ZAMBANKER

Bank of Zambia

DECEMBER, 2020 EDITION

www.boz.zm

A BANK OF ZAMBIA JOURNAL

LACK OF PRODUCTIVE CAPACITY DISADVANTAGING ZAMBIA

PAGE 3

- BOZ COMMENCES ACCUMULATION OF GOLD TO BOLSTER RESERVES
- CREDIT MARKET POSTS POSITIVE GROWTH

ZAMBANKER
Bank of Zambia
DECEMBER, 2020 EDITION | www.boz.zm | A BANK OF ZAMBIA JOURNAL

CONTENTS

Bank of Zambia

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

HEAD OFFICE
Bank of Zambia, Bank Square,
Cairo Road P. O. Box 30080
Lusaka, 10101, Zambia
Tel: + 260 211 399300
Fax: + 260 211 221764/237070
E-mail:info@boz.zm
Website: www.boz.zm

FOLLOW US ON:

- Flickr: Bank of Zambia
- Twitter: @BankofZambia
- YouTube: Bank of Zambia
- Facebook: @BankofZambia

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

LACK OF PRODUCTIVE CAPACITY DISADVANTAGING ZAMBIA

By ZAMBANKER REPORTER

Bank of Zambia Governor, Mr Christopher Mvunga, says Zambia's capacity to fully take advantage of trade and other partnership agreements is currently limited by the lack of productive capacity, which has been constrained by structural factors.

Bank of Zambia Governor, Mr Christopher Mvunga

Making a submission on 'The impact of trade and other partnership agreements on the national budget' when he appeared before the Parliamentary Budget Committee, Mr Mvunga said there was need to implement policies that incentivised diversification of production and exports.

He said that one such policy was to forego some tax revenue in the short to medium-term by providing tax incentives, a move which would have a negative impact on the budget through the forgone revenue but would benefit the economy in the long-run through increased trade volumes.

"The benefits of these partnerships can only accrue if significant trade volumes are realised. Currently, evidence suggests that the country's capacity to respond to better market opportunities is significantly limited by its lack of productive capacity to produce goods and services for export," he said.

He said that it was unlikely that trade volumes could increase significantly and contribute to the country's Treasury through trade taxes in the short-term as a result of this lack of capacity to export to trading partner countries. He added that implementation of deliberate economic policies to diversify production as enshrined in the National Industrial Policy of 2018, the National Trade Policy of 2018 and the Seventh National Development Plan remains imperative in realising the benefits of trade and other partnership agreements.

The National Industrial Policy stipulates various strategies to transform Zambia from a producer and exporter of primary products into a net exporter of value added goods utilising local primary resources with increased citizens' participation. Targeted tax incentives can also be used to enable some sectors with a potential to produce high value items, contribute to export earnings diversification and thereby shield the country from dependence on copper earnings.

"Typically, potential trade and other

Story continues on page 5

NEWS IN BRIEF

GOLD PURCHASE AGREEMENTS

The Bank of Zambia signed Gold Purchase Agreements with the Zambia Gold Company Limited and Kansanshi Mining Plc in its efforts to resume the holding of gold as part of the country's foreign exchange reserves. The gold will be sourced locally. The Zambia Gold Company Limited oversees mining, processing, refining and marketing of gold in Zambia, while Kansanshi Mining Plc, has been producing the commodity on a commercial basis since 2006.The actualisation of the Agreement with Zambia Gold Company has positive externalities on local businesses and communities, given that the Company has committed to purchase gold from small scale miners.

BoZ POSITION ON FOREIGN CURRENCY ACCOUNTS

The Bank of Zambia dispelled social media reports suggesting that the Bank and the Ministry of Finance were working on a Statutory Instrument (SI) to ban the holding of foreign currency accounts in commercial banks in Zambia. The Bank urged members of the public to treat such reports as false and unfounded.

"The utmost priority of the Bank is to help restore macroeconomic stability and revive economic growth in the midst of a challenging economic environment that has been significantly impacted by the COVID-19 pandemic. As we have indicated in the past, the exchange rate policy in Zambia will continue to be founded on a market-determined exchange rate as this is the most appropriate way in which economic imbalances are resolved," the Bank said in a statement.

LAUNCH OF THE INAUGURAL FINANCIAL INCLUSION PHOTO CHALLENGE

The Bank of Zambia will launch its inaugural Financial Inclusion Photo Challenge under the theme **"Financial inclusion in my community – widespread and accessible delivery channels" in the first quarter of 2021.** The Photo Challenge is one of the activities under its 2020-2023 Strategic Plan, to support public understanding of one of the key focus areas: **Financial Inclusion.** The Challenge will be open to all Zambians, aged 18 years and above, and will run from 1 February to 28 February 2021. Submissions should be made via a Bank email: challenge@boz.zm

Employees of the Bank and their immediate family members will be excluded from entering the competition.

BoZ READER GOES e

In 2020, the Bank of Zambia (BoZ) ceased the publication of the hard copy format of the BoZ Reader in preference for the electronic format which is published as Working Papers Series on the BoZ website. The Working Papers Series constitutes articles from researchers, scholars, and other authors that include BoZ staff on various issues of interest to the Zambian economy. The change to the electronic format was to keep abreast with international best practices and to ensure that research papers are published on a continuous basis.

To enhance the dissemination of research on the Zambian economy, the Bank invites researchers, scholars and other authors to submit research manuscripts to be considered for publication as Working Papers Series in 2021. The manuscript should not exceed 30 pages, including references. Upon acceptance of the manuscripts, the authors will be invited to present their papers before the Technical Committee at the Bank of Zambia. All manuscripts should be submitted in Microsoft word format to Dr Frank Chansa fchansa@boz.zm and in copy Mr Patrick Mulenga pmulenga@boz.zm

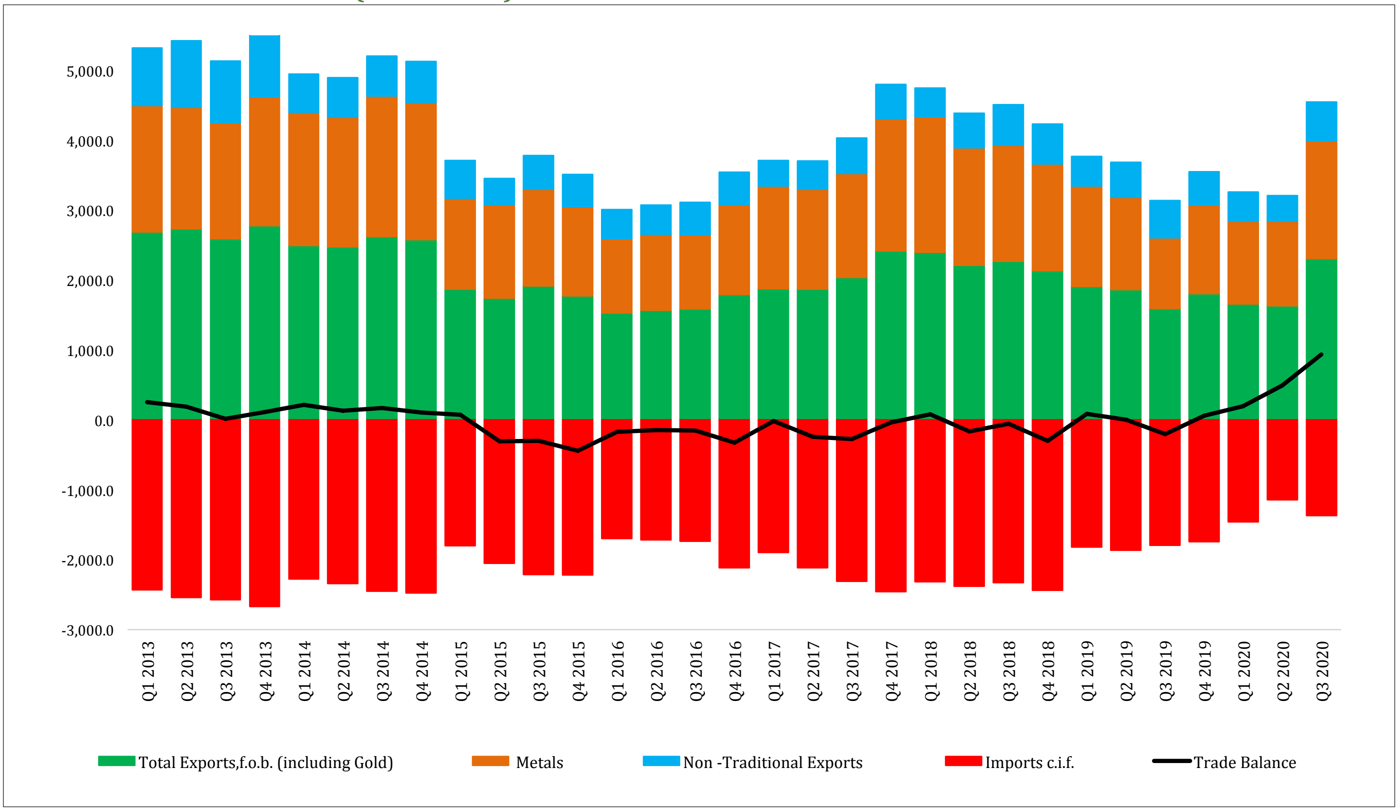
Story continues from page 3

LACK OF PRODUCTIVE CAPACITY DISADVANTAGING ZAMBIA

partnership agreements contribute to higher trade volumes and economic growth which not only lead to welfare gains but also expands the tax base and contributes positively to the budget. Notwithstanding the potential benefits of trade and other partnership agreements on the Treasury, it is worth noting that at present, Zambia's capacity to fully take advantage of the opportunity is rather limited by the lack of productive capacity," he said.

The mining sector continues to dominate export earnings at about 70%. In the non-traditional exports (NTEs) category, only a few agricultural and manufactured products such as cotton lint, cane sugar, burley tobacco, maize and maize products, cement as well as soaps and washing detergents contribute to the country's export earnings. Other major NTEs such as industrial boilers and equipment are imports that are then re-exported to neighbouring countries.

Chart 2: International Trade (US$ Million)



***Source:** Bank of Zambia*

Governor Mvunga further stated that generally, these trade and economic partnerships aim at incentivising trade among Member States by substantially reducing economic frontiers such as tariff and non-tariff barriers to trade. This is borne from the realisation that trade among nations fosters welfare gains through opportunities that come with economic growth in individual countries involved by creating jobs, reducing poverty and attaining sustainable economic development. Sufficient evidence exists to support this proposition. As countries and regions integrate economically, individual countries tend to take advantage of the larger market by utilising their comparative, technical and other advantages to expand businesses and create wealth.

"Despite these potential benefits, trade and economic partnership agreements could have unintended consequences including the elimination of tariff and non-tariff barriers and other restrictions on commerce may result in lower tax revenue through the abolition or substantial reduction of taxes on trade. Other concerns relate to potential job losses as less competitive industries fail to survive due to increased competition due to non-adaption to a changing business environment," he said.

In its long-term development strategy, Zambia recognises the potential benefits of these trade and other economic partnership agreements. Both the Vision 2030 and the Seventh National Development Plan recognise the importance of maintaining an open economy as well as aligning the country's development interventions to regional and global development agendas such as the African Union Agenda 2063, SADC's Regional Indicative Strategic Development Plan (RISDP), United Nations Development Programme (UNDP)'s Sustainable Development Goals, Vienna Programme of Action, Istanbul Programme of Action, as well as COMESA Protocols.

