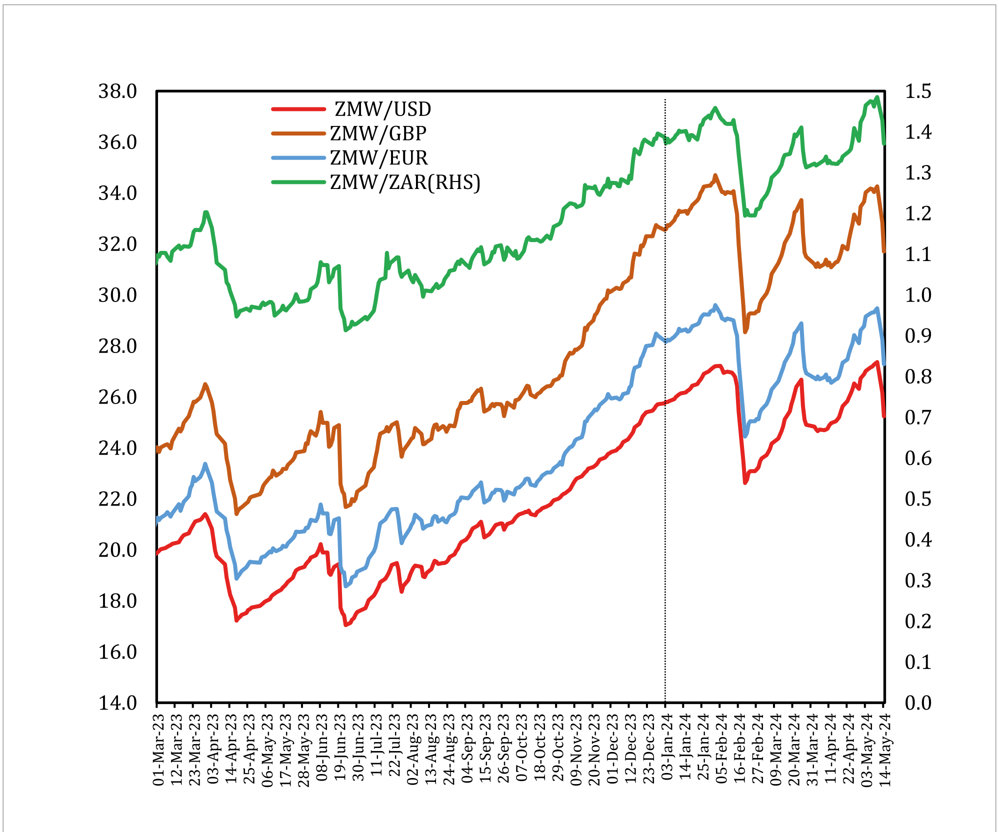
On its part, the Bank is exploring the possibility of introducing the Targeted Medium-Term Refinancing Facility Phase II (TMTRF II). The facility would aim to provide liquidity to eligible FSPs for on-ward lending to their clients that have been negatively impacted by the drought such as the agriculture and energy sector.

Inflation – Outcome and Projection (percent)



Inflation tends to decline in times of increased agricultural production, while periods of reduced output are associated with the rise in inflation, reflecting the significant weight (nearly 54%) of food items in the Consumer Price Index (CPI) basket.

Nominal Exchange Rates



The exchange rate also plays a key role in inflation developments given the high import dependence of the economy. In this regard, exchange rate depreciation tends to be associated with rising inflation while an appreciation lowers inflation.

BoZ BACKS RENMINBI SETTLEMENTS

By Zambanker Reporter

Deputy Governor-Operations, Dr. Francis Chipimo has expressed the Bank of Zambia's support for initiatives like Renminbi settlements that have potential to boost the private sector, exports, and foreign exchange earnings. Speaking during the Lusaka-held Renminbi (RMB) Settlement Facilitation Forum, Dr. Chipimo said China's rapidly increasing trade with Zambia provides fertile ground and demand for cross-border RMB settlements, making financial transactions more efficient and cost-effective.

The RMB settlement system allows cross-border transactions to be settled in China's currency. As part of China's initiative to promote the RMB as a global trade, reserve, and asset currency, a pilot programme for cross-border trade settlement in RMB was launched by the People's Bank of China in 2009. Since then, RMB cross-border settlement has become increasingly common across mainland China.

China is one of Zambia's major trading partners as reflected by the increase in trade to US$3.5 billion in 2023 from US$1.7 billion in 2010. The major exports to China are copper, gemstones, wood products and tobacco while the main imports are industrial machinery, vehicles, electrical equipment as well as steel and iron. In addition, China remains a significant source of finance for Zambia's economic development as evidenced by the Zambian Government's official and commercial debt stock of US$4.17 billion at end of December 2023.

"In this regard, it would be remiss of me not to mention the significant and pivotal role that China has played in Zambia's current debt restructuring process, further strengthening our relationship. The private sector has also benefited from financial flows from China, with the stock of foreign direct investment at US$2.2 billion at end-December 2022," he said.

The major recipients of Foreign Direct Investment (FDI) flows are mining, manufacturing, construction, and real estate sectors. These FDI flows have contributed to employment and the diversification of Zambia's manufacturing base.

Dr Chipimo said Zambian firms with loans denominated in RMB can now service them directly in RMB, removing the need for Kwacha conversion and associated exchange rate fluctuations.

"The private sector's acceptance of RMB settlement will ultimately determine its success. This acceptance hinges on the perceived benefits. Collaboration and dedicated efforts are essential, particularly in raising awareness and creating a supportive environment. We must be knowledgeable about and fully utilise the locally available RMB settlement services. Achieving this requires all key players to contribute. By working together, we can unlock greater potential and create a brighter future for the citizens of both countries," he said.

He added that there are significant steps that can be taken to promote the use of RMB in trade and investment by also advocating for its official use. He said one way to do this would be to renegotiate some of the country's existing debts with China to be denominated in Renminbi. He stated that this would create a steady demand for the Chinese currency within Zambia.

"To meet this demand, the Bank of Zambia could buy Renminbi from both private businesses and official sources like the Bank of China Zambia (BoC). This would help diversify Zambia's foreign currency reserves and make it easier to pay off Renminbi-denominated debts," he said.

The RMB Settlement Facilitation Forum was organised by the BoC and brought together Government officials, industry experts, and stakeholders from both nations to discuss and explore the benefits of using RMB in bilateral trade

The BoC has been instrumental in promoting the use of RMB for trade and investment between Zambia and China. This initiative aims to lower business costs and reduce risks associated with fluctuating exchange rates.

SADC CENTRAL BANKS IMPLORED TO LEVERAGE BIG DATA AND AI

By Zambanker Reporter

Deputy Governor-Administration, Ms Rekha Mhango has called on the SADC Committee of Central Bank Governors (CCBG) ICT-Subcommittee to embrace cutting-edge technologies like Big Data and Artificial Intelligence (AI) to enhance financial stability and combat emerging threats.

Speaking during the 29th Annual Meeting of the SADC Committee of Central Bank Governors (CCBG) ICT-Subcommittee, in Livingstone, Ms Mhango implored the Committee to provide the member states with prudent Data Warehousing solutions which could interoperate across borders, where possible and legally permissible. She said this kind of interoperability will be instrumental in enhancing integration as well as advancing endeavours in Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

She explained that central banks rely on Information and Communication Technology (ICT) assets to gather and process data into meaningful insights and knowledge relevant for monetary policy decisions.

"Further, you may be aware that a number of central banks in the region are considering the introduction of Central Bank Digital Currencies (CBDCs) and are at various stages of feasibility studies. The CCBG ICT Subcommittee, therefore, becomes key to informing the decisions on adoption of CBDCs. In view of increased exposure to cybercrimes, you will be called upon to evaluate the use of tools such as Blockchain or Distributed Ledger Technologies (DLT) to enhance security and support the successful implementation of CBDCs in the region," she said

She noted that the entities that are regulated by central banks are fast innovating products that use various forms of crypto assets and that central banks, as regulators need to develop capacity to effectively carry out their regulatory functions for such products.

She stated that central banks are increasingly being exposed to cybersecurity risks with the increase in technological advancement.

"A number of our member central banks have been affected by cyber incidents, and we equally, have not been spared. We, therefore, need to closely collaborate in enhancing cybersecurity and developing resilience of all critical ICT systems to mitigate disruptions whether caused by natural disasters, cyberattacks, or other unforeseen events," she said.

Ms Mhango observed that establishing robust business continuity and disaster recovery plans as well as developing capabilities to support business processing from multiple locations is essential to this. She added that the development and establishment of a fit-for-purpose, well-researched and consultative cybersecurity supervision framework continues to be a focal point for the CCBG ICT-Subcommittee.

BoZ RECOGNISES REFUGEES' ECONOMIC POTENTIAL, PRIORITISES INCLUSION

By Zambanker Reporter

Director - Payment Systems Department, Ms Mirriam Kamuhuza, has reiterated the Bank of Zambia's commitment to advancing financial inclusion for refugees and former refugees, recognising their significant potential to contribute to the country's economic growth.

Speaking during a high-level Dialogue organised by the United Nations High Commission for Refugees (UNHCR), Ms Kamuhuza said the Bank has taken several strategic steps to address challenges faced by refugees. She explained that the facilitation of economic empowerment and access to financial services for forcibly displaced persons (FDPs) has huge potential to contribute positively to the economic growth.

"In this regard, Central Banks are uniquely positioned to drive, influence, and facilitate efforts aimed at promoting access to financial services by FDPs by creating an enabling regulatory environment," she explained.

In 2015, the Bank facilitated the use of refugee IDs to access financial services, a move that significantly expanded access to financial services for refugees. Additionally, the Bank has been actively involved in collecting data on financial inclusion among refugees through the FinScope Survey and a supply-side diagnostic survey.

Zambia's National Financial Inclusion Strategy (NFIS II) has also prioritised promoting financial inclusion for underserved populations, including refugees. Through this strategy, the Bank is working with Government agencies and financial sector stakeholders to create an enabling environment for refugees to access financial services.