Zambia is a member of several trade and economic partnership agreements. At a global level, Zambia is a member of the World Trade Organisation (WTO) and the African Growth and Opportunity Act (AGOA). Within Africa, Zambia is a member of the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA). Further, the Government is actively considering ratifying the COMESA-EAC-SADC Tripartite Free Trade Area (FTA), the SADC Protocol on Trade in Services and the African Continental FTA.

CENTRAL BANK COMMENCES GOLD ACCUMULATION TO BOLSTER RESERVES

By ZAMBANKER REPORTER

The Bank of Zambia has commenced accumulation of gold as part of it's official international reserves assets. An initial 47 kgs of Dore gold was purchased from Zambia Gold Company Limited on 5th January, 2021. The Bank is also expecting Kansanshi Mine to supply gold bullion within the first quarter of 2021.

The Bank of Zambia and the Zambia Gold Company signed a Purchase Agreement, in which the Bank is to buy gold produced from Kasenseli Gold Mine. Governor Mvunga signed on behalf of the Bank, while Mr Chipata Mabvuto signed on behalf, ZCCM-IH.

The local purchase of gold follows the signing, on December 11, 2020, of the Gold Purchase Agreement with Zambia Gold Company Limited and Kansanshi Mine. Gold purchases is a strategic decision made by the Bank to broaden the composition and diversification of international reserves portfolio. The actualisation of the Agreement has additional positive externalities on local businesses and communities, given that some of the gold will be purchased from small scale miners.

Zambia Gold Company Limited, oversees mining, processing, refining and marketing of gold in Zambia, while Kansanshi Mining Plc has been producing the commodity on a commercial basis since 2006.

This will not be the first time that the Bank will be acquiring and holding gold as a reserve asset. Before 1995, the Bank procured gold for reserves from Zambia Consolidated Copper Mines (ZCCM) Limited. However, due to the severe foreign exchange liquidity challenges that the country faced during the 1990s, the gold reserve portfolio was liquidated in 1995.

Assistant Director-Communications, Ms Besnat Mwanza said in a press statement that the addition of gold as a reserve asset will augment the country's international reserves. Reserves are an essential part of the Bank's toolkit in providing protection against adverse economic shocks, and in achieving the monetary policy objectives of price and financial system stability.

"Purchasing gold locally using local currency provides a sustainable avenue of international reserves accumulation, provides a long-term store of value, and further enhances investor confidence. It also provides the necessary liquidity for the Bank's foreign market operations. This is consistent with the broad objectives of the Government's Economic Recovery Programme, which was launched on December 07, 2020," she said.

Gold has continued to feature strongly in foreign reserves of several central banks around the world for a long time. This is despite the official end of the gold standard monetary arrangement in the early 1970s, an arrangement which effectively justified central bank's appetite for monetary gold.

Central banks' total gold holding has risen to 34,000 tonnes by the end of 2019 from a low of 28,000 tonnes recorded in 1997 since the end of the gold standard, according to the World Gold Council. These dynamics demonstrate the strategic value of gold.

BoZ OPTIMISTIC ABOUT NATIONAL FINANCIAL SWITCH PROSPECTS

By ZAMBANKER REPORTER

Financial service providers have welcomed the new business opportunities that have emerged from the implementation of the National Financial Switch (NFS), which has resulted in higher volumes of transactions being exchanged by the transacting parties.

The NFS is the first ever local nationwide shared platform in Zambia. The platform, operated by the Zambia Electronic Clearing House Limited, facilitates for 1interoperability of digital payments throughout the Country. As the country pursues a digital economy, interoperable payment systems have made it easier for people to send money or make payments to anyone and receive money or payments from anyone, quickly and cheaply. Thus; the Bank views interoperability as a means of bringing more unbanked and under-banked people into the financial system, thus fostering financial inclusion.

As a result of this development, domestic ATM and POS transactions offered by the various commercial banks are now being switched/ carried on the National Financial Switch Platform. Prior to this migration all domestic card transactions were switched outside the country and treated as international transactions and were accordingly priced as such.

The NFS has reduced and will continue to reduce the dependency on cash and its associated risks. By providing stakeholders with shared infrastructure, acquisition and ownership costs for the service providers have also been reduced which should ultimately benefit customers through reduced fees and charges for the services that they get. The NFS aims at bringing about a wide range of benefits which include, among others;

Reduced fees and charges to customers because of the removal of international fees;

Convenient, easy access and usage of electronic payment systems such as ATM, POS and Mobile payments, through multiple access points countrywide;

Increased innovation by creating a common payments loop for ATM, POS, Internet Banking, Mobile Banking, Agency Banking and other customer driven e-commerce products and services that might be introduced into market;

Reduced dependency on cash as people will have greater access to digital financial services which are much more secure than paper based payment instruments;

Providing for near real time confirmation/validation of payment information and delivery of value to the customer. This will reduce delays in customers receiving funds or money and also reduce time and costs for processing customer transactions;

Allow for faster circulation of funds in the economy due to the reduced delays in customers receiving funds;

Increased volumes of transactions which can be processed on one single platform which will be expected to result in lower costs thereby making payment transactions more affordable; and

Increased financial inclusion through greater access and usage of financial services.

During the year 2020, a total of 11,994,594 with a value of K 8,085.53 million were switched through the NFS. Of these, 6,395,460 (53%) transactions with a value of K5,483.10 million were ATM transactions; 5,214,711 (43%) transactions with a value of K2, 471.02 million were POS transactions and the Mobile Payments stream, which went live in April 2020, recorded a total of 384,423 (3%) transactions with a value of K131.42 million.

With the on-boarding of additional bank participants on the Mobile Payments stream, it is expected that the volume and value of transactions switched through the NFS will more than double. It is further expected that additional payment system players will join the NFS, including regional and international entities, thus broadening financial access and inclusion in Zambia even further.

In the not-so-distant past, accessing a financial service usually required a customer to locate a specific financial service provider with whom they held an account or electronic wallet (e-wallet). Alternatively, customers relied on platforms offered by international companies such as Visa and MasterCard in order to access financial services such as cash withdrawals at Automated Teller Machines (ATMs) or make payments for goods purchased at Point of Sale (POS) devices from other service providers. Mobile money customers were also inhibited from conducting cross network funds transfers.

Article courtesy of Banking, Currency and Payment Systems Department.

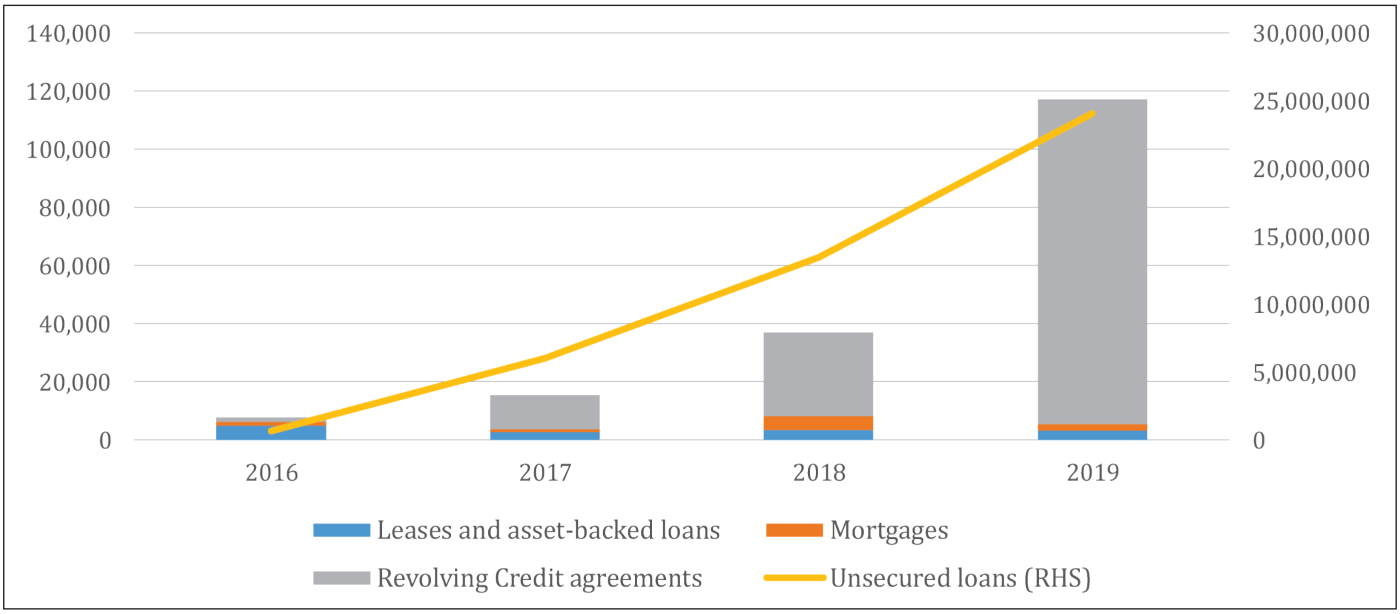
[1] *Interoperability refers to the ability of different payment systems to connect with one another thereby facilitating seamless flow of payment messages and transactions.*

LOAN DISBURSEMENTS RECORD GROWTH

By ZAMBANKER REPORTER

The performance of the credit market in 2019 saw overall credit post a positive growth. The total value of credit disbursed expanded by 36.8 percent in real terms from K20.4 billion to K32.3 billion in 2019, compared to a real growth of 7.3 percent in 2018. As a result of the increase in loan disbursements, outstanding loans grew by 8.6 percent in real terms to K44.0 billion by end-December 2019.

Figure below showing Demand for Credit-Number of Loan Applications



According to the 2019 Credit Market Monitoring Report, outstanding loans to households and individuals amounted to K15.7 billion and represented 35.6 percent of total outstanding loans as at 31 December 2019. Loans to households and individuals accounted for the largest proportion of total outstanding loans. Loans to large business enterprises came in second with outstanding loans amounting to K15.0 billion and represented 34.1 percent of total outstanding loans.

A review of four years' historical data to 31 December 2019 revealed a generally upward trend in both the value and volume of loan disbursements to households. During this period, the level of outstanding loans to households grew by an average annual rate of 9.8 percent from K10.4 billion at end-December 2016 to K15.7 billion at end-December 2019. The growth rate was above the average real annual GDP growth rate of 3.2 percent for the same period. However, the trend in the value of credit disbursements began declining after September 2018 while loan disbursement volumes started to dip after June 2019. The decline in the value of credit disbursements was almost an immediate response to the decline in the real quarterly GDP growth rate that had peaked at 5.1 percent by end-September 2018 and began trending downwards thereafter.

Despite the slowdown in credit disbursements to households, outstanding loans grew by 9.1 percent in 2019, while real GDP growth rate declined to 1.4 percent. Consequently, the ratio of outstanding household loans to real GDP increased to 11.0 percent at end-December 2019 from 8.0 percent at end-December 2016.

"With the increase in credit to households, there are emerging signs that point to a rising household debt stress. For instance, the proportion of credit that households obtained to pay for living expenses increased in 2019 to 15.3 percent from 12.6 percent in 2018. Further, the level of non-performing loans (NPLs) rose faster than the growth in total loans to households resulting in the ratio of NPLs to gross loans rising from 5.8 percent at end December 2016 to 10.0 percent at end-December 2019," says the Report.