Furthermore, the Bank is collaborating with the Office of the Commissioner for Refugees and other partners to promote the use of digital financial services (DFS) among refugees and their host communities. By leveraging DFS, refugees can more easily access financial services and improve their economic livelihoods.

"The Bank's efforts to promote financial inclusion for refugees align with its broader goal of fostering inclusive economic development in Zambia. By empowering refugees with access to financial services, the Bank aims to unlock their potential and contribute to the country's overall prosperity," she said. Refugees have the capacity to contribute to the economic development of their host communities and countries through social diversity and skills.

Key challenges hindering financial inclusion for FDPs include legal barriers, reputational risks, diversity of needs, poor infrastructure, low income and lack of financial education.

Legal barriers: Regulatory issues surrounding identification and risk management. FDPs generally lack Know-Your-Customer (KYC) documentation requirements to comply with anti-money laundering and countering the financing of terrorism (AML/CFT) and proliferation standards. The digitisation of national IDs will greatly assist especially that there are plans to include FDPs. Its worth noting that in 2022 the Financial Intelligence Centre (FIC) issued the FIC (General regulations)

that recognise refugee identification card for customer identification purposes for natural persons with refugee status.

Reputational risk: Lack of information on the part of financial service providers which leads to the perception that forcibly displaced persons are "high risk" customers.

Diversity of FDPs: Lack of reliable data on forcibly displaced persons makes it difficult for financial service providers to determine financial needs and appropriate products for FDPs.

Poor infrastructure: Most settlements for forcibly displaced persons are located in rural areas where there is, generally, poor ICT infrastructure and a limited presence of financial service providers or their agent networks.

Lack of, or low income: In the last three editions of the FinScope Survey, lack of, or low income has remained one of the main barriers to accessing financial services. The impact is more for forcibly displaced persons in view of their low access to economic resources.

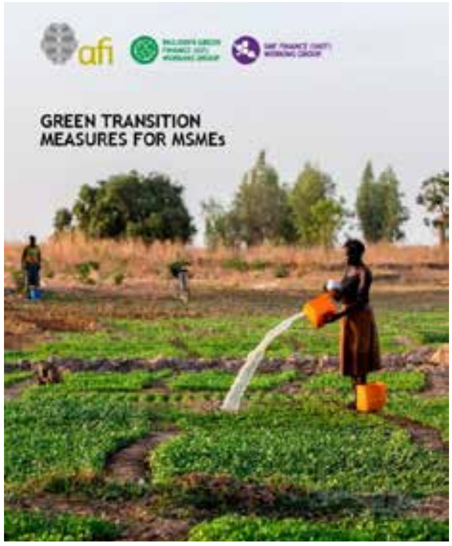
GREEN TRANSITION MEASURES FOR MSMEs

In June 2024, the Alliance for Financial Inclusion (AFI) Inclusive Green Finance Working Group (IGFWG) and the SME Finance Working Group of which the Bank of Zambia is a member, launched a special report titled, “Green Transition Measures for Micro, Small and Medium Enterprises (MSMEs)”.

The report recognises that climate change poses significant threats and challenges to the productivity, performance, competitiveness, and sustainability MSMEs. As such, the diversity of MSMEs and the environments in which they operate call for varied inclusive green finance (IGF) policies, products, services, and transmission channels that can help MSMEs and their clients transition to a low-carbon economy, build resilience against climate shocks, and adapt to climate change. Their immense potential in climate mitigation and adaptation can help promote a green ecosystem, translating into multiple business opportunities in green sectors such as renewable energy, sustainable agriculture, and waste management.

To this effect, the report highlights that the financial sector is undertaking measures to support the national agenda on climate change by designing inclusive green finance (IGF) regulations and financial products for MSMEs. This includes green finance initiatives in national financial inclusion strategies (NFIS); strategic initiatives of financial regulators and financial institutions; environmental and social risk management (ESRM) guidelines; green taxonomies; MSME green loans, green credit risk guarantee schemes, and refinancing schemes, among others.

Although there has been progress in the development of MSME-centric IGF policies and regulations, the report identifies various barriers (from the policy, access to finance, and risk management side) for MSMEs and highlights specific challenges faced by Women led MSMEs which hinder their access to green finance. The report also finds that policymakers and financial regulators encounter challenges such as data scarcity, the limited applicability of green taxonomies to MSMEs, and a lack of proportionate regulation to support MSMEs in their green transition. Significant barriers also exist in accessing finance, including limited tax incentives, higher costs of green financing for MSMEs, and insufficient or limited risk sharing mechanisms. Obstacles to risk management and resilience include a limited green culture among MSMEs and a lack of knowledge on integrating climate risks into their green financing strategies.



Therefore, the report offers recommendations across three thematic areas - policy and strategy development; access to finance and support for MSMEs; and risk management and resilience. It also emphasizes the need for quality disaggregated data, inclusive green taxonomies and IGF policies, and proportional regulation, among others. By implementing targeted interventions and promoting collaboration, stakeholders can facilitate the green transition of MSMEs and contribute to climate resilience and environmental

Alliance for Financial Inclusion (AFI)

IMPORTANCE OF SEX DISAGGREGATED DATA FOR THE BOZ

By Stella Nkhoma

Ms. Nkhoma

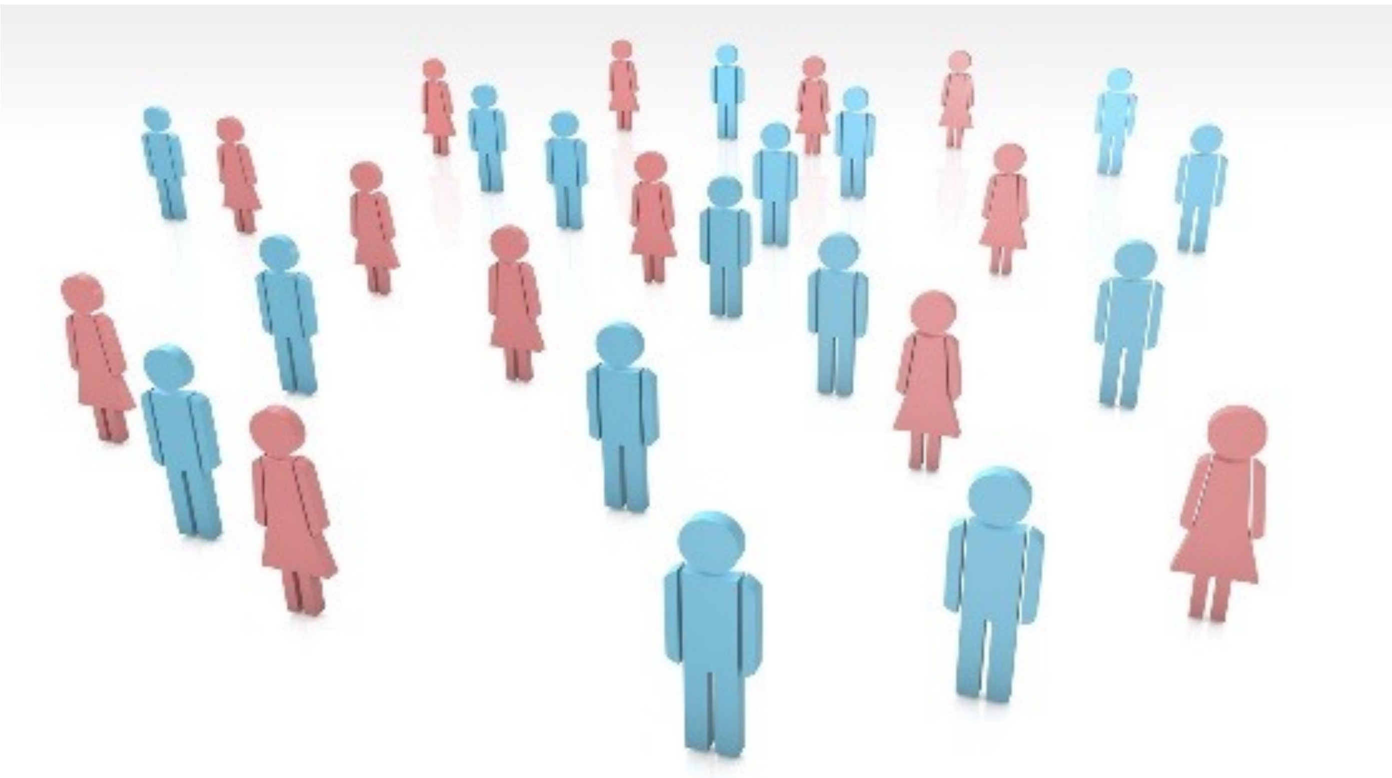
Like many other things at the central Bank, there's a reason for collecting sex-disaggregated data. The main purpose is to determine the levels of access, usage and quality of financial services; identify barriers to women financial inclusion; and assist with modifying the existing policies, strategies and regulatory measures that have been earmarked for increasing women's financial inclusion in Zambia. Further, sex disaggregated data allows for the measurement of differences between women and men on various social and economic dimensions and are one of the requirements in obtaining gender statistics.

Putting it in context, improving the quality and availability of financial products and services is a strategic financial inclusion priority for the Bank of Zambia. Collecting and producing sex-disaggregated data enables understanding the gender gaps that exist in the financial sector. Some gaps that have been identified include the collection of generic data based on account types rather than disaggregating by sex. A further gap is that age-specific products are mostly concentrated on children and young adults while the rest are treated generically. These are missed opportunities for important information as women and men have unique financial needs which come with different challenges and opportunities due to various cultural or socio-economic barriers such as lower income, lower access to education, lower access to formal employment.

Sex disaggregated data

The Bank is using the Digital Financial Services (DFS) platform which is an automated data collection system to collect sex-disaggregated financial data from its reporting institutions in a more consistent and frequent basis. This data presents an opportunity for the Bank to target its policy making to close data gaps that are illuminated in the reports, with attention appropriately and effectively directed to gender responsive strategies. Furthermore, additional to the improvement in the regulatory compliance, better data will bring about a deeper analysis around the drivers of the gender gap to help financial institutions identify market opportunities towards product differentiation, and champion institutional diversity.