Given that households represented the largest credit end-user category with 35.6 percent of total outstanding loans as at 31 December 2019, the rise in the NPL ratio for households over the period 2016 to 2019 had potential adverse implications for financial system stability.

Story continues on page 17

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
TOWARDS A COMMON FUTURE

SADC TRANSACTIONS IN SWIFT CLEARANCE

By ZAMBANKER REPORTER

The Southern African Development Community (SADC) through the Committee of Central Bank Governors (CCBG) have the mandate to facilitate trade and investment between member countries through efficient and effective regional payment systems. To achieve this, payment systems in the region should be integrated.


SADC headquarters in Gaborone, Botswana

As part of its moves towards integration of regional payment systems, the CCBG has mandated the Payment System sub-committee to develop an integrated regional payment system. The process in the SADC region started with the implementation of the SADC regional Real Time Gross Settlement System (SADC-RTGS), that is used to process time critical transactions. All transactions processed and settled through the SADC-RTGS system are done on the same day basis. Having successfully implemented the RTGS, the CCBG approved the integration of the of the retail payment systems.

To effectively implement the retail payment systems, it was decided that the SADC Bankers Association should spearhead the process. In collaboration with all regional central banks, commercial banks, and non-bank players such mobile payments providers, the Transactions Cleared on an Immediate (TCIB) payment scheme has been developed. This system will provide for clearance and settlement of low value payments within the region, that will include card payments, electronic funds transfers and mobile money transactions. Under the TCIB payment scheme, the funds will be applied on a real time basis to the end user account or mobile money wallet, in the local currency of the country of the receiver. The Payment system Sub-committee will provide oversight of this scheme to ensure compliance with international best practices and standards.

BankServ Africa has been appointed as the Regional Clearing and Settlement Operator (RCSO). The RCSO will be responsible for the clearing of TCIB transactions for settlement in the respective central banks' RTGSs. Funds transfers in the TCIB payment scheme may be made in any SADC currency. To participate in the TCIB payment scheme, participants will be required to obtain approval from their respective Central Banks.

A TCIB participant in Zambia may connect to the system via one of the three means;

1. Direct connection to the RCSO;

2. Connection through the Zambia Electronic Clearing House Limited (ZECHL) which was granted approval by the Bank of Zambia to participate in TCIB in 2020; and

3. Via a Payment Processing Service Provider.

TCIB is a timely solution to the expensive and slow correspondent banking that has dominated the cross-border payment landscape.

Article courtesy of Banking, Currency and Payment Systems Department.

NO AMOUNT OF MONEY IS TOO SMALL TO SAVE

By ZAMBANKER REPORTER

The Bank of Zambia has called on members of the public to focus on saving and investing as much as they can. Speaking during the commemoration of the World Savings Day, Deputy Governor-Administration Ms Rekha Mhango explained that savings have proved to be amongst one of the most important financial safety nets to help people cope with the pandemic.

She said both regular savings and emergency-savings funds have helped people to: pay for unexpected medical expenses, and sadly also unplanned funeral costs; improve their health through better nutrition; sustain their families and living expenses through periods of downturns in economic and business activity, including a reduction in income. This underscores the need to promote savings.

The rise of the COVID-19 pandemic has caused economic repercussions across the world. Efforts to contain the spreading coronavirus have caused a surge in layoffs, resulting in the loss of jobs in a variety of industries, including restaurants, bars and entertainment venues, construction, airlines, hotels and manufacturing among others.

“The 2020 World Savings Day theme which states “When you save a bit, big things happen”, is therefore an

Deputy Governor-Administration, Ms Rekha Mhango speaking during the World Savings Day commemoration at Pamodzi Hotel

Deputy Governor-Administration, Ms Rekha Mhango, Financial Sector Deepening Zambia Chief Executive Officer, Ms Betty Wilkson and Deputy Registrar at the Pensions and Insurance Authority, Mr Tresford Chiyavula at the World Savings Day commemorative ceremony

optimistic expression of what people can achieve with current and future savings. It is this message of optimism and hope that we should all convey to uplift people who have been adversely impacted during this time. As such, this theme blends in very well with the previous 2019 theme of 'savings give life a lift' as it demonstrates how financial security provided by savings can enable us cope with unexpected and prolonged uncertainties, whilst enabling us to avoid minimal disruption to our planned goals," she said.

She explained that the 2020 theme also sets the basis to build and restore people's confidence in savings. It entails that there is need to emphatically enlighten the public, and clear their doubts, that no amount of money is too small to save, as the benefits of having large accumulated savings empowers them to accomplish big things, including financial security, resilience and peace of mind during uncertainties such as presented by this pandemic.

The theme also provides an opportunity to extend the outreach of the campaign to micro, small and medium enterprises, and other businesses, on the importance of preserving a proportion of their retained profits in liquid investments as part of their business continuity plans and a fallback for uncertain times.

She urged financial services providers and other stakeholders in the financial sector to augment the theme with real life practical examples and testimonials of ordinary people who have accomplished their goals by regularly and consistently saving a bit of money overtime.

"Most importantly, I implore financial service providers to continue to offer and expand the range of attractive interest-earning savings products for children, youths and adults, as there is a growing awareness amongst citizens that money should not only be saved but it should be seen to be growing with reasonable returns. This is consistent with the expectation of the theme, that when people save in a bank account, investment scheme or insurance-life policy, then they have the possibility of reaping big rewards," she said.

The 2020 financial literacy awards, which were renamed as the 2020 digital financial literacy awards were also given during the same event. This took into consideration how the financial sector had to adapt to the use of digital, electronic and social media platforms for outreach campaigns in line with the public health guidelines on social distancing and restrictions on public gatherings to prevent the spread of COVID-19.

There had been an observed increase in client engagement and public awareness campaigns using the electronic and print media, including campaigns conducted by the regulatory institutions in 2020. The role of digital platforms has therefore gained prominence, particularly digital financial services which were enabling the sector to maintain the momentum of the financial inclusion agenda in Zambia.

The nine (9) awards categories were: the Individual Contribution to Financial Education award; the Outstanding Theme Messaging Award; the Outstanding Personality Award; the Exceptional Financial Education Programme Award; the Financial Literacy Footprint Award; the Outstanding Educator Initiative Award; the Exceptional Financial Literacy Media Reach Award; the Savings Product of the Year, and the World Savings Day Champion Awards

The award recipients were selected through a process that involved a call for nominations and an evaluation of the submissions by an adjudication panel of judges.

CREATING A PERSONAL PENSION FUND

Mr Mwezani

By FINZI MWEZANI

In the last edition, we looked at how one can create a fund that would cover current school fees and simultaneously cover future Tertiary level education fees. In this edition, we are going to discuss how one can create a simple pension fund using government securities. In this simple model, we will substitute inflation estimation by using present actual cost of living. This is to say that our fund will be adjusted using actual movement in prices for the items we would like to fund after retirement. We will determine the cost of living in future using current prices. We will assume that we have 15 years to retirement. The more years we have left to retirement the less punitive our financial savings will be now. We will also assume that housing, children school fees among other expenses will not be part of one's expenses after retirement. We assume that currently, a household will spend about K12,000.00 per month which translates to K144,000.00 a year. How much should one invest now to generate K144,000.00 per year?

We can invest in one or more instruments to generate the yearly income that we need of K144,000.00 from the securities. For the purposes of illustration, we will invest in one instrument, the 15-year bond. The 15-year bond currently pays gross coupons at 14% per annum paid twice in a year. That is, it pays a gross of 7% of the face value every 6 months. Coupons currently attract 15% withholding tax and a 1% handling fee. Effectively, clients pay 16% of the coupon earned as tax and administrative fees. The net coupon earning for an instrument that pays 14% coupon per annum is 11.76% (How?) (5.88% every 6 months). For us to earn K144,000.00 per year (K72,000.00 every 6 months) at net coupon rate of 11.76% per annum, we will need to have a 15 year instrument with a face value of K1,225,000.00. For us to buy a bond with this face value as at the December 24, 2020 bond price of K42.3499 for the 15 year bond, we will need to pay a total cost of K518,786.28 (Cost = Face Value x Price/100). In other words, with a cash amount of K518,786.28 and with a price of K42.4399, one can purchase a face value of K1,225,000.00 of a 15-year bond based on the December 24, 2020 bond prices. We do not have to buy the whole K1,225,000.00 at one go. We can commit to purchase a face value of K200,000.00 per year which would cost us K84,699.80 at our December 2020 price of K42.3499.

One obvious issue that arises is that, the K144,000.00 will not be the cost of living for this individual in 15 years' time as the cost of living usually goes up. How then do we factor in that impact on our retirement fund? We will use the actual cost of living at particular points to adjust our fund. One way would be adjusting our fund on an annual basis. For instance, if after one year, our cost of living goes up from K144,000.00 per year to K168,000.00 thus from K12,000 a month to K14,000.00 a month, it means we need to invest in an instrument that will generate the extra K24,000.00 per year. If we decide to use a 15-year bond, we will need to buy an additional face value of K205,000.00 which will cost K86,428.37 if bond prices remain relatively the same at K42.3499. If the coupon income of K144,000.00 generated in that particular year are reinvested, there will not be any need to source for more cash to reinvest.

Please note that the yields/prices for Government securities rise or fall depending on market conditions. This article is strictly for illustration purposes. For Financial advice, kindly consult a Financial Advisor.

Government Securities Operations for 4th Quarter 2020

The following is a summary of Government Securities operations in Q4 2020.

Treasury Bills (T-bills)

The Treasury Bills primary market saw a decline in T-bill investments during the fourth quarter compared to the preceding quarter. A total of K9.1 billion at cost was offered to the market in Q4 over 7 auctions. A total of K7.52 billion at cost was received representing a subscription rate of 83% in Q4 compared to K12.73 billion received in Q3 with a subscription rate of 139%. Of the K7.52 billion received in Q4, a total of K7.48 billion was allocated at cost representing a reduction from K11.79 billion allocated in Q3. This represented a decline of 37% in the uptake, on a quarter on quarter basis.

Story continues on page 24

ZAMBIA OWNS 2020 FINSCOPE SURVEY

By ZAMBANKER REPORTER

The Bank of Zambia, in collaboration with Zambia Statistics Agency (ZamStats) and other financial sector stakeholders have successfully launched the results of the 2020 FinScope Survey. This survey, which was conducted in September 2020, was the fourth cycle, with previous surveys having been conducted in 2015, 2009 and 2005.

Some of the delegates of the 2020 Finscope Survey launch

Speaking at the workshop for the dissemination of the Survey findings, Deputy Governor-Administration, Ms Rekha Mhango said that the survey targeted 12,990 adults aged 16 years and above across all the districts in the country. Out of this sample, 12,975 adults were interviewed, giving a completion rate of 99.9%.

Meanwhile, Ms Mhango has said the 2020 Finscope Survey is a turning point for Zambia in view of the fact that the whole survey process from questionnaire design, fieldwork, data processing, analysis and reporting was conducted by the local project team. Previous FinScope Surveys were done by external consultants.

"We are confident that the capacity built will go a long way in conducting future surveys that will continue to be a research tool for addressing the need for credible financial sector information," she said.

The FinScope Survey is a nationally representative survey that provides information on demand, access, use of and behaviour towards financial services by the adult population. It is undertaken over a cycle of 3-5 years. It is based on standardised tools and an internationally recognised methodology developed by the Finmark Trust. The Finscope 2020 Survey widened its scope to include thematic areas on financial health, financial education, climate change and the impact of the covid-19 pandemic.

The Survey results are a rich source of financial data that provides insights to guide policymakers and regulators to address market imperfections in the financial sector; enable providers of financial services to extend their reach and broaden the range of services they offer; and provide relevant strategic information to stakeholders in the financial sector on market opportunities and the financial services different market segments need.

"Findings from Finscope Surveys have been vital in informing financial sector reforms such as the financial

Story continues on page 14

Story continues from page 13

ZAMBIA OWNS 2020 FINSCOPE SURVEY

Members of the Germany's Savings Bank at the 2020 Finscope Survey launch

sector development plan (2010 – 2015), the national financial sector development policy (2017), the national financial inclusion strategy (2017 – 2022) and complementary sector strategies such as the national strategy on financial education, the national rural finance policy and strategy (2012) and the financial inclusion support framework," she said.

She added that this year's Survey presents an opportunity to evaluate the overall trends in financial inclusion. Further, the survey findings will help assess the effectiveness of the financial inclusion initiatives implemented and those that are being implemented towards achieving the targets set in the National Financial Inclusion Strategy (NFIS) 2017. These targets include:

- Increasing the level of overall financial inclusion to 80 percent by 2022 from 59 percent in 2015;
- Increasing the level of formal financial inclusion to 70 percent from 38 percent in 2015;
- Increasing the percentage of adults with at least a transaction account to 70 percent from 36 percent; and
- Improving delivery channels leveraging on digital financial services.

She also said the Bank of Zambia recognises that an inclusive, well-functioning financial system enables access to a broad range of affordable financial services to micro, small and medium enterprises (MSMES), as well as households of all income levels and demographics.

"This in turn contributes to reducing poverty and inequality by increasing resilience, access to credit, investment, job creation and productivity. In this regard, financial inclusion is the second pillar of the bank's strategic plan (2020-2023), whose objectives are aligned to contributing to the achievement of the financial targets in the national financial sector policy and the national financial inclusion strategy (2017)."

Some of the initiatives that have been implemented to ensure financial inclusion include:

- Implementation of the national financial switch and issuance of directives to expand the use of mobile-based delivery channels and achieve interoperability and scale of retail payments systems;
- Implementation of the online moveable collateral registry housed at patents and company registration agency to enable individuals and small and medium-sized enterprises (SMEs) use moveable collateral to access credit;
- Establishment of a consumer protection and market conduct supervision function to strengthen financial consumer protection; and
- Conduct of various financial literacy campaigns in conjunction with the private sector, civil society organisations and other financial sector regulators.

These efforts, among many other initiatives undertaken by financial sector regulators, public, private and civil society organisations, have enabled more adults to gain access to a wider range of quality and affordable financial services.

The survey was co-financed by Financial Sector Deepening Zambia; the Rural Finance Expansion Programme; the German Savings Banks Foundation for International Cooperation; the United Nations Capital Development Fund; and the Ministry of Finance while FINMARK TRUST provided technical support. The Pensions and Insurance Authority; the Securities and Exchange Commission; the Bankers Association and the Association of Microfinance Institutions of Zambia provided logistical support.

FINSCOPE TOPLINE FINDINGS

By ZAMBANKER REPORTER

Growth in the Zambian economy has been subdued since the last FinScope Survey in 2015, with real GDP growth projected at negative 4.2 percent in 2020. This situation has a direct impact on households as it speaks to fewer opportunities for income generating activities for households. In such times, the need for higher levels of financial inclusion cannot be over emphasised. Improved access to financial products/services not only contribute to economic growth, but also to reduction in income inequality and poverty.

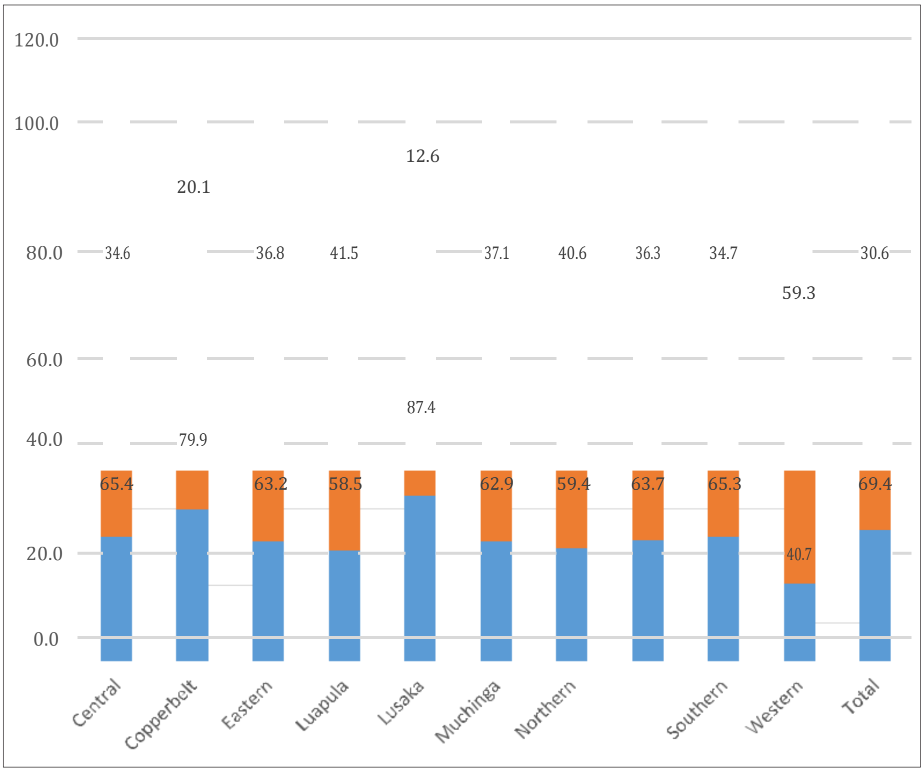
The country continued to make significant gains in financial inclusion despite the prevailing economic challenges. The FinScope 2020 Survey findings indicated that financial inclusion increased to 69.4% from 59.3% in 2015. Consistent with this, formal financial inclusion rose to 61.3% (2015, 38.2%). This growth was mainly attributed to increased uptake of mobile money services to 58.5% from 14.0% in 2015. On the other hand, informal financial inclusion declined to 32.3% from 37.9% in 2015 as more adults were using formal financial services.

The main barriers to achieving higher levels of inclusion included lack of money, low awareness levels and unemployment. These barriers call for heightened interventions in terms of financial education, provision of infrastructure especially in rural areas, and a general improvement in economic activity.

QUICK FACTS

- Total population of Zambia – 17.9 million
- Total adult population – 9.5 million
- 53.4% of adults live in rural areas; 46.6% in urban areas
- 52.6% of adults are female; 47.4% are male. Financial inclusion increased by 10.1 percentage points to 69.4% from 59.3% in 2015
- 71.2% of males are financially included compared to 67.9% of females.
- 83.8% of adults in urban areas are financially included compared to 56.9% of their rural counterparts
- Formal financial inclusion rose to 61.3% (2015, 38.2%); Informal financial inclusion declined to 32.2% (2015, 37.9%); while 30.6% are excluded.

Financial Inclusion by Province (Percent)



BoZ, SAVENET FORGE LINKS TO INCREASE FINANCIAL INCLUSION

By KENNEDY MUKUKA

Mr Mukuka

The Bank of Zambia and SaveNet have signed a Memorandum of Understanding (MoU) to increase financial inclusion and the economic wellbeing of marginalised segments of the population in rural areas.

The Bank and SaveNet agreed to enter into a MoU to establish a framework to facilitate collaborative work and promote linkage mechanisms of SGs to FSPs. The MoU was signed with the main objective of contributing to increasing financial inclusion and the economic wellbeing of marginalised segments of the population in rural areas. The MoU will run until December 2023 and is focused on four areas as follows:

i. Partnering on activities to scale up financial education in rural areas within the context of the National Financial Inclusion Strategy (NFIS) and National Strategy for Financial Education (NSFE);

ii. Conducting research or facilitate technical assistance on the business case of linkages between FSP and SGs;

iii. Facilitating development workshops for FSPs business models for linking to SGs; and

iv. Generating periodic information and statistics to facilitate monitoring and measurement of the impact of financial inclusion initiatives.

Savings Groups are closed self-selected user group that pools savings which are shared out at the end of the savings cycle (usually 12 months). The savings are also used to offer credit within the group at an agreed interest rate and the interest earned is then shared by the members in proportion with their respective savings.

Village Banks are a self-help support group of low-income entrepreneurs who come together to share and cross-guarantee one another's loans.

The uptake of informal financial services continues to grow amongst the Zambian adult population. The FinScope 2020 Survey Findings which were disseminated on 17 December 2020, showed that use of informal financial savings increased to 21.3 percent in 2020 from 15.5 percent in 2015 and 9.1 percent in 2009. The increase indicates the appetite for Savings Groups (SGs) and Village Banks (VBs) amongst an estimated adult population of 9.2 million.

The Bank of Zambia (Bank) recognises that SGs and VBs play a pivotal role in including adults formally excluded from the financial system. Also, they are important to the economic growth of the country because savings increase productive wealth. A well-functioning and inclusive financial system will enable access to a broad range of affordable and appropriate financial services to micro, small and medium enterprises, as well as households of all income levels and demographics. These groups are informal and unregulated by the Bank, therefore, disadvantaged from accessing the full range of benefits available to formally included adults. SGs and VBs do not provide a wide range of financial products and services; they handle large amounts of cash which poses security risks and fund security; recourse mechanisms are difficult when transactional disputes occur and borrowings usually fail to meet the financial needs of all the members because they are limited.

It is from this backdrop that the Bank recognised the Savings Led Microfinance Network of Zambia (SaveNet) as a partner given its role of working with its member organisations to promote financial inclusion and best practices among communities through SGs. Throughout 2020, the Bank and SaveNet collaborated to devise a mechanism to support the development of community-based groups and linking them to Financial Service Providers (FSPs). The collaborative efforts lead to the establishment of a partnership agreement between the Bank and SaveNet.

These initiatives in the partnership are aligned to the Bank's strategic agenda and the NFIS to increase financial inclusion to 80 percent (both formal and informal) and 70 percent of adults formally included by 2022. According to the FinScope 2020 Survey, financial inclusion is at 69.4 percent (both formal and informal) while formal financial inclusion is at 61.3 percent.

Story continues from page 8

LOAN DISBURSEMENTS RECORD GROWTH

These adverse implications may arise from larger loan loss provisions that credit providers may require to make to recognise the deterioration in the quality of the household loan book. Higher loan loss provisions may in turn impact the profitability and eventually the capital adequacy of the financial sector, if the rising trend in household NPLs is not reversed.

The Report further explains that it should, however, be noted that credit from credit service providers licensed by the BoZ does not paint a complete picture of the emerging debt stress to households. In the period from 2016, it was observed that a number of Money Lenders mushroomed in Zambia and were a source of appreciable levels of credit to individuals. Statistics on the volume and value of credit provided by Money Lenders are not available because the activities of these players in the larger credit market are not effectively overseen or monitored.