The author is Gender Mainstreaming Specialist in the Strategy and Change Management Department.



WORD SEARCH

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

GROWTH	PROJECTION	MITIGATE	MONEY
MARKET	TIGHTENED	LIQUIDITY	CONDITIONS
RISKS	INFLATION	EL NIÑO	DROUGHT
LOWER	AGRICULTURE	OUTPUT	DEFICIENCY
ELECTRICITY	SUPPLY	DISRUPTIONS	VULNERABILITIES

FACT SHEET

FINANCIAL STABILITY: WHAT IT IS

Financial stability means having a strong and resilient financial system that provides the financial services we all rely on, even when under stress. A country's financial system includes banks and nonbank lenders, insurers, securities markets, and investment funds. It also includes clearing counterparties, payment providers, central banks, and financial regulators and supervisors.

These institutions are characterised by:

- **Robust balance sheets:** Financial institutions should have strong and healthy balance sheets with adequate capital to absorb losses and continue operations during economic downturns.
- **Effective risk management:** They must have comprehensive risk management frameworks in place to identify, measure, manage, and monitor risks.
- **Sound governance:** Good governance practices, including a clear organisational structure, responsible executive management, and effective internal controls, are essential.
- **Liquidity:** They should maintain sufficient liquidity to meet their financial obligations without incurring unacceptable losses.
- **Operational resilience:** The ability to continue providing critical financial services in the face of operational shocks, such as cyberattacks or natural disasters, is crucial.
- **Macroprudential oversight:** They are often subject to macroprudential policies that aim to reduce systemic risks and prevent financial crises.

In essence, strong financial institutions are those that can "bend but not break" under extreme economic pressures, supporting the overall stability of the financial system.

Why are sound financial systems important?

The financial system has a critical role in supporting economic activity. Households and businesses need:

- services for savings and credit to pay for spending and investment
- payment systems to make it easy for them to transact here and overseas
- insurance to manage their risks.

Households and businesses need to be confident that banks, non-bank deposit takers and insurers will continue to provide these services. They also need to be able to rely on the payment and settlement systems to work as expected.

These institutions provide a framework to conduct economic transactions and monetary policy and to channel savings into investment, thus supporting economic growth.

Background

Weak financial institutions, inadequate regulation and supervision, and lack of transparency have been at the heart of global financial crises. These have highlighted the importance of systemic risk monitoring and management. When financial crises occur, they can have far-reaching effects. They can deepen economic downturns, trigger capital flight, and lower exchange rates. They can disrupt financial intermediation and undermine monetary policy. They can have large fiscal costs that come from rescuing troubled financial institutions. Because financial institutions and countries are increasingly connected, financial shocks in one area can quickly spill across financial sectors and national borders. That makes resilient, well-regulated, and well-supervised financial systems essential for economic and financial stability.

Why do countries have macroprudential policies?

The global financial crisis of 2007-2009 showed that countries needed to identify and contain risks to the financial system as a whole. Many central banks adopted the use of prudential tools and established macroprudential policy frameworks to promote financial stability. Macroprudential tools are used to build buffers and contain vulnerabilities that make the financial system susceptible to shocks. This reduces the probability that shocks to the financial system disrupt the provision of financial services and cause serious negative consequences for the economy. Central banks are well placed to conduct macroprudential policy because they are able to analyse systemic risk and often are relatively independent and autonomous. Independence and autonomy are important because the institution responsible for macroprudential policy should be able to withstand political pressures and opposition from industry groups.

Source: BoZ/IMF

WHAT'S TRENDING
NEWS FROM AROUND THE WORLD

ECB DELIVERS A "HAWKISH" RATE CUT, LAGARDE STRESSES DATA DEPENDENCY

The ECB reduced interest rates by 25 basis points, signalling a moderation in monetary policy restrictions. However, Frankfurt also issued an upward revision to its inflation projections, now expecting headline inflation to average 2.5% in 2024 and 2.2% in 2025.

The European Central Bank (ECB) reduced interest rates by 25 basis points during its June meeting, a move largely anticipated by market participants following prior communications from Frankfurt policymakers over the past month.

In the policy statement, the ECB affirmed that it is appropriate to moderate the degree of monetary policy restriction after nine months of holding rates steady. The new interest rates are set at 4.25% for main refinancing operations, 4.5% for the marginal lending facility, and 3.75% for the deposit facility.

"We decided to cut because overall our confidence in the path ahead has been increasing over the last months," President Christine Lagarde affirmed at the press conference.

Lagarde noted that the ECB decision was unanimous except for one Governor. The ECB President stressed that this is not yet a "dialing back" phase of interest rates, but rather a "moderation in the level of restriction," emphasising the need for more data and analysis to confirm the disinflationary path.

"There will be bumps on the road towards the 2% inflation target," Lagarde said.

When questioned about market expectations of further ECB rate cuts by the year's end, Lagarde responded: "Markets do what markets have to do, and we do what we have to do."

On the potential for a July rate cut, Lagarde gave a subtle answer: "We will have more data when we have projection meetings," hinting that September might be the next significant meeting for rate decisions.

The ECB reiterated its commitment to keeping policy rates sufficiently restrictive for as long as necessary to achieve the 2% inflation target, stating that future policy decisions will be data dependent, following a meeting-by-meeting approach.

"The Governing Council is not pre-committing to a particular rate path," the ECB remarked in the statement.

"Hawkish" revisions to inflation projections

The ECB's statement reveals that headline inflation has decreased by 2.5 percentage points since September 2023, and that "the outlook has improved markedly."

Nonetheless, Frankfurt cautioned that despite these improvements, "domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year."

In its June staff macroeconomic projections, the ECB adjusted its inflation forecasts upwards for 2024 and 2025.

Headline inflation is now expected to average 2.5% in 2024 (an increase of 0.2 percentage points from March), 2.2% in 2025 (up by 0.2 percentage points from March), and 1.9% in 2026 (unchanged from March).

Core inflation projections have also been revised upwards by 0.2 percentage points to 2.8% for this year. Projections for 2025 have been raised by 0.1 percentage points to 2.1%, while those for 2026 remain unchanged at 2.0%.

Source: euronews

CAUTIOUS OPTIMISM: THE DAVOS OUTLOOK FOR FINANCIAL AND MONETARY SYSTEMS

- Discussions at Davos 2024, this year's Annual Meeting in Davos, Switzerland, saw relief that central banks had achieved a delicate balance between maintaining economic growth and taming inflation.
- Three strategies for building greater resilience in financial and monetary systems took centre stage at the Meeting: inclusivity, sustainable finance and catalysing economic growth.
- Technological change is accelerating so quickly that regulators and the private sector must find new ways to partner to ensure that communities are protected without stifling innovation.
- Three strategies for building greater resilience in financial and monetary systems took centre stage at this year's annual meeting.

The mood at Davos 2024, this year's Annual Meeting in Davos, Switzerland, fell between exuberance and doomsday.

- Emerging from 2023, leaders reflected on last year's high-profile bank failures, high inflation and geopolitical uncertainties. But many leaders in finance and policy expressed tentative relief that central banks have, by and large, navigated a delicate balance between maintaining economic growth and taming inflation.
- The consensus among industry leaders was that the playbook for flexible inflation targeting and safeguarding the banking system worked. But 2024 is no time for complacency, leaders warned.
- "I'm holding my breath as much about 2024 as I was about 2023," said Ronald O'Hanley, chairman and chief executive officer of State Street. Ongoing geopolitical tensions, the uncertainties associated with the 2024 elections around the world, climate risks and technological disruption were just several reasons financial institutions must resist complacency.
- Three strategies for building greater resilience in financial and monetary systems took centre stage at this year's annual meeting.

Source: World Economic Forum

HIGH INFLATION ERODES TAX REVENUE

By Mufara Gatawa and Patricia Funjika

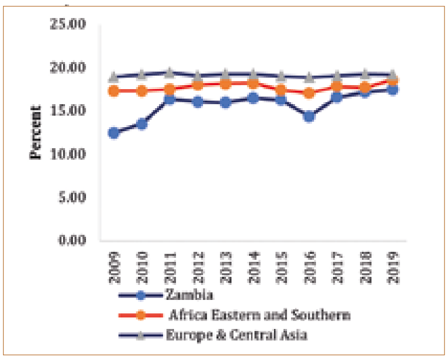
Mr. Gatawa

Dr. Funjika

Taxes are a major source of revenue for most countries around the world, including Zambia. This revenue is used to improve and maintain public infrastructure, as well as to fund public services. This, in turn, promotes economic growth and macroeconomic stability, which benefits all citizens (Jhingan, 2004). The capacity of a state to collect tax revenue impacts its ability to execute its duties, and hence, identifying the main drivers of tax revenue is an important task.

Between 2014 and 2023, tax revenue contribution to the total budget in Zambia averaged approximately 55.2 percent but was on a downward trend. Domestic revenue generation further remained lower than other regions, i.e. compared to Zambia, the average tax to GDP ratio in Eastern and Southern Africa is higher by two percent while Europe and central Asia by three percent (Figure 1).

Figure 1: Tax Revenue to GDP Ratio (2009 – 2019)

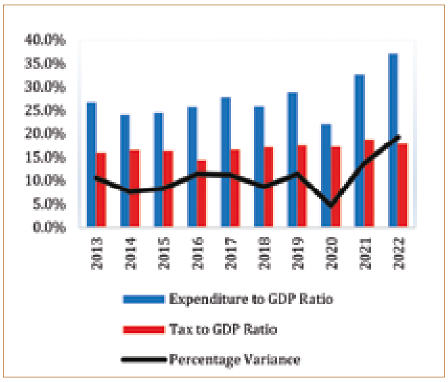


Source: Zambia Revenue Authority (2023) and World Bank (2023)

Insufficient revenue generation can be evidenced from high levels of public debt and budget deficits. In 2013, the fiscal deficit was 5.7 percent but had risen to 8.2 percent by 2022 (Ministry of Finance, 2015; Ministry of Finance and National Planning, 2023).