The Credit Market Monitoring Report presents an annual overview of Zambia's credit market with particular focus on access to credit and quality of the loan book. It analyses the level of credit disbursement, the size of the credit book and debt performance according to defined credit end-user categories. This report has also looked closely at the level of credit to households and individuals. The objective of the report is to provide the credit market with aggregated credit data[1] to promote market development. It is based on quarterly credit returns submitted by the credit providers operating under the supervisory ambit of the Bank of Zambia (BoZ). The formal Zambian credit market comprises the banking and the non-bank financial institutions (NBFIs) sectors. As at 31 December 2019, the banking sector comprised 18 banks while the NBFI sector comprised 44[2] credit providers.

In this regard, a number of measures can be considered that can improve future analyses of credit data in order to proactively identify a build-up of credit to households that may have adverse implications for financial stability. These measures include the following:

a) The BoZ should work with the Zambia Statistics Agency to conduct annual household income surveys for purposes of estimating household income levels;

b) The BoZ should work with other relevant competent authorities to collect and maintain statistics that would be useful in constructing a range of indicators to measure levels of over-indebtedness by households. The indicators could include:

- Household debt to income ratio;
- Loan instalment to income ratio;
- Number of monthly household loan instalments in arrears;
- Number of loan agreements per household

Such indicators would provide the BoZ with a more accurate picture of emerging risks of debt stress in the household sector and could be used in assessing the financial stability implications of rising household debt; and

c) The BoZ in coordination with the Ministry of Finance should modernise the Money Lenders Act and subsequently harmonise it with the Banking and Financial Services Act in order to eliminate regulatory arbitrage opportunities that are exploited by Money Lenders. The modernisation of the Money Lenders Act is expected to create opportunities for the BoZ and the Ministry of Finance to work jointly on designing and implementing a monitoring system for the Money Lenders sub-sector to bring about visibility on the activities of the Money Lenders through the maintenance of basic statistics of credit to the household sector that emanates from Money Lenders. Such statistics would support an accurate assessment of the progression of debt stress levels in the household sector.

The BoZ has been collecting credit returns from licensed credit providers since the first quarter of 2016. These returns contain data on the number and value of credit disbursements within a quarter, as well as on the number of loans and the value of the loan book at the end of each quarter . The returns also contain data on credit agreement size, credit performance, and credit maturity. The tables and graphs in the report are built from aggregating the returns across the market. The purpose of this report is to:

(i) Disseminate qualitative and quantitative credit data to stakeholders in the credit market;

(ii) Track and measure credit activity;

(iii) Assist the BoZ and credit providers to monitor credit trends and identify financial distress for specific sectors and credit end-user categories;

(iv) Assist in the formulation of regulatory interventions that could support effective and appropriate credit policy; and

(v) Enable credit providers to perform peer and sector analyses, update their borrower and market risk models, and design new products. This should result in improved decision-making and market functioning.

The report analyses the credit market across three main dimensions as follows:

(i) Credit product-type (mortgages, revolving credit, secured loans, and unsecured loans);

(ii) Credit end-user category (households, large businesses, small businesses, large agricultural businesses, small agriculture, government, and other end-users); and

(iii) Credit provider (banks, microfinance institutions, building societies, savings and credit institutions, leasing finance institutions and other financial businesses).

The report provides a brief overview of credit performance in Zambia and gives a general outlook of credit across these dimensions. The report also includes an overview of the financial inclusion data by focusing on access to credit for women and youths.

The full Report can be accessed from the website under the Publications Icon.

[1] *This data includes the number and value of credit disbursements within a quarter, as well as on the number of loans and the value of the loan book at the end of each quarter. Data on credit size, performance and maturity is also collected. Disbursements are cumulative flows of loans in the quarter, while the loan book is the stock of loans measured at the end of the quarter. The data is aggregated across the market and is available on the BoZ website http://www.boz.zm/credit-market-monitoring-reports.htm.*

[2] *The analysis contained in this report is based on information submitted by 18 banks and 43 NBFIs. One MFI did not submit its credit market monitoring return as at end December 2019 because it had just been licenced and had not yet started operations.*

BUY LOCAL, PRODS MVUNGA

By ZAMBANKER REPORTER

Bank of Zambia Governor, Mr Christopher Mvunga has stated that in as much as the Government is providing an enabling environment for local producers to form cooperatives and expand production thereby increasing their market share in supermarkets and chain stores, the people of Zambia should buy local goods through the "Buy Zambia Campaign" in order to attain long-term sustainability.

Speaking during the Economics Association of Zambia Gala Annual Dinner, Governor Mvunga stressed that the country's economic recovery must be more inclusive and driven by local industry.

"As a country, we must now ensure that we take advantage of some of these opportunities so that our own local industries drive recovery. We must become more self-reliant in terms of food and in other manufactured products; as well as encourage local industries that have shown the capacity to produce what was previously imported," he said.

Earlier, the Governor explained that the COVID-19 pandemic has stifled economic activity and disrupted peoples' lives and livlihood. This has prompted reactions by both the monetary and fiscal authorities to take swift policy actions. These policy actions are not perculiar to Zambia but are being implemented in both developed and developing economies.

For Zambia, domestic economic activity contracted in the first half of 2020 and the economy is posed to shrink for the first time in 20 years. This is not suprising as companies shutdown, job and income losses increased, and business output and consumer demand declined as COVID-19 cases grew exponentially.

He noted that in as much as the COVID-19 pandemic has had an unprecedented impact on the economy, it has also presented opportunities including the adaption to new technologies, new methods of doing business and managing lives. He added that both businesses and households have shown resilience in an effort to mitigate the negative effects of the pandemic.

He added that the financial sector has also been adversely affected by the pandemic. In the banking sector, for instance, asset quality has deteriorated with the ratio of NPLs to gross loans remaining elevated at 12.3% as of October 2020. This was less than satisfactory and above the prudential requirement, a demonstration that credit risk has heightened. It is a similar scenario for the Non-bank financial institutions sector whose NPLs ratio is slightly over 25%.

"However, frequency indicators suggest that recovery is on the way as economic activity is slowly picking up reflecting the partial relaxation of COVID-19 restrictions from the third quarter of the year. Mining production in the year to September 2020 has also improved supported by buoyant copper price," he said.

TAKE TIME TO EDUCATE YOUR CUSTOMERS

By ZAMBANKER REPORTER

The Bank of Zambia has implored commercial banks to invest in educating their customers and the public at large on the key features of their various products and services and provide the right advice.

His Excellency, Mr Edgar Lungu, speaking to Deputy Governor-Administration, Ms Rekha Mhango at the Absa Petauke branch official opening

Speaking during the launch of the Absa Petauke Branch, Deputy Governor-Administration, Ms Rekha Mhango, explained that the financial sector needs to empower Zambians with knowledge, understanding and skills on financial services and products to help them make prudent financial decisions and to secure positive financial outcomes for themselves and their families.

She said a population that has access to formal financial institutions is cardinal in realising the vision of achieving universal access and usage of a broad range of quality and affordable financial services that meet the needs of both individuals and enterprises, which is being pursued through the national financial inclusion strategy.

"Some of the issues that we constantly have to address are the perception that putting one's savings in a bank is expensive due to the various charges and fees. However, in some instances, customer complaints on bank charges are as a result of choosing an account that is not suited to the peculiar needs of the customer. The Bank of Zambia has taken measures to protect customers against unwarranted bank charges by requiring banks to publish their charges and fees on their products and services. In the same way, our expectation as the central bank is that banks will play their fiduciary role of being trusted financial advisers to their customers to make the right investment decisions on the various financial instruments," she said.

Story continues on page 20

Story continues from page 19

TAKE TIME TO EDUCATE YOUR CUSTOMERS

Bank of Zambia Board Vice Chairperson Professor Hellicy Ng'ambi (3rd from right) with senior members of staff of the Central Bank and Absa.

She added that the Central Bank aims to see the majority of Zambian citizens accessing the broad range of financial products and services as access to financial services fosters wealth creation, economic growth, and sustainable development through financing entrepreneurial activities.

"Banks play a key role in this process by mobilising savings, and channeling these resources to needy sectors. That is why this launch of an ultra-modern branch in Petauke is important to us as it helps in bringing formal banking services closer to a segment of the population that would otherwise be deprived," she said.

Meanwhile Ms Mhango said banking in Zambia has changed, thanks to the digital banking era. She explained that banks and other financial service providers are trying to find a balance between digital channels and physical channels since online banking was introduced. She said physical branches were the popular places to go, but that changed when mobile banking was introduced.

"Having competitive advantage is no longer about having the widest branch network but rather about accessibility of banking services. Almost all transactions can now be done from anywhere anytime through digital platforms and mobile phones. This increases productivity and efficiency in the economy as transactions are carried out quickly and customers do not spend time in queues. We continue to encourage the growth of digital banking and Absa is taking the lead in this regard, with about 80% of the customers utilising the bank's digital platforms," she said.

She added that taking advantage of the increasing synergistic relations between mobile telecommunications companies and banks, will go a long way in enhancing mobile penetration for the wider population to enjoy formal products and services without necessarily having a bank account.

There has been increased volumes of transactions between bank and wallet, posting an annual average growth of 126% from K20.7 billion in 2015 to K49.4 billion in 2019.

She stated that another relatively new dimension to banking in Zambia is the bancassurance model where banks are increasingly offering insurance products as part of their product portfolio. She said this is of fundamental importance as less than 5% of the population have some form of insurance cover.

BoZ MAINTAINS ACCOMMODATIVE MONETARY POLICY

By ZAMBANKER REPORTER

The Monetary Policy Committee (MPC), at its November 16 - 17, 2020 Meeting, decided to maintain the Policy Rate at 8.0% in order to safeguard financial sector stability, peoples' lives and livelihoods and support economic growth. This decision also allows monetary policy measures taken earlier in the year to take full effect. This is despite projections indicating that inflation will persist above the 6-8% target range throughout the forecast horizon.

Governor Mvunga, speaking during the 4th quarter Monetary Policy Press Briefing

In arriving at this decision, the MPC considered three options: (i) raising, (ii) reducing or (iii) maintaining the Policy Rate. Announcing the decision during a press briefing recently, BoZ Governor, Mr Christopher Mvunga explained that whereas, raising the Policy Rate in an effort to control inflation given that the increase in inflation was expected, doing so would result in further contraction in economic activity and threaten financial stability. On the other hand, reducing the Policy Rate in an attempt to support economic growth may put additional pressure on the exchange rate and worsen the inflation outlook.

"The MPC decision therefore considered the significant reduction in the Policy Rate by 350 basis points already made in 2020, and the need to allow monetary policy measures to take full effect," he stated.

The Governor explained that the Committee noted that financial stability remains fragile despite signs of marginal improvement in economic activity in the third quarter following the partial relaxation of COVID-19 restrictions. Although growth is expected to recover in the medium-term, limited fiscal space, as well as uncertainty surrounding the persistence of the COVID-19 pandemic and access to external financing remain key downside risks to growth prospects.

In this regard, successfully navigating the debt restructuring process to restore debt sustainability and implementing fiscal and other structural reforms are critical to return to fiscal fitness and macroeconomic stability.

From a global perspective, the MPC noted the less severe contraction of the global economy by 4.4% in 2020 down from the earlier projection of 4.9%. The projected strong rebound in global growth for 2021 at the back of policy stimulus measures coupled with the speed of delivering a COVID-19 vaccine, if it materialises, would also be supportive of the Zambian economy.

The Governor further stated that the decisions on the Policy Rate will continue to be guided by inflation forecasts, outcomes, and identified risks, including those associated with financial stability and the COVID-19 pandemic.

Gold Purchase Agreement signing ceremonies at the Bank

Water Tank Donation to Chibolya Primary School

PHOTO FOCUS

Governor Mvunga's Meetings with Former Governors

BoZ Donation to Mukobeko Maximum Prison

Story continues from page 12

CREATING A PERSONAL PENSION FUND

Figure 1: Treasury bill Yields, Q4 2020

	Last Q3 auction	Q4 Tbill Results per auction						
	20/2020	21/2020	22/2020	23/2020	24/2020	25/2020	26/2020	27/2020
	24-Sep-20	8-Oct-20	22-Oct-20	5-Nov-20	19-Nov-20	3-Dec-20	17-Dec-20	31-Dec-20
91 Days	14.0000	14.0000	14.0000	14.0000	14.0000	14.0000	14.0000	14.0000
182 Days	16.5001	16.5001	16.0000	16.0000	16.0000	16.0000	16.5001	16.0000
273 Days	19.6501	19.6501	19.6501	19.6501	19.6501	19.6501	19.6501	19.5000
364 Days	24.5000	24.5000	24.5227	24.5500	24.5500	24.5227	24.5000	25.7500
Weighted Average Yield Rate (WAYR)	*21.3930*	*20.4206*	*23.0036*	*23.4406*	*20.2022*	*20.5047*	*22.5867*	*22.6896*

Key observations on yield rate movements in Q4 2020

- There was no yield movement registered on the 91 Days tenor in Q4. The rates maintained at 14.0000%, same as at the end of Q3.
- The yield rate on the 182 Days tenor dropped by 50 basis to 16.0000% as at end of Q4 compared to 16.5001% at the end of Q3.
- The yield rates on the 273 Days tenor were unchanged at 19.6501% for the first 6 auctions in Q4 before declining to close the quarter at 19.5000% representing quarter on quarter decline of 15 basis points compared to the end of Q3.
- The 364 Days tenor registered the only quarter on quarter increase between Q3 and Q4. The yields rose by 125 basis points from 24.5000% as at end of Q3 to 25.7500% as at end of Q4.
- The Treasury Bills Weighted Average Yield Rate (WAYR) as at the end of Q4 rose by 130 basis points to 22.6896 from 21.3930% at the end of Q3.

Government Bonds (GRZ bonds)

In the last quarter of 2020, three bond auctions were conducted with the total of ZMW 4.50 billion offered at cost. A total of ZMW 1.45 billion at cost was received in Q4 compared to K2.54 billion in Q3. This represents a decline in the subscription quarter on quarter from 56.3% recorded in Q3 to 32.3% in Q4. Of the K1.45 billion received, K1.32 billion was allocated representing an uptake of 29.4% down from the 56.2% uptake of K2.52 billion recorded in Q3.

Figure 3: Government bond Yields Q4 2020

Government bond Yields 2020

	Q3			Q4		
	07/2020	08/2020	09/2020	10/2020	11/2020	12/2020
2 years	24-Jul-20	21-Aug-20	18-Sep-20	30-Oct-20	27-Nov-20	24-Dec-20
3 years	30.9500	31.9500	31.9500	32.0000	32.0000	32.0000
5 years	32.7000	32.7000	32.7000	32.7000	32.7000	32.7000
7 years	33.0000	33.0000	33.0000	33.0000	33.0000	33.0000
10 years	25.0000	25.0000	25.0000	25.0000	30.1000	30.1000
15 years	31.5000	31.5000	33.0000	33.0000	34.5000	34.5000
	32.5000	32.5000	33.0000	33.5000	33.5000	33.5000
Weighted Average Yield Rate (WAYR)	32.1499	32.0818	32.5508	32.3940	32.8672	33.3522

Key observations on Govt bond yield rate movements in Q4 2020

- The yield on the 2- year tenor rose by 5 basis points from 31.9500% in Q3 to 32.0000% in Q4.
- The yield on the 3- year tenor was maintained at 32.7000% in Q4 same as the yield at end of Q3.
- The yield on the 5- year yield was maintained at 33.0000% in Q4 unchanged from Q3.
- The 7- year yield rate rose by 510 basis points in Q4 up from the 25.0000% levels seen in Q3.
- The 10- year yield rate rose by 150 basis points to 34.5000% in November of 2020 up from 33.0000% as at end of Q3.
- The yield rate on the 15- year rose by 50 basis points from 33.0000% as at the end of Q3 to 33.5000% in the first auction of Q4. This was maintained across the rest of auctions in the quarter.
- The end of quarter Bonds Weighted Average Yield Rate (WAYR) rose by 80 basis points from 32.5508% as at end of Q3 to 33.3522% as at end of Q4.

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

SUCCESSES SCORED IN 2020

By ZAMBANKER REPORTER

The Bank of Zambia adopted an accommodative monetary policy stance since the onset of COVID-19. This is to support livelihoods and safeguard the stability of the financial sector while being mindful of the need to bring back inflation to the 6-8% target range in the medium-term.

The Central Bank stepped up sensitisation on the use of digital financial services in 2020

The Bank's response primarily focused on easing financial stress, ensuring a smooth flow of credit to the private sector through targeted credit programmes and supporting real economic activity as well as provision of liquidity to the financial system. These actions were accompanied by regulatory relief actions, including loosening of market regulations and activity restrictions in the financial sector.

In particular, the Bank has instituted the following measures:

- Reduced the Policy Rate cumulatively by 350 basis points in May and August and maintained it at 8.0% in November. The objective was to support financial stability resilience and promote economic recovery, among other objectives;
- The introduction of the Targeted Medium-Term Refinancing Facility (TMTRF) with an initial amount of K10 billion Kwacha. Under this Facility, the Bank is providing liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable businesses. Additional incentives have been given to identified priority sectors with a view to stimulating private sector led growth. As at November 12, 2020 a total of K3.1 billion has been disbursed and the Bank is currently making revisions to the terms and conditions to enhance accessibility.
- Embarked on the Bond Purchase Programme to provide liquidity to the financial sector, promote bond consolidation and subsequently deepening the secondary market. The targeted amount of K8 billion has since been exhausted.
- The Bank also introduced short-term liquidity support to commercial banks through the BoZ Open Market Operations Window with tenors extended beyond overnight. In addition, the Bank revised the Interbank Foreign Exchange Market Rules aimed at supporting the interbank trading in foreign exchange, ensure market discipline and allow for more measured adjustment in the exchange rate in periods of market stress.
- Stepped up sensitisation on the use of digital channels and contactless mobile payment mechanisms in order to protect human life and ensure convenient and secure banking service in the period of pandemic. Specifically, some of the measures instituted by the Bank included:

i) Upwards revision to the transaction and balance limits for electronic money;

ii) Waiver of fees for person-to-person transfers for values of up to K150;

iii) Capped the Merchant Discount Rate (MDR) for transactions on the Point of Sale machines to no more than

Story continues on page 33

FROM THE BOARD

By ZAMBANKER REPORTER

The Bank of Zambia Board of Directors at its 342th sitting on 30th November, 2020 made the following decisions:

Abolishment of Voluntary Separation Scheme (VSS)

It abolished the Voluntary Separation Scheme (VSS) effective 1 January, 2021. A voluntary separation scheme ('VSS') is a scheme/ offer where an employer invites and offers the employee to resign voluntarily without the implications of a retrenchment while still receiving fair compensation from it.

Restructuring of the Executive Office

The Executive Office was restructured as follows:

(i) Establishment of the position of Chief of Staff

(ii) Establishment of the position of Chief Advisor to the Governor

(iii) Elevation of the Executive Assistant to the Governor to Assistant Director level

(iv) Abolition of the roles of Senior Directors

In addition, the Security Division has been converted into a department to be headed by a Director.

Furthermore, the Board approved the following policies:

(i) Revised Learning and Development Policy;

(ii) Revised Community Involvement Policy; and

(iii) Change and Innovation Management Framework and Policy.

Directors of the Board with trainers from the Institute of Directors after a Board Evaluation Training

R.O SOCIAL CLUB IN FACELIFT

By ZAMBANKER REPORTER

The Regional Office Social Club which has been closed since 1st June 2020 is undergoing refurbishment. Works which started in September, 2020 are scheduled for completion in February 2021. The works include painting, re-thatching the chalet, replacing the bar countertops, plastering and painting the wall fence and revamping the entrance into the main hall.

Rehabilitation works at the Regional Office Social Club are almost done

A new Social Club Committee has also been ushered in led by the Chairperson - Ms Kamuti Chama. Other members are Mr. Luka Chiwowa who is the Vice Chairperson, Ms. Daisy M. Olatunji – Treasurer, Mr. Godfrey Goma – Vice Treasurer, Mr. Chisha Kanchule – Secretary and Mr. Charles Mukuka – Vice Secretary. Others are Mr. Shadreck Mukuwa – Human Resource representative, Mr. Kennedy Mutale – Union representative, Ms. Towela Lengwe and Ms. Chipo Mwangonda as Committee members. The new Committee took office in August 2020 following the expiration of Club employees' work contracts in May 2020.

Like other businesses in the sporting and hospitality industry, the Social Club has been affected by the outbreak of the corona virus pandemic resulting in a drop in patronage and income from other club activities. With the low income that are mainly from bar sales, hire of facility for functions and kitchen sales, the Club was unable to meet its operating costs owing to low profitability, low inventory levels and as a result received aid from the sponsor.

The new Club Committee is faced with the task of recruiting new staff that shall be responsible for the day to day running of the facility. The Committee has engaged the Ministry of Labour and other stakeholders in the recruitment process to ensure the right number and caliber of staff are recruited. The Committee will also have to ensure that emoluments for the new social club workers are contained within sustainable levels.

In order for the Social Club to successfully meet its goals and obligations, the following objectives have been set for 2021:

i. Recapitalisation to finance Inventory in order to increase the Social Club's income and be able to meet the minimum wage obligations and other operating costs;

ii. Changing the Club Organisational Structure as proposed by the Ministry of Labour to full-time employment and part-time employment to contain the emoluments within sustainable levels; and

iii. Leasing the Kitchen to increase income as a Chef/Cook is not included in the proposed structure;

Despite the challenges, the Club Committee is committed to ensuring that with the help of the Club members and the Sponsor (Bank of Zambia) the operations of the Social Club will be restored, to ensure that the Club continues to provide and host successful social, sporting and entertainment events for its members.

The BoZ Ndola Branch Social Club has been in existence for over 30 years. In April 2019, the Club was registered under the Societies Act and recognised as the Ndola Branch of the Bank of Zambia Social Club.

VILLAGE BANKING: HOW TO MAKE IT WORK FOR YOU

By JEAN C. KAMANGA

Village banking has been a trendy topic for the past years in Zambia, and indeed across the African continent. Remarkably, even with the advent of Covid-19, the business of village banking has continued, and most groups have adopted new ways of carrying out transactions with their members. Findings from the recent FinScope Survey indicate that about 24.1% of Zambians use both formal and informal financial services. These informal savings mechanisms have become popular mainly because of the convenience they offer for obtaining credit, the requirement for mandatory savings which encourages discipline, as well as the transparency and social cohesion that they offer to their membership.