Further, the ratio of government expenditure to GDP in Zambia has been rising between 2013 and 2022 while the tax revenue to GDP remains relatively unchanged (Figure 2). This suggests that the country has been spending more than the revenue it generates. During this period, the expenditure to GDP ratio averaged 26 percent while the revenue to GDP averaged 16.8 percent during the period under review. To fill the gap and ensure a balanced budget, a higher tax to GDP ratio of 26 percent would be more appropriate. On average, the gap between expenditure and revenue averaged 9.2 percent but had risen from 10.6 percent in 2013 to 19.3 percent in 2022. Due to the fiscal imbalance, the government is driven to other financing measures which have far reaching consequences, including debt. Thus, a more efficient tax system is crucial in closing this gap for Zambia and this requires identifying key drivers of tax revenue.

Figure 2: Ratio of Government Expenditure to GDP and Tax Revenue to GDP



Source: National Assembly of Zambia (2023) and Zambia Revenue Authority (2023)

In terms of outcomes, a descriptive analysis indicates that between 1991 and 2020, tax revenue was not as supportive of overall economic growth and is negatively correlated with expenditure (as a percent of GDP) in some key social sectors, such as health and education. Nonetheless, there is evidence of positive tax redistributive effects through enhanced social protection for the very vulnerable.

In Gatawa and Funjika (2024), we set out to identify the main macroeconomic determinants of tax revenue in Zambia between 1991 and 2020. The exogenous variables included are the inflation rate, exchange rate, mineral rents, trade openness, GDP per capita and labour force participation rate. We find a mixed order of integration of the variables with some I(0) and others I(1). This rendered the application of the ARDL model developed by Pesaran and Shin (2001) appropriate.

Our main findings reveal that in the long run, the inflation rate, trade openness, exchange rate and GDP per capita are the primary drivers of tax revenue in Zambia, while mineral rents and the labour force participation rate are statistically insignificant (Table 1). In the short run, the inflation rate, exchange rate, trade openness, and the labour force participation rate all have varying degrees of influence, whereas mineral rents remain a statistically insignificant determinant of tax revenue. The findings are consistent with similar research from other parts of the world.

Table 1: Long Run Equilibrium Results

Table 1: Long Run Equilibrium Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Exchange rate	0.256	0.049	5.282	0.000
Inflation	-0.183	0.035	-5.257	0.000
GDP per capita**	-0.497	0.075	-6.601	0.000
Mineral rents	0.013	0.006	2.065	0.057
Trade openness	0.570	0.099	5.755	0.000
Labour force participation rate	-1.741	2.586	-0.673	0.511

** Variable interpreted as Z = Z(-1) + D(Z) where Z is the GDP per capita. Source: Author's computation using EViews.

** Variable interpreted as Z = Z(-1) + D(Z) where Z is the GDP per capita. Source: Author's computation using EViews.

In terms of policy recommendations, the study emphasizes the importance of a strong and stable macroeconomic environment, as well as favourable trade policies, in increasing tax revenue inflows. Given that the Zambian economy is heavily reliant on the mining sector, and our findings that mineral rents are insignificant determinants of tax revenue in both the short and long run, we recommend a further investigation of how revenues from mining can be leveraged in such a way that it gradually contributes to the country's tax revenue generation. The study can be extended in further research to incorporate demographic, social, historic, and political variables in the model.

More details can be found in the full paper which is available at: ***https://www.iiste.org/Journals/index.php/DCS/article/view/62184/64217***

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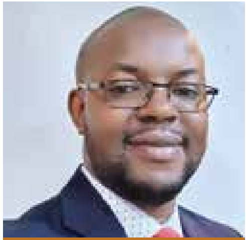
The authors are Senior Economist and Acting Senior Economist in the Statistics Department, respectively.

INSIGHTS FROM THE 2022 MSME FINANCE SURVEY

By Kennedy Mukuka



Mr. Mukuka

Introduction

Micro, Small, and Medium Enterprises (MSMEs) form the backbone of Zambia's economy, contributing significantly to employment and economic growth. The importance of the MSME sector was further emphasised by the establishment of the Ministry of Small and Medium Enterprise Development in September 2021 whose mandate is to promote the development of cooperatives, small and medium enterprises to create jobs and wealth across the country. However, despite their importance, MSMEs' ability to access finance remains a critical challenge. In this article, we delve into the key findings from the 2022 MSME Finance Survey Report which, assesses the size and scope of MSMEs in Zambia, highlights the levels of access to finance by MSMEs and identifies challenges faced by MSMEs in accessing fiancé. The 2022 MSME Finance Report was spearheaded by the Bank of Zambia in collaboration with the Ministry of Finance and National Planning (MoFNP), Ministry of Small and Medium Enterprises Development (MoSMED) and Zambia Statistics Agency (ZamStats). The survey report was disseminated on 13th March 2024, at Inter-continental Hotel, Lusaka.

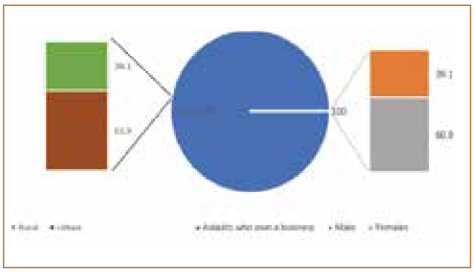
Definition of MSMEs

During the conduct of the MSME Finance Survey, the MoSMED was undertaking an exercise to review the National MSME Development Policy of 2008 which contained outdated definitions for micro, small and medium enterprises. Consequently, the Survey adjusted these definitions to suit near market classifications. Despite the Survey being conducted in June 2022, data analysis and drafting of the report could not be undertaken until quarter three of 2023 due to the conduct of the 2022 National Census of Housing and Population by ZamStats. As a result, the Survey report reflected definitional differences arising from the launch of the Revised National MSME Development Policy 2023 as follows:

	Micro	Small	Medium
2022 MSME Finance Survey	Annual turnover of ≤ ZMW 800,000	Annual turnover > ZMW 800,000 and ≤ ZMW 5 million	Annual turnover > ZMW 5 million and ≤ ZMW 10 million
MSME Development Policy, 2023	Annual turnover of ≤ ZMW 1 million	Annual turnover > ZMW 1million and ≤ ZMW 10 million	Annual turnover > ZMW 10million and ≤ ZMW 50 million

Demographic and Socio-economic Characteristics

The Survey was designed to provide estimates at national level, as well as at urban and rural segmentation. The results showed that 27.3% (1.4 million) of the total adult population (5.3 million) in the household owned a business. Most of these businesses were owned by women at 60.9% compared to males at 39.1%. Reasons for this may be that more females have domestic responsibilities, have limited access to financial resources and are risk averse, therefore, are motivated to start businesses that can be flexibly managed, small and informal requiring less capital. Conversely, Males are more risk tolerant, have better access to financial resources or traditional business networks, leading to larger but fewer businesses. Similarly, segmentation at rural and urban level showed that businesses with easy access to finance and economic resources were in urban areas which comprised 61.9% of MSMEs compared to 39.1% in rural areas.



Further, the highest percentage of business owners were from healthy households in the fourth and fifth quintiles and based in urban areas while, the lowest percentage were from households in the first and second wealth quintiles and from rural areas.

Wealth Quintiles	Business owners	Rural	Urban
First	14.2	34.7	1.6
Second	15.2	30.6	5.8
Third	18.7	20.8	17.5
Fourth	26.4	9.6	36.8
Fifth	25.4	4.4	38.3

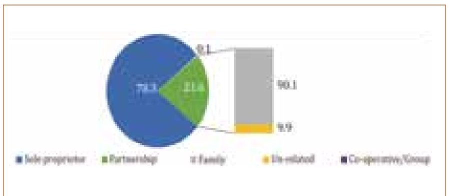
Number of MSMEs in the Households and Status of Registration

The number of MSMEs in the households were 1.55 million comprising 98.8% micro businesses, 1% small businesses and 0.2% medium enterprises. Of these, 4.4% were formally registered while 95.6% were informal businesses not registered with the Patents and Companies Registration Agency (PACRA). The main reasons most MSME owners were not formalising their business were due to the:

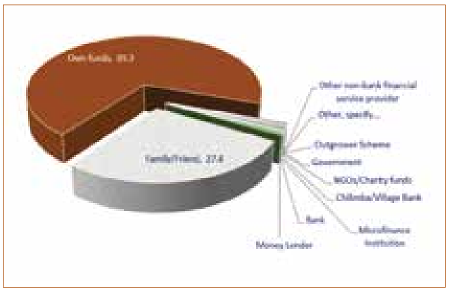
- Small size of the businesses;
- Lack of awareness about registration;
- Business owners not seeing the benefits of formalising their business;
- Complicated or difficult registration procedures or requirements;
- High cost of registration:
- Lack of awareness about the respective registration authorities or agencies. Business ownership Structure and years in operation.

Business ownership Structure and years in operation

The survey results showed that a large portion of businesses were sole proprietorships (78%) due to the ease of starting a sole proprietorships business which requires a simple business structure to form due to minimal paperwork, fewer legal requirements to set up, ability to have full control over their business decisions or profits. A smaller portion were partnerships (21.6%) which were largely family-owned businesses (90.1%). Partnerships can be a good option for sharing the risks and responsibilities of running a business but can also be more complex to manage than sole proprietorships. However, Family businesses are motivated by a desire to keep the business in the family and pass it down to future generations. They may also benefit from a strong sense of trust and cooperation among family members.

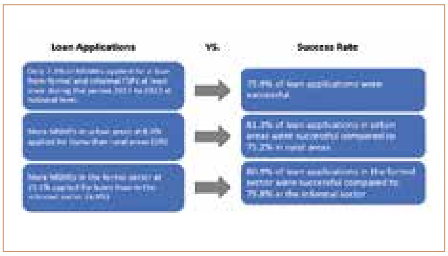


The ownership structure of MSMEs creates various challenges which limit their ability to grow or compete with larger businesses as indicated by 53.3% of those that failed in the first five years of operation. This is due to most sole proprietors and family-owned business having limited access to resources and relying on own funds or money from family and friends to finance their business. The survey showed that 69.3% of business owners used own funds to start the business, while 27.4% was from family and friends, and 3.3% from other sources including FSPs.