Ms Kamanga

Like any trend, village banking has its dark side. Stories of fraud, run-away members; default; have become quite rampant. This therefore makes it very important for one to take careful consideration before joining a village bank. It is important for one to understand the risks that can be posed by village banking and find ways to manage those risks.

Here are some tips that I think could be of use:

1. Ensure your village bank is really a village bank.

Do not be conned into joining a Ponzi or Pyramid scheme that calls itself a village bank. A proper village bank is a self-managed closed user group, normally composed of persons who know each other. The purpose of the group is normally to save money and lend out to group members on pre-agreed rates. If you are invited to join an existing group, and your returns are based on introduction of other new members, that is a red flag. If the promised returns are not commensurate to any underlying activities such as lending within the group, that is another red flag. If membership is open, and the more members you bring, the higher the rewards! That is definitely not a village bank.

Village bank are based on trust, with members who know each other and join at the same time for a defined period. When an association is based on the introduction of new members whose funds are then used to pay off the earlier members; that falls in the realm of a pyramid scheme and is definitely not a village bank.

So be careful that you are actually joining a village bank, and not a pyramid scheme or a Ponzi scheme. While village banks are not regulated by the Central Bank, they are perfectly legal. On the other hand, the Banking and Financial Services Act clearly prohibits money circulation schemes and makes it a criminal offence to participate in the same.

2. Know your village banking rules

Village Banks are ordinarily governed by rules that are enshrined in the Village Banking Group Constitution. This is usually shared with members at the start of the cycle and members sign up to the rules before the cycle begins. As a member, you need to ensure that you read and understand the rules that govern your group and are comfortable with them. You need to understand factors such as eligibility criteria for borrowing, monthly maximum savings and lending amounts, interest rates applicable, cycle period, etc. Certain village banking groups have penalties for flouting rules, so make sure you don't fall victim through mere ignorance. Know and understand what you are signing up for. If you are not comfortable with it, discuss it with other group members and see how you can make your rules better.

It is important for groups to remember that rules are meant to make members' lives better, and not to enslave them. The best groups learn as they go, and adjust their rules, to suit their changing needs. Flexibility and adaptability remains a key feature of a good village banking group. Ensure that the rules serve the group and that they are responsive to changing member needs.

3. Know your fellow members and be comfortable with them

Village Banks are based on trust, and this can only be established with people you know. However, it is unrealistic to think you can know all the members, especially with certain groups that have a very large membership. However, there are certain things a group can put in place to create trust in the membership. One way is to ensure that members are only introduced through existing members, and that any new members can be vouched for by the members introducing them. You won't know everybody, but make sure everyone in the group is at least well known by another group member. Do you know the admins, or at least some of them? Do you trust the ones you know? Do you have an idea what their financial track record is? Are they in debt? Have they recently been visited by bailiffs? What is their source of income?

Establishing trust in a group is quite difficult, but it can be achieved with time. Normally as the cycle progresses, it becomes easier to deduce which members are problematic and may easily cause problems. It then becomes the duty of the administrators of the group to 'manage' these members in order to ensure that the group is not affected. Management techniques will depend on the circumstances, for instance, for members who seem to have problems with repayment, the administrators should ensure close follow up and ensure loans are disbursed based on capacity to repay.

4. Have a plan for your savings, credit and repayment

Why do you want to join a village banking? What do you hope to achieve by the end of the cycle? The reasons for belonging to a village bank vary from person to person. Others merely want it as another form of investment. Others want it as a source of easily accessible credit. Other, just want to belong to the group just for the sense of belonging. This would appear to be intuitive, it almost feels like it should be common sense. Unfortunately, experience has shown that most people will join a village banking group just because it's trendy, or because their friend asked them to join. Have you wondered why someone would belong to 5 different groups, and they don't even know the cycles of the groups or indeed why they joined them in the first place? The problem is not the number of village banking groups one belongs, to, but the purpose served by such membership.

If you belong to a village banking group, you should have reasons for joining one in the first place. Secondly, you must have a plan on how you want to achieve whatever goals you have for joining the village banking group. If your plan is to use the village bank to obtain credit so that you can finish your building project, you need to plan not only how much you will borrow, but also how you will repay your loan. Have you considered the cost of borrowing, and compared this to other institutions? It is quite disheartening for members to not know their loan amounts with a village bank, because that entails you haven't planned your repayments. Worse still, such members may not even know the cost of the funds.

Where a member joins a group primarily to save, they must still have a plan on how they will achieve that. What is the source of funds for those savings? What amounts do they intend to save on a monthly basis? What are the rules regarding savings and is there any requirement for borrowing? Have you made an analysis of the different investment alternatives and considered the risks associated with each? These are some of the questions you should ask yourself before even starting a village banking journey?

5. Be smart with your money.

The assumption here is that you have worked hard for your money and have no desire to squander it. Therefore, be very smart about making it work for you as well. Be tentative and cautious, especially with new groups. Try and diversify your portfolio as a way of managing risks. Do not take your entire life savings to a village banking you just joined.

Have you considered other available investment options? In the event you are mandated to borrow money, what plan do you have for such funds? Keep track of your savings and loans at any period. Monitor the growth of your funds in order to measure this against your goals periodically. When the groups monthly transactions are shared by the administrators, monitor the performance of the group as well as individual members so that you can foresee any issues that may arise in terms of default. Ensure that the transactions entered by the administrators are accurate and that they tally with your own projections. Ask questions where you are not sure.

6. Evaluate performance at the end of the cycle.

At the end of each cycle, you need to evaluate the experience. Did you meet the goals you set out to achieve by joining the village bank? Are you comfortable with the members in your group? What lessons have you learnt during the cycle? Is there any additional benefit to continuing with the village banking group? This analysis should determine whether or not you should continue with the village banking group.

If joining was primarily as a way of obtaining easy and convenient credit for finishing a project, did you achieve that goal? In terms of loan repayment, what challenges if any did you have? Is there anything you learned from the process that you now wish to implement in the next cycle?

If joining was primarily as an investment tool, did you achieve that goal? Were there any challenges in terms of repayment by other members? Was share out delayed because of members' delayed repayments? Did you receive full payment on share out? Was it a worthwhile experience?

This list of tips is not exhaustive. Experience remains the best teacher in such a venture. If you are learning along the way, you will probably not be surprised by whatever results you get at the end of each cycle. However, if you are still getting surprised every time the monthly transaction results are shared, then you need to evaluate yourself and change a few things.

Jean C. Kamanga is Senior Legal Counsel, Legal Services Department.

THE LEGAL CASE FOR GOLD AS A RESERVE ASSET

By LUNGISANI ZULU

The Bank of Zambia late 2020 commenced the accumulation of gold as part of the official international reserve assets following the purchase of 47 kilograms of gold from Zambia Gold Company Limited. This was on the back of the signing of agreements for the purchase of gold on December 7, 2020 with both Zambia Gold Company Limited and Kansanshi Mining Plc.

Mr Zulu

The gold will be sourced locally from the Zambia Gold Company Limited, being the organisation that will oversee mining, processing, refining and marketing of gold in Zambia and Kansanshi Mining Plc, which has been producing the commodity on a commercial basis since 2006.

In this article, I provide the legal basis for the central bank's gold accumulation programme.

That central banks world over accumulate gold as a strategic reserve asset is a well-documented fact. In fact, according to the International Monetary Fund, gold is the third largest reserve asset by central banks in the world.

This is because gold is generally considered to be a strategic asset that can be deployed for both short-term liquidity management and as a store of value over time. It is an asset that is well suited to meeting central banks' strategic objectives of: safety, liquidity and return.

Actually, gold is the only reserve asset that is free from political and counterparty risk. It does not depend on a sovereign's ability to repay. Nor can the value of gold be de-based by the printing presses or by extraordinary monetary policy measures.

These characteristics of gold are particularly attractive in today's environment of heightened political risks, growing threats to central bank independence and fears of debt monetisation and currency wars.

So what is the legal basis for gold purchases for Bank of Zambia?

By section 39 of the Bank of Zambia Act, Chapter 360 of the Laws of Zambia, Parliament mandates the central bank to maintain gold as an international reserve asset.

Further, under section 40 of the same statute, the Bank of Zambia is empowered to buy, sell or deal in gold coin or bullion or other precious metals as part of its reserve and exchange operations.

Clearly, the Bank's gold purchase program is not only anchored on sound legal basis but in line with central bank best practices in reserve accumulation.

Gold is truly golden.

Lungisani Zulu is Senior Legal Counsel, Legal Services Department.

DEPOSIT PROTECTION AND THE FINANCIAL SAFETY NET: WHAT ARE THE SALIENT FEATURES?

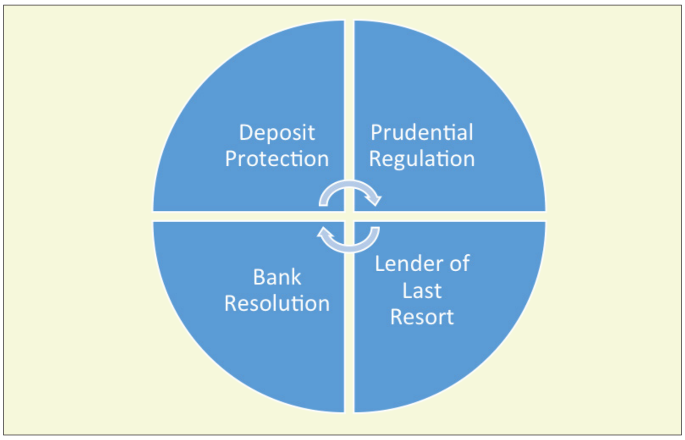
By CALVIN HABASONDA

This brief article highlights some salient aspects of a deposit protection scheme and its role in the financial safety net. Episodes of bank failures are an occasional occurrence in many banking systems. For instance, Zambia has had its fair share of bank failures in the 1990s and early 2000. More recently, one bank failure was experienced when Intermarket Banking Corporation Zambia Limited failed in 2016. Such failures can cause panic among members of the public and could sometimes trigger flight of deposits to safety from smaller banks to bigger banks that are viewed as safe and sound. The presence of a deposit protection scheme arrays depositors' fears about the safety of their deposits during banking crises. Evidence from the global financial crisis indicates that smaller protected depositors were sticky contrary to those deposits that were not covered by the deposit protection schemes in various countries. This was explained by the fact that the depositors were not worried about losing their deposits since they were covered. In turn, they contributed immensely to the stability of financial institutions by keeping their deposits during the crisis. In this respect, deposit protection schemes are seen as key stakeholders in the financial safety net and the overall framework for the promotion of financial stability.

Mr Habasonda

Notwithstanding, many countries still do not have a deposit protection scheme despite it being a key player in the financial safety net. The absence of the deposit protection fund in many cases has complicated the resolution of banks as well as the settlement of depositors when deposit taking financial institutions fail. Financial institutions will inadvertently fail regardless of the best efforts of supervisors. In the circumstances, the existence of a deposit protection scheme becomes crucial in fostering continued public confidence in the use of financial institutions by depositors. Figure 1 below gives a schematic view of the various stakeholders in the financial safety net.