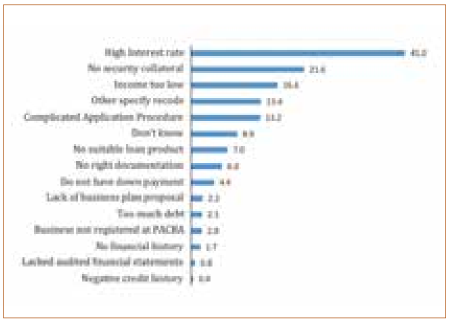


Access to Loans and Collateral

Of the MSMEs (3.3%) that accessed financing from sources other than own funds or family and friends to start the business, only 0.3% was accessed from commercial banks. Furthermore, in the five-year period from 2017 to 2022, only 7.3% of MSMEs applied for a loan. Nonetheless, the success rates for loan applications were high indicating that most MSMEs that applied for loans meet loan requirements.



Microfinance institutions (36%) were the main source of loans for MSMEs followed by Commercial banks at 17.8%. Most MSMEs obtained loans to restock their products or livestock (51.8%) followed by those that used the loan for physical expansion (16.1%). The survey showed that for MSMEs that were denied loans by FSPs, most did not know why they were denied the loan (35%) followed by 22.1% who did not have collateral. Nonetheless, some MSMEs indicated that they did not apply for loans mainly because of high interest rates, lack of collateral and low-income levels.

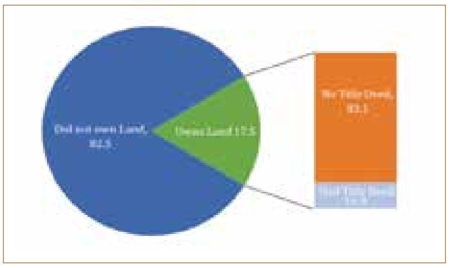


Land was the main type of collateral that was used by MSMEs to access loans. However, in terms of land ownership only 17.5% of MSMEs owned land and most of these were based in rural areas. Nonetheless, MSMEs who owned land were higher in the formal (21.8%) than the informal (17.3%) sector. It was also noted that most MSMEs that owned land did not have title deeds.

41.7% of MSMEs in the formal sector who owned land had a title deed compared with 15.5% in the informal sector.

Loan Defaults by MSMEs and Main Reasons for Default

Loan defaults were low at less than 8.4% at national level, rural/urban segmentation and by sex. Further, A higher percentage of MSME's in the formal sector and rural areas defaulted on loan repayments



compared to those in the informal sector and in urban areas. MSMEs that defaulted on a loan in the period 2017 to 2022 highlighted the following main reasons for default:

- Unexpected expenses;
- Loss of produce, products or goods
- Business not doing well
- Customers' inability to settle debts

Access to Bank Accounts

Access to accounts was low for both mobile money and bank accounts showing that only 34.5% of MSMEs had mobile money accounts and 6.5% had bank accounts. Most MSMEs that had bank accounts had business accounts (71.5%) while 28.5% used personal accounts for their businesses.

Business Challenges and Business Closure

Most MSMEs in urban areas reported lack of office space, no market and lack of access to finance as the main challenges faced at initial setup of their business, while those in rural areas reported poor roads and inadequate skills and knowledge as the main challenges faced at initial setup of their businesses. However, the main challenges faced in running the business after initial setup included high rental costs, high electricity costs and inadequate of working capital and too many competitors.

COVID-19 Pandemic and Climate Change

The Survey showed that 45.8% of MSMEs were affected by the COVID-19 pandemic. The percentage of MSMEs affected by the COVID-19 pandemic was higher in urban areas and the formal sector compared to those in rural areas and the informal sector. Conversely, only few MSMEs (14%) indicated that they did not experience any of the effects related to climate change. Nonetheless, the most reported experiences of climate change were drought/ or dry spells and storms or floods.

Survey Recommendations and Way Forward

Eight recommendations were drawn from the Survey which can be categorised into five themes as indicated in the table below:

Theme	Survey Recommendation
1. Strategy	• Development of the MSME finance strategy.
2. Legislation and tax regimes	• Review to ensure harmony at policy and regulatory framework level for promoting growth in the MSME sector.
3. Coordination of public and private sector players	• Intensify efforts of providing access to appropriate finance for startup capital. • Enhance public awareness on MSME finance.
4. Formalisation	• Establishment of a one stop centre for formalisation of MSMEs with reduced documentation requirements. • Increased awareness programmes by Government agencies on the importance of formalised business enterprises and the processes for registration.
5. Structure financial literacy on business skills, enterprise development and tax issues	• Structure financial literacy on business skills, enterprise development and tax issues
	• Establishment of technical centres to equip entrepreneurs with skills to enhance productive capacity

capital for MSMEs in urban areas, while inaccessible inputs and lack of storage facilities were unique challenges for MSMEs in rural areas.

The survey showed that 19.2% of the business owners had at least one of their businesses closed in the five years prior to the survey. 21.8% of these business owners were in urban areas while 14.9% were in rural areas. The main reasons for the business failure were too few customers, lack

The 2022 MSME Finance Survey proved instrumental in the development of the second National Financial Inclusion Strategy (NFIS II) for 2024-2028. Financial inclusion for MSMEs was adopted as one of six thematic areas within the NFIS II, outlining four key objectives and thirteen action items. The BoZ plays a significant role, actively participating in the implementation of 76% of these actions and taking the lead role in at least 46%.

The key initiatives for BoZ include establishing a centralised digital data warehouse to facilitate FSP access to MSME information like KYC and credit scores. Additionally, the BoZ will develop, in collaboration with MoFNP, a dedicated MSME Finance Strategy, promote cost-effective financial service delivery channels like agent banking, and work to enhance institutional arrangements for various financing options such as housing, development, social, and alternative finance. Furthermore, the Bank will be involved in the development and promotion of a credit scoring framework specifically tailored to MSMEs and will encourage FSPs to design products that strengthen financial resilience, including emergency funds, retirement accounts, investment options, and budgeting tools.

The National Financial Inclusion Strategy II (NFIS II) recognises that promoting MSME inclusivity requires a multifaceted approach, extending beyond the Bank of Zambia's (BoZ) initiatives and includes:

- Streamlined registration - will simplifying the registration process by allowing MSMEs operating in a specific sector to submit a single application with one payment point, satisfying all registration requirements from different authorities.
- Credit enhancement - developing and promoting credit guarantee schemes and other mechanisms will ease access to finance for MSMEs.
- Expanded financing options - enhancing institutional arrangements for housing finance, development finance, social finance, and alternative finance will diversify funding sources for MSMEs.
- Capacity building - establishing specialised institutions to provide capacity building, technical assistance, and risk management training for MSMEs will equip them with the necessary skills for success.

- Specialised MSME financial institution - creating an enabling regulatory environment will facilitate the establishment of a dedicated financial institution to cater to the specific growth needs of MSMEs in Zambia.

It is evident that the 2022 MSME Finance Survey data provides a rich source of information that can help FSPs understand the needs of MSMEs, types of preferred financial products and services, financing gap between required and available financing and the challenges faced in accessing finance. FSPs can use the data to inform development of targeted financial products and services that are more relevant and attractive to MSMEs. Regulators (BoZ, Pensions and Insurance Authority and Securities and Exchange Commission) can use the survey data to assess the effectiveness of existing financial inclusion policies and design new ones. Further, regulators can identify areas where there are gaps in access to finance for MSMEs and develop regulations that promote a more inclusive financial system. For Governments, the data is crucial for understanding the overall health and contribution of the MSME sector to the economy. It helps Government design programmes and initiatives that support MSME growth, such as loan guarantee schemes, tax breaks, or training programmes. Government can also use it to track progress towards national financial inclusion targets. The data is also valuable for researchers, development partners, and other stakeholders interested in promoting financial inclusion for MSMEs.

While promoting MSME growth holds significant promise, achieving set goals between now and 2028 requires careful risk management. Geographic and size bias, as well as the formal and informal divide should be avoided to ensure that implementation is not skewed towards MSMEs in urban areas, those in the formal sector and of medium size. Other risk factors include lengthy processes for legal and regulatory reforms which can be mitigated by streamlining processing, lobby legislative agencies or commence the reforms early. Consideration should also be made for limited fiscal space for Government to allocate adequate resources to the implementation of the NFIS strategy, limited mobile phone and internet connectivity in rural areas affecting digital transactions, fraud and cybercrime which may compromise the confidence of users of financial products and services.

The author is Manager – Financial Inclusion in the Financial Conduct Supervision Department.

WEATHERING THE DROUGHT: HOW ZAMBIA'S BUSINESS FIRMS ARE NAVIGATING THE DRY TIMES

By Prudence Sinkamba, Patricia Funjika and Dottie Chabala

Ms. Sinkamba

Dr. Funjika

Ms. Chabala

On February 29, 2024, Zambia declared the drought a national disaster. The drought, attributed to climate change and the El Niño weather phenomenon, carries negative implications for national food security as well as water and energy supply. As the country grapples with a severe drought, the ripple effects are felt across various sectors, with businesses bearing a significant brunt. The May 2024 Quarterly Survey of Business Opinions and Expectations undertook a snapshot survey among respondent firms to obtain their views on the impact of the drought and loadshedding on their operations. Most surveyed firms indicated that they had been negatively impacted by the current drought (Table 1).

Table 1: Summary Statistics of Firms impacted by the Drought.

	Not Affected		Affected	
	Number	Percent	Number	Percent
Sector				
Manufacturing	6	21	23	79
Wholesale and Retail (Merchant)	14	23	46	77
Services	10	33	20	67
Tourism	18	28	46	72
Construction	8	57	6	43
Agriculture	0	0	29	100
Size of the Firm				
Micro	23	27	61	73
Small	17	23	56	77
Medium	5	28	13	72
Large	6	21	23	79
Province				
Central	5	14	31	86
Copperbelt	13	43	17	57
Eastern	3	14	18	86
Lusaka	6	21	22	79
Luapula	6	35	11	65
Muchinga	2	13	13	87
Northern	11	48	12	52
Northwestern	3	19	13	81
Southern	1	5	19	95
Western	6	30	14	70
Total	56	25	170	75

Source: Bank of Zambia

With 75 percent of the firms distressed by the drought, the effect was most severe in the agriculture sector where all the firms reported having been negatively impacted. This was followed by the manufacturing, wholesale and retail trade (merchants), and tourism sectors where 79 percent, 77 percent and 72 percent of firms, respectively, reported being affected by the drought.

Views from some respondents in the agriculture sector:

'…. higher temperatures have created a conducive environment for pests and disease… less electricity supply at critical times has also affected our operation…'

'…a significant portion of our contracted farmers have much lower than expected yields some have lost their crop completely…'

'…wheat farming requires enough supply of rain hence with no rain, produce will be hampered…'

Views from some respondents in the tourism sector:

'…since we are in the hospitality and service industry, most raw material like food stuffs are in short supply and are priced highly…'

'…people go elsewhere because of loadshedding, we do not have a genset…'

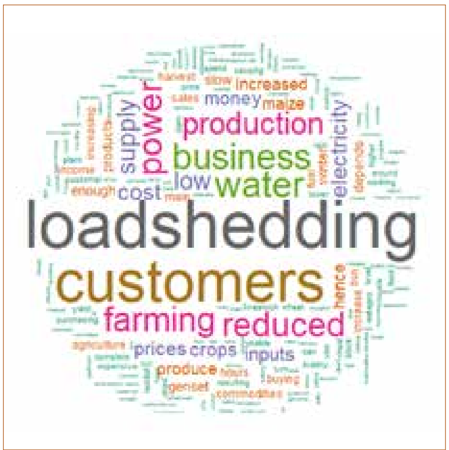
Firms in the construction sector were the most insulated with only 43 percent reporting being affected by

the drought.

Business enterprises in Northern Province were reported to be the least affected by the drought when compared to other Provinces and this is consistent with the relatively higher levels of rainfall received in the province. However, 95 percent of firms in Southern Province, which received lower rainfall in the 2023/2024 rainy season, were distressed.

Businesses pointed to higher production costs due to loadshedding, slowdown in patronage (clients), increased prices of raw materials due to less availability of agricultural produce, and reduced water availability for irrigation (Figure 1). A summary of sectoral responses is provided in Table 2.

Figure 1: Word cloud on the effects of the drought on firms



Source: Bank of Zambia

Table 2: Sectorial Effects of the Drought on Firms

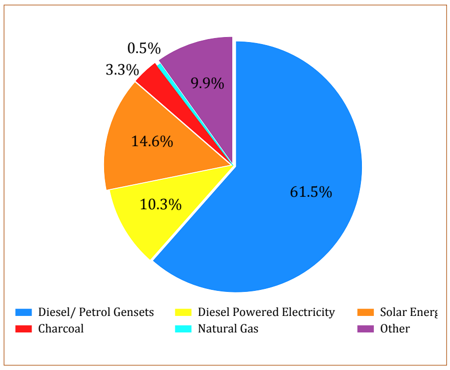
Sector	Main effects
Agri-culture	• Reduced crop yield – dried up fields. • Less available dam water in reservoirs for irrigation – may impact winter production. • Loadshedding impeding ability to irrigate/ run maize driers. • Increases incidence of pests and diseases.
Manu-factur-ing	• Loadshedding – adoption of alternative sources of power (higher production costs). • Less availability of raw materi-als, especially maize.
Mer-chants	• Loadshedding - reduced oper-ating hours, wastage of stock dependent on refrigeration, alternative electricity source driving up operating costs. • Shortage of raw materials from the agriculture sector. • Reduction in clientele (espe-cially those in the agriculture sector).
Tour-ism	• Shortage of raw materials (food produce) from the agri-culture sector and increased prices of mealie meal. • Loadshedding – increased operational costs. • Loss of clientele for establish-ments with no alternative pow-er source and less customers in general due to reduction in real incomes. • Less tourist activities on offer due to low water levels, affect-ing patronage.
Ser-vices	• Higher risk of default to credit extended to those in the ag-riculture sector due to losses incurred in the sector. • Loadshedding – increased operational costs. • Reduced clientele.
Con-struc-tion	• Reduced availability of blocks, a key raw material. • Loadshedding affecting opera-tional costs. • Loss of clients.

Source: Bank of Zambia

As a cross-cutting issue, loadshedding has significant implications for business enterprises but the most prominent was the higher operational costs due to the use of alternative sources of energy. Other effects of loadshedding include reduced operating hours for those in the merchant and services sectors, reduced irrigation of crops in the agriculture sector and loss of clients for those in the tourism sector without alternative sources of power.

To ameliorate some of the negative effects of electricity rationing, firms may have to increasingly adopt alternative sources of energy. Most of the firms surveyed were reliant on diesel/petrol gensets as their alternative source of power, and they pointed to the rationing of electricity being compounded by the high cost of fuel (Figure 3).

Figure 3: Alternative sources of energy



Source: Bank of Zambia

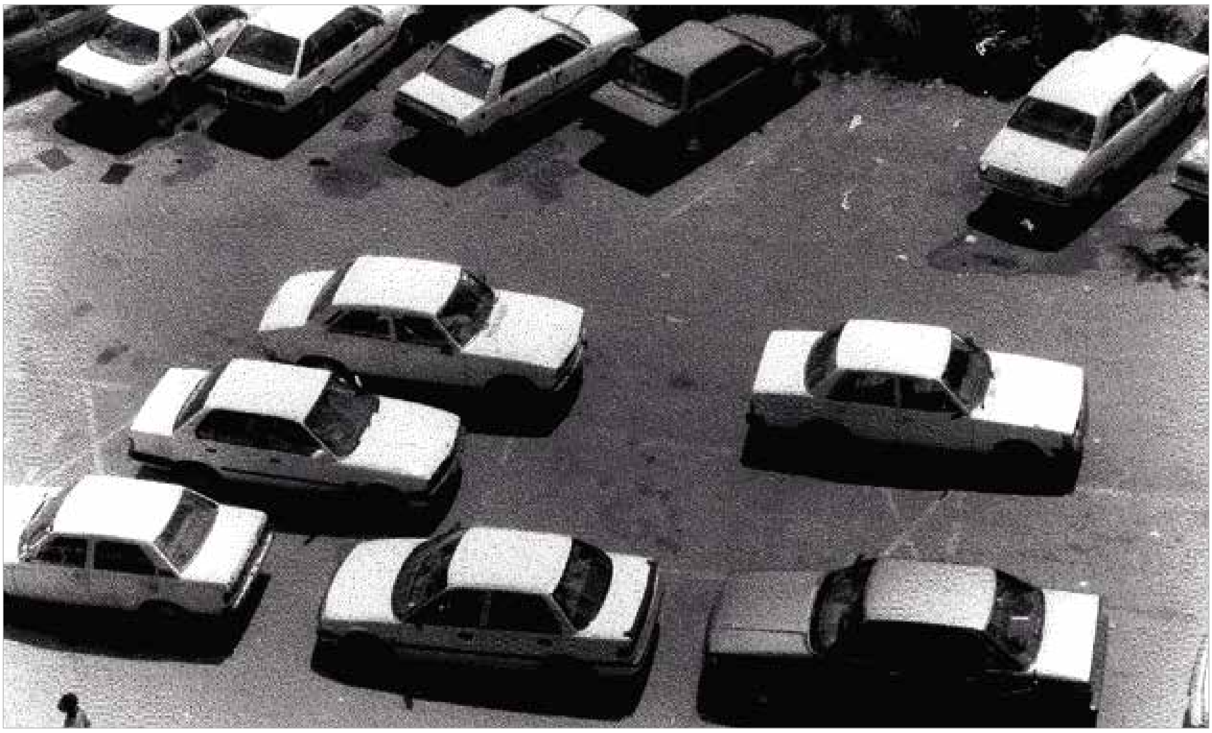
In the next quarter, firms expect loadshedding to further increase their costs of operation through the use of other energy sources, reduced production of winter crops, a decline in working hours and ultimately less profits to enterprises. Wastage of some inventory supplies was also mentioned as a risk, although some firms noted that if the national supplier (ZESCO) adheres closely to the loadshedding schedule, they would be able to adapt their working hours accordingly and reduce disruptions to their operations.

The full May 2024 Quarterly Survey of Business Opinions and Expectations can be accessed at: https://www.boz.zm/quarterly-survey-of-business-opinions-and-expectations.htm.

The authors are Acting Assistant Director, Senior and Young Professional in the Economist-Statistics Department, respectively.

HISTORICAL SNAPSHOT

OFFICIAL OPENING OF THE NEW BANK OF ZAMBIA BUILDING IN 1975



THE ROLE OF CYBERSECURITY IN DIGITAL TRANSFORMATION

By Daniel Chibesakunda

Mr. Chibesakunda

Digital transformation is a fundamental shift in how organisations use technology to drive innovation, improve efficiencies, and enhance customer experiences. As companies digitise operations, integrate new technologies, and leverage data to stay competitive, cybersecurity becomes critical. This article explores the multifaceted role of cybersecurity in digital transformation, addressing its importance, challenges, and best practices.

The Importance of Cybersecurity in Digital Transformation

Digital transformation involves adopting digital technologies to modify business processes, culture, and customer experiences. This transformation aims to meet changing market demands, create new value propositions, and enhance operational efficiencies. However, as organisations embrace digital transformation, they become more vulnerable to cyber threats. Cybersecurity ensures that digital transformation initiatives are protected from data breaches, cyber-attacks, and other security incidents.

Protecting Data Integrity and Privacy

Data is the cornerstone of digital transformation. Organisations collect, store, and analyse vast amounts of data to gain insights, drive decision-making, and personalise customer experiences. Cybersecurity measures are essential to safeguard this data

from unauthorised access, tampering, and theft. Robust encryption, access controls, and data masking techniques help maintain data integrity and privacy.

Ensuring Compliance with Regulations

As digital transformation accelerates, regulatory bodies worldwide have introduced stringent data protection and privacy laws. Compliance with regulations like the Data Protection Act and the Cybersecurity and Cyber Crimes Act is non-negotiable. Cybersecurity frameworks help organisations adhere to these regulations, avoiding hefty fines and reputational damage.