Figure 1: Financial Safety Net Stakeholder matrix



A deposit protection scheme is designed to protect depositors in the event of a bank failure and prevent runs at banks. It provides a formal process to repay depositors following a bank failure and reduces the time it takes to reimburse depositors when a bank failure occurs. Deposit protection schemes can either be explicit or implicit in their design. An explicit deposit protection system allows regulators to resolve distressed institutions with minimal disruption to the financial system in the event of a bank failure. Moreover, where the depositor protection scheme is properly designed, it has potential to shift the cost associated with depositor protection to the financial system away from the Government which is the funding source in cases where the scheme is implicit or assumed. This cost can sometimes be astronomical and the resolution process can be compounded when the Government has limited or no fiscal space to cushion the unexpected economic costs arising from bank failures. In the absence of an explicit deposit protection scheme, the protection extended to depositors is on an adhoc basis and sometimes includes regulatory forbearance or through capital injection or otherwise undertaking restructuring of a distressed financial institution to ensure that no depositors lose their money. An explicit and formal deposit protection scheme which is based on certain rules and principles is a far much better substitute to the adhoc systems. However, it should also be noted that robust supervisory oversight offers the best line of defense against a banking crisis. Similarly, a well-designed deposit protection scheme is equally an important aspect of a functionally effective financial safety net. On the other hand, a poorly designed deposit

Story continues on page 34

Beware of Money Circulation and Ponzi Schemes

Bank *of* Zambia

These schemes are prohibited under the Banking and Financial Services Act.

How to identify them:

They are developed to make quick and easy money by alluring potential investors through promises of high returns in a very short period;

The returns promised cannot be supported by any realistic economic or business activity;

The schemes depend on payments from future subscribers to pay existing members, rather than from a legitimate and demonstrable commercial activity or business;

The continued existence of the schemes is dependent on recruitment of more subscribers. When new subscribers cannot be found, the schemes fail.

Look out for these warning signs!

“Building an Inclusive and Resilient Financial Sector”

Story continues from page 25

SUCCESSES SCORED IN 2020

Agriculture is one of the priority areas for the Targeted Medium-Term Refinancing Facility (TMTRF)

2% of the value of the transaction for MSMEs;

iv) Reduced transaction processing fees for the Real Time Gross Settlement (RTGS) and Electronic Funds Transfer (EFT) systems and urging commercial banks to pass on this benefit to their customers;

v) Facilitated for the purchase of protective equipment for mobile money agents through interest earned on 'Trust Accounts'; and

vi) Interoperability - efforts for push and pull (instant payments) from electronic wallet to electronic wallet bank to bank, bank account to e-wallet and vice versa were increased with the module on the National Financial Switch going live in April 2020. These transactions will reduce person-to-person contact as well as decongest banks.

- The Bank revised loan classification and provisioning rules to allow financial institutions to better accommodate lending and refinancing to critical sectors. In this regard, the Bank allowed the financial institutions to renegotiate terms and conditions for credit facilities to counterparties negatively impacted by Covid-19 through restructuring or modifying the loan agreements. Such renegotiated facilities shall be treated as current and no adverse classification and provisions for loan losses will be required. In addition, renegotiated facilities will not be reported to the Credit Reference Bureau as delinquent.
- The Bank extended the International Financial Reporting Standard 9 (IFRS 9) transitional arrangement for financial institutions to amortise the 'Day 1 impact' of the implementation of the International Financial Reporting Standard 9 (IFRS 9) for regulatory capital adequacy purposes on a straight-line basis under the static approach, to 31st December 2022. In addition, financial institutions have been allowed to add back to regulatory capital any expected credit losses arising from COVID-19. Therefore, in the computation of regulatory capital, the add back will not only include the 'IFRS 9 Day 1 impact', but also any increases in provisions on account of the Covid-19 pandemic, and the total will be amortised over a period. This is for a period from April 1, 2020 to December 31, 2022 as per CB Circular No. 13/202.

Together, with supportive fiscal policy and initiatives by different stakeholders, we are beginning to see the positive effect of these measures on the real economy through improved liquidity conditions and relatively lower lending rates. Interest rates have come down broadly in line with the Policy Rate cuts and credit to the private sector has risen slightly while economic activity is showing signs of bouncing back despite pronounced downside risks.

The is an excerpt from Governor's town hall meeting.

Story continues from page 31

DEPOSIT PROTECTION AND THE FINANCIAL SAFETY NET: WHAT ARE THE SALIENT FEATURES?

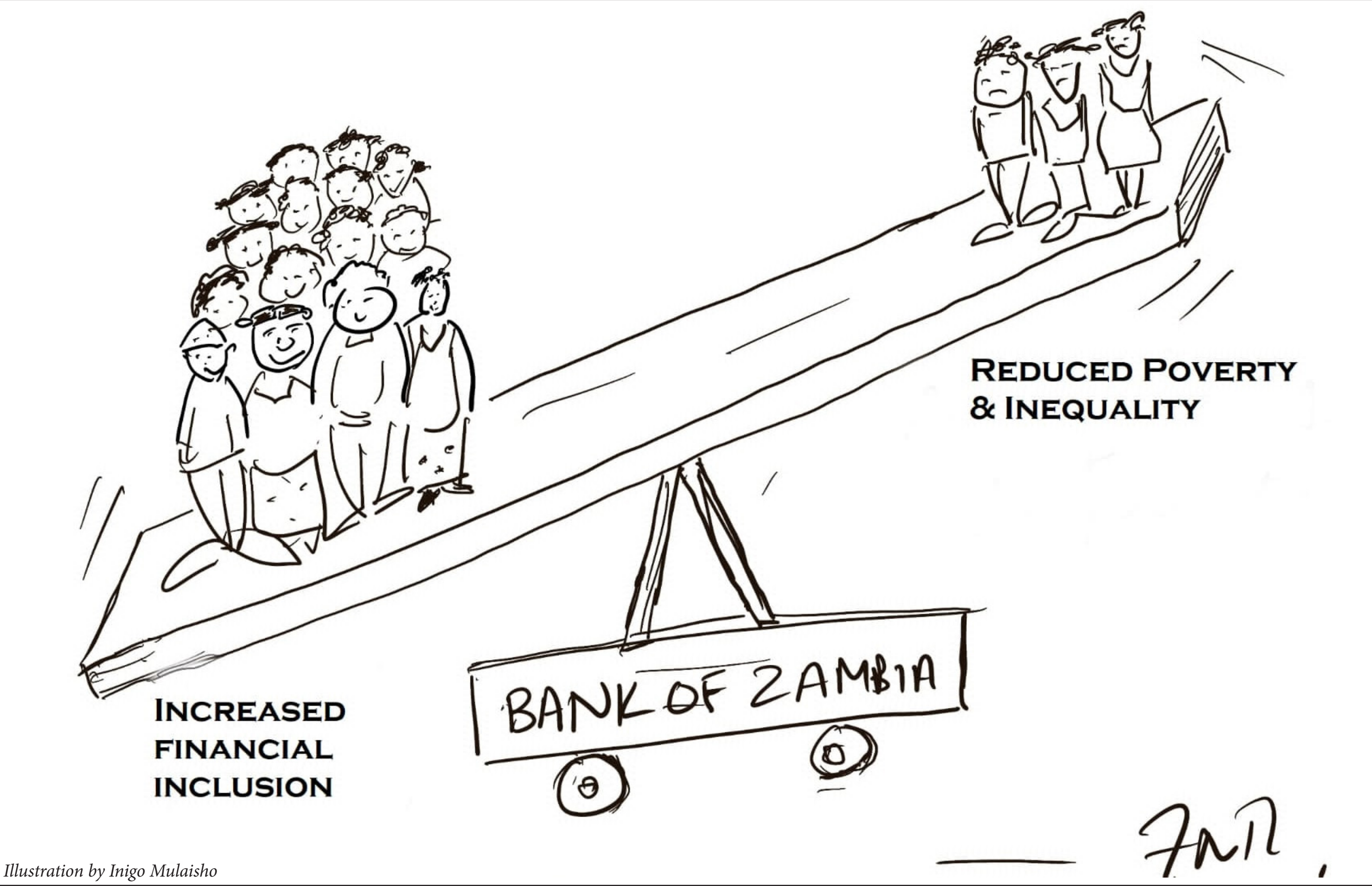


Illustration by Inigo Mulaisho

protection scheme can be a source of immense instability pressures in the financial system.

In terms of membership of licensed deposit-taking financial institutions to the deposit protection scheme, it is generally compulsory in many countries. This is necessary for purposes of managing moral hazard and adverse selection among financial institutions by the deposit protection scheme. Additionally, this helps in emphasising clarity concerning protected deposits during public awareness campaigns as part of the broader public policy objective. Consistent with the principles set out by the International Association of Deposit Insurers (IADI), it is expected that the powers and the mandate of an explicit deposit protection scheme are not only clear but also embedded in the legal framework. In many ways, this is key in ensuring that the deposit protection scheme has sufficient powers to execute its functions related to deposit protection and resolution in the case pay-box model of the scheme. Further, clarity in the legal framework provides the basis upon which efficient exchange of information with the supervisory authority can take place in instances where the deposit protection scheme is located outside the purview of the regulatory authority.

Another key aspect covered under the IADI principles relates to the adequacy of funding for the deposit protection scheme. Funding allows the scheme to make pay-outs promptly when a failure occurs. Funding includes seed funding and any other back-up funding arrangements that ensure readily available funding in times of crisis. This could take the form of Government guarantees or a standing credit facility offered by the central bank. Further funding can be obtained from multilateral institutions in instances where the legal framework allows the deposit protection scheme to borrow for purposes of bolstering its capacity to fulfil its mandate. Adequate funding facilitates growth of the deposit protection fund and facilitates expansion of the coverage ratio to desirable levels in the financial system. Good governance practices also stand out as an important element of the deposit protection systems in order to prevent conflicts of interest and undue external influence, transparency and accountability which are crucial for fostering public confidence. Confidence in the capacity of the deposit protection scheme and public awareness are essential elements in preventing runs on banks and in supporting the stability of the financial system.

In conclusion, a properly designed and effective deposit protection scheme is a necessary link in the financial safety net for the promotion of financial system stability. It does not only provide assurances to depositors that their money is safe but also plays a significant role in the resolution process of distressed financial institutions. Nonetheless, the achievement of its mandate largely depends on other factors such as the legal framework, adequacy of funding arrangements and the attendant governance practices. Fostering public confidence in the financial system has positive externalities including improved intermediation necessary for the accumulation of domestic savings in an economy.

Calvin Habasonda is Senior Inspector Regulatory Policy, Bank Supervision Department.

UNDERSTANDING LEASING AS AN ASSET ACQUISITION OPTION

By BANJI MILAMBO

There are generally two ways a company or an individual can acquire an asset for business or consumer needs. These are through an outright purchase or through a lease. An outright purchase is an option that is feasible if one has the available capital to cover the purchase cost of the asset and involves an immediate transfer of ownership of the asset. In the instance that immediate capital is unavailable, the asset could be acquired through a number of credit arrangements or through a lease arrangement.

Mr Milambo

Broadly put, a lease agreement is a contract between two parties, known as the lessor and the lessee, wherein the lessor as the legal owner of the asset gives the lessee a right to use the leased asset in return for regular rental or lease payments. A common lease arrangement in Zambia is that of rental of residential property. In this arrangement, the landlord is the lessor who is the owner of the house and the tenant is the lessee who has been given the right to use the asset in return for rental payments.

Leasing activity is broadly categorised into two types, namely finance and operating lease.

Operating lease

An operating lease is essentially