Enhancing Customer Trust

Customer trust is paramount in the digital age. Consumers are increasingly aware of their data privacy rights and expect organisations to protect their personal information. A robust cybersecurity posture reassures customers that their data is safe, fostering trust and loyalty. This trust translates into a competitive advantage, as customers are more likely to engage with brands they perceive as secure.

Safeguarding Intellectual Property

Digital transformation often involves the development of innovative products, services, and business models. Protecting intellectual property (IP) is crucial to maintaining a competitive edge. Cybersecurity measures such as intrusion detection systems, firewalls, and threat intelligence help safeguard IP from cyber espionage and theft.

Supporting Business Continuity

Cyber incidents can disrupt business operations, leading to financial losses and reputational harm. Cybersecurity strategies that include incident response plans, disaster recovery protocols, and business continuity measures ensure that organisations can quickly recover from cyber-attacks and continue operations with minimal disruption.

Challenges in Cybersecurity for Digital Transformation

Despite its importance, implementing effective cybersecurity measures in digital transformation initiatives poses several challenges. Understanding and addressing these challenges is crucial for organisations to succeed in their digital transformation journey. These challenges involve:

i. Evolving Threat Landscape

The cyber threat landscape is continuously evolving, with cybercriminals employing increasingly sophisticated techniques. Ransomware attacks, phishing campaigns, zero-day exploits, and advanced persistent threats (APTs) are just a few examples of the myriad threats organisations face. Staying ahead of these threats requires constant vigilance, threat intelligence, and adaptive security measures.

ii. Integration Complexity

Digital transformation often involves integrating legacy systems with new technologies such as cloud computing, Internet of Things (IoT) devices, artificial intelligence (AI), and machine learning (ML). Ensuring seamless and secure integration is complex, as legacy systems may have outdated security protocols and vulnerabilities that cybercriminals can exploit.

iii. Skill Shortage

The cybersecurity talent shortage is a significant challenge for organisations undergoing digital transformation. There is a high demand for skilled cybersecurity professionals who can design, implement, and manage security measures. Organisations must invest in training, development, and retention strategies to bridge this skills gap.

iv. Balancing Security and Innovation

Digital transformation initiatives aim to drive innovation and agility. However, security measures can sometimes be perceived as barriers to innovation. Striking the right balance between security and innovation is essential. Security should be integrated into the development lifecycle (DevSecOps) to ensure that security measures do not hinder innovation.

v. Budget Constraints

Implementing robust cybersecurity measures requires significant investment. Organisations, especially small and medium-sized enterprises (SMEs), may face budget constraints that limit their ability to deploy comprehensive security solutions. Prioritising cybersecurity investments based on risk assessments and leveraging cost-effective security tools can help address this challenge.

Best Practices for Cybersecurity in Digital Transformation

To effectively integrate cybersecurity into digital transformation initiatives, organisations should adopt a holistic approach that encompasses people, processes, and technology. The following best practices can guide organisations in strengthening their cybersecurity posture.

i. Implement a Zero Trust Architecture

Zero Trust is a security framework that assumes that threats can exist both inside and outside the network. It emphasizes verifying the identity of users and devices before granting access to resources. Implementing a Zero Trust architecture involves continuous monitoring, strict access controls, and micro-segmentation to minimise the attack surface and prevent lateral movement within the network.

ii. Conduct Regular Risk Assessments

Regular risk assessments help organisations identify and prioritise vulnerabilities and threats. By understanding the potential impact and likelihood of various risks, organisations can allocate resources effectively and implement appropriate security measures. Risk assessments should be an ongoing process, considering the dynamic nature of the cyber threat landscape.

iii. Foster a Security-First Culture

A security-first culture involves embedding cybersecurity awareness and practices into the organisation's DNA. This includes regular training and awareness programmes for employees, promoting secure coding practices among developers, and encouraging a proactive approach to identifying and reporting security incidents. Leadership support is crucial in driving a security-first culture.

iv. Leverage Advanced Technologies

Advanced technologies such as AI and ML can enhance cybersecurity efforts by automating threat detection, analysing large volumes of data, and identifying anomalies in real-time. AI-powered security solutions can help organisations respond to threats more quickly and accurately, reducing the risk of successful cyber-attacks.

v. Secure the Supply Chain

Digital transformation often involves collaborating with third-party vendors and partners. Ensuring that these entities adhere to robust cybersecurity practices is essential to prevent supply chain attacks. Organisations should conduct thorough security assessments of their supply chain, establish clear security requirements, and continuously monitor third-party security postures.

vi. Implement Robust Identity and Access Management (IAM)

Effective IAM practices are critical to ensuring that only authorised users and devices can access sensitive resources. Multi-factor authentication (MFA), single sign-on (SSO), and role-based access controls (RBAC) are essential components of a robust IAM strategy. Regularly reviewing and updating access permissions helps prevent unauthorised access.

vii. Develop and Test Incident Response Plans

An effective incident response plan outlines the steps to take in the event of a cyber incident. This includes identifying the incident, containing its impact, eradicating the threat, recovering systems, and conducting post-incident analysis. Regularly testing and updating the incident response plan ensures that the organisation is prepared to respond swiftly and effectively to cyber incidents.

viii. Encrypt Data at Rest and in Transit

Encryption is a fundamental security measure to protect data from unauthorised access. Encrypting data at rest and in transit ensures that even if data is intercepted or accessed without authorisation, it remains unreadable. Organisations should implement strong encryption protocols and manage encryption keys securely.

ix. Monitor and Respond to Threats in Real-Time

Continuous monitoring and real-time threat detection are crucial to identifying and responding to cyber threats promptly. Security Information and Event Management (SIEM) systems, intrusion detection and prevention systems (IDPS), and endpoint detection and response (EDR) solutions provide real-time visibility into network activity and help detect anomalies and threats.

x. Collaborate with Industry Peers

Collaboration and information sharing with industry peers and cybersecurity organisations can enhance an organisation's ability to defend against cyber threats. Participating in threat intelligence sharing platforms, industry working groups, and public-private partnerships can provide valuable insights into emerging threats and best practices.

Cybersecurity is and will continue to be on the rise for the years to come and the automation of the processes by various organisations is acting as a catalyst to the rising cyber-attacks. It's important to mention that we are in the digital age and organisations that will not digitally transform will go into extinction. Therefore, organisations need to ensure that they protect their digital investments by investing into cyber defense mechanisms which are centered around Technology-People-Processes.

The author is Acting Assistant Director in the ICT Department.

THE PMO TURNS 10

By Namukulo Mwauluka

Mr. Mwauluka

The Bank's Project Management Office (PMO) will have been operational for ten years on the 18th of September 2024. This has been a decade of transformation for the Bank. Looking back, it is important to remind ourselves of where we have come from and some of the notable achievements during the decade of the Bank's PMO.

The Bank's PMO started out in the then Procurement and Maintenance Services (now called Procurement and Facilities Management) department. At that time, the Bank did not have a framework for managing projects. In addition, the 2009 PMO Project Charter recorded that the Bank had less than satisfactory project success rates with about 80% of the projects being delivered late, above the approved budget or without the required business functionality. Other key challenges were policy gaps or grey areas exposing the Bank to risks, project scope creep due to poor project definition, inconsistent understanding of required project activities, roles and responsibilities and unclear co-ordination for projects which were managed on a stand-alone basis.

In 2014, the PMO was incorporated into the newly established Strategy and Risk Management department. This was done to facilitate the alignment of projects with the strategy of the Bank and also to ensure that the function was appropriately located to facilitate enterprise-wide oversight of projects. The Strategy and Risk Management department had a direct reporting line to the Governor's office which provided enterprise-wide access. The best practice for PMO's is to locate them as close as possible to the CEO's office to facilitate the effective execution of strategy. A task force comprising Messrs Evans Luneta, Raphael Phiri, Denny Dumbwizi, Moffat Kakupa and Namukulo Mwauluka was constituted to develop the Bank's project management framework. The developed policy was presented to the Board of Directors and approved on the 18th of September 2014. The Policy established the Portfolio Review Committee (PRC) which is the highest project governance body that approves projects and provides oversight over the entire project portfolio. The PRC is chaired by the Governor and all the heads of department are members.

The first meeting of the PRC was held on the 23rd of October 2014 to consider projects that would be implemented in 2015. The PRC used

a five-factor weighted prioritisation matrix to select which projects to implement. The factors in the matrix included the strategic alignment of the project, potential to improve efficiency and effectiveness, nature of the project, the level of risk and the urgency of the project. Other considerations included the availability of financial resources to implement the projects. A waterline model was used to establish the cutoff points for projects that could be accommodated given the projected available capital budget.

The PRC has continued meeting once every quarter since that initial meeting. The first and second quarter meetings consider project updates and proposed changes to the existing projects in the portfolio. While the third and fourth quarter meetings also consider proposals for new projects to be added to the portfolio of projects. These proposals are presented in the form of a business case developed by the respective business units.

A business case once approved by the PRC triggers the development of a project charter and the appointment of a project sponsor, business owner and project manager. The Bank has developed a scaled project governance framework which provides for the application of minimum governance on smaller projects.

Projects are placed in three categories namely class A, B and C. Class A are the large and complicated projects that require full governance. Class B are medium sized projects that require governance but not as much as class A. Class C projects are the small projects that have low complexity and therefore reduced risk. These require minimum governance. Only class A and B projects are required to have a project steering committees and develop a detailed project management plan. Class C projects are implemented using the project charter and project schedule.

The key benefit arising from the establishment of the PMO is that the Bank now has a well-defined framework for implementing projects. There is no longer any ambiguity as to who does what and when it is supposed to be done. Selecting the right projects from the start has reduced the number of projects that end up not delivering any benefits to the Bank. There is also now a process for evaluating the investments that the Bank makes in projects to establish the realised benefits.

Other benefits of the PMO have been in the area of capacity building. The Bank over the years has invested in training staff in project management with a total of 23 staff having been certified as Project Management Professionals (PMP®), 8 staff certified as Certified Associate in Project Management (CAPM®), 15 staff certified as PRINCE 2 Practitioners and 24 staff certified under PRINCE 2 Foundation. It is worth noting that the Bank has the highest number of PMP certified staff in any organisation in Zambia. Having over 20% of the 100 PMP certification holders in Zambia. The Bank has achieved much over the last ten years. There is however a lot more that can be done to ensure that projects are delivered as seamlessly as possible to achieve strategic outcomes. The next ten years will surely be more exciting with the popularity of agile ways of working and the advent of artificial intelligence in project management. Here's looking to the next ten years of growth.

The author is Manager - Project Management Office, Strategy and Change Management Department.

UNDERSTANDING THE ROLE OF A CREDIT BUREAU: CLEARING UP COMMON MISCONCEPTIONS

By TransUnion Zambia

Recent findings have revealed a significant knowledge gap when it comes to Credit Reference Bureaus (CRBs) among Zambian consumers. TransUnion Zambia, a leading global information and insights company, is dispelling common misconceptions about CRBs and their impact on consumers' financial well-being.

"Many people misunderstand how credit bureaus operate," said Mildred Stephenson, CEO of TransUnion Zambia. "TransUnion is here to assist you in navigating the intricacies of credit management, providing you with the tools and information needed to succeed financially".

Stephenson clarifies some common misconceptions about credit bureaus, credit reports and scores to empower consumers to make informed financial decisions:

You can't get 'blacklisted' by a credit bureau

A widespread myth is that individuals can be 'blacklisted' by a credit bureau. This is simply not true. Credit bureaus, such as TransUnion, gather and securely store information about how individuals use money and pay their bills. This data is sourced from banks, retailers, court records, and companies providing services or goods, including agricultural input suppliers, electricity, and telecom providers.

This information is not used to blacklist anyone. Instead, it helps banks, shops, and other entities decide whether to lend money or provide services. They review both positive and negative aspects of a person's financial history to make informed decisions.

Understanding the role of a credit bureau

A credit bureau's primary function is to produce a credit report and calculate a credit score. Think of your credit report as a report card that shows how well you manage your money. However, it's important to note that lenders, not credit bureaus, make the final decision on whether to grant you credit.

Developing a good credit score requires a few steps

You might think that if you do not borrow money, you should have a good credit score when you first apply for a loan. Unfortunately, this is not necessarily the case. No credit history can mean a 'low' or 'no' credit score as your level of risk is undetermined. No score simply means you have not been tested with credit and the credit provider will be unable to know if you will pay back the loan, if indeed one is granted.

Ms. Mildred Stephenson

The significance of a good credit score cannot be overstated. Think of a credit score as the foundation of a healthy financial lifestyle. You need a good credit score to successfully apply for a loan or credit card, or perhaps finance to buy a car or even a mortgage to buy a house. The better your credit score, the more likely you are to get approved and get good terms on your loan.

If you wish to improve your credit score, there are a few considerations to keep in mind:

1. Manage your accounts: Pay your accounts in full, and on time every month. Partial payments negatively impact your score.
2. Limit your amount of debt. A good rule of thumb is to keep the credit you use below 35% of your available limit.
3. Limit your enquiry activity. This simply means you shouldn't make lots of applications for credit at the same or in a short period of time. Too many applications could send a red flag to lenders about your current financial situation and could imply financial distress.

Tips for Keeping Your Finances Healthy

Maintaining a healthy financial profile involves several key practices:

- Regularly review your credit report to ensure all information is accurate.
- Before signing any credit agreement, ensure you fully understand the terms.
- If possible, pay more than the minimum to reduce your debt faster.

What to do if you are struggling to pay your debts

All of this might be easier said than done, especially in these tough economic times. The most important piece of advice is for people not to ignore the problem. If you think you are going to struggle to pay, speak to your lender in advance. They might be able to help with a payment holiday or other support like restricting your monthly amount.

Equally, if you have missed a payment, do not ignore it. Have a discussion with your lender. Maybe they can help or change your repayment terms.
It is also important to seek debt advice if you are having difficulties with meeting all your financial responsibilities.

"TransUnion is dedicated to providing everyone with a fair chance to obtain the credit they deserve and manage their finances effectively. We offer a comprehensive picture of your financial behaviours, ensuring you are accurately represented in the credit world. Additionally, TransUnion provide resources to help you better understand and manage your credit, enabling you to achieve your financial goals. We call this initiative Information for Good®", says Stephenson.

NAVIGATING PERSONAL FINANCIAL CRISES: A GUIDE TO RECOVERY

By Nchimunya Muvwende

Mr. Muvwende

In today's economic landscape, financial stress has become a pervasive issue affecting people from all walks of life. The allure of easy credit and the constant bombardment of consumerism often leads to impulsive spending and a disregard for long-term financial stability. This article delves into the common causes of personal financial crises and offers practical strategies for overcoming them.

By examining the case of a high-earning individual burdened by debt, I highlight the disconnect between income and financial well-being. Through real-world examples and expert advice, I provide a roadmap for individuals to regain control of their finances and build a more secure future. The author emphasizes the importance of financial literacy and discipline in preventing and mitigating financial hardships.

As I examined the pay slip of a loan seeking individual who has a high paying job, I noted with concern that while his gross income was high, the net pay was low, mainly due to his pay slip being littered with loans from various banks and financial institutions. Just like this person, there are many people whose financial situation can be described as a crisis and in need of finding solutions. This financial crisis has broken homes, left many depressed and led to the early death of others. As we implement plans for the present and the future, it is important to discuss the financial crisis that is facing many and discuss potential solutions so as to mitigate its effects on people.

Situation Analysis

A primary factor contributing to financial distress is a lack of financial literacy, and sometimes financial discipline. Many people underestimate the long-term impact of seemingly small financial decisions. Impulsive spending, a reliance on debt to maintain lifestyle, and the absence of emergency savings are common pitfalls. Furthermore, the cycle of borrowing to repay existing loans exacerbates the problem.

To assess one's financial health, it is important to conduct a thorough analysis. This involves:

- **Debt assessment:** Identifying the total amount owed, creditors, and interest rates.
- **Needs versus wants:** Differentiating between essential expenses and discretionary spending.
- **Financial goals:** Defining short-term and long-term objectives
- **Past financial behaviour:** Examining spending habits and identifying areas for improvement.

Whether in a financial crisis or not, there is need to check your current economic situation and see whether it is aligned with some of the goals and plans you wish to accomplish, both in the short and long term. Remember, failing to plan is planning to fail. By understanding the factors contributing to financial hardship and conducting a comprehensive self-assessment, individuals can take proactive steps towards financial recovery and stability.

Corrective measures

It is nearly impossible to find a solution when one does not understand what has led them to the situation they are in. It may be justified that one got a loan for a cause, but getting multiple loans

to cover existing ones is no good solution, it is like digging a hole to bury another. In your planning, create a realistic budget that allocates funds to necessities and accounts for debt repayments. Let's say, you have found yourself in a situation of high debt, the first step would be to understand how much is really owed. Many people who have loans have complained that the repayment period and amount has been more than agreed, it would, therefore, be important to visit the lender and ascertain how much is owed. Then the next corrective measure would be to reduce your expenditure that are towards wants and focus only on needs. You need a place to rent and not an expensive place to stay and maybe it is time you shift to a cheaper affordable place. You need food but not that expensive food and drinks you have been consuming. You need clothes but may be not from the shopping mall which is expensive. You need to cut some expenditure and allocate more money to clearing your debt and investments. Keep in mind that living below your means doesn't mean living badly. It means you need to prioritise your spending and focus on what is most important to you. It means "living smartly." If you are in debt, you do not have an option. Getting out of debt is a lot like losing weight, it takes a great deal of sacrifices.

In managing personal finances, one of the biggest challenges many people have is to want to have everything now and can't wait until they are able to afford. You borrow with no clear plan of repaying back. You must get to a realisation that while borrowing may be easy, repaying back the money gotten for consumption is difficult. Consider borrowing only when it makes economic sense and you will multiply the income and pay with easy. While it is true that there are many people with low incomes, before surviving on debt, determine if there is any opportunity to increase income through additional work or by utilising skills in a different way. You cannot continue having the same knowledge and skills you had many years ago and expect to make more money. Try to advance yourself, knowledge and explore business ventures. Do not always look for the easy way out.

Monitor your spending habits and check how they have helped you become a financially independent person. That expensive phone you have may be capital you need for that business you have always wanted to do. It is time that you analyse what you spend on and prioritise your expenditure. Instead of buying that extra bottle of alcohol, how about you buy a block for building? Instead of upgrading your car, why not consider channeling it to becoming rent free and securing your retirement?
While it is understood that some financial challenges are unavoidable, some of them are self-induced. Every money earned and spent should be analysed and everyone should ask themselves if it all aligns to achieving our financial goals. Remember, you have a future to finance, be deliberate in your actions and do not be part of the people living in regret.

Conclusion

By following the guidance provided in this article, individuals can take control of their financial situation, avoid future crises, and build a more prosperous and fulfilling life.

The author is Analyst – Market Compliance in the Financial Markets Department.

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CORPORATE SOCIAL RESPONSIBILITY

Environmental sustainability and philanthropic initiatives are at the core of the Bank of Zambia's corporate social responsibility programme.


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OUR VALUES

Our Values, commonly refereed to as "The BoZ Way", are summarised by the acronym "ACTIONE", which stands for:

Accountability
We will take responsibility for the decisions and actions that we take.

Equity
We will be fair in all our dealings.

Commitment to Excellence
We will always identify, agree, and meet the requirements of both internal and external stakeholders and honour the commitments we make efficiently and to the highest quality standards.

New ideas
We will be innovative and open to new ideas and develop for ourselves and our colleagues the skills to meet current and future challenges.

Timeliness
We will always be on time in attending to Bank business.

Objectives
We will set ourselves challenging specific, measurable, achievable, realistic, and time bound (SMART) objectives and will work diligently towards achieving them.

Integrity
We will be honest, transparent, professional, and sincere in all our dealings.

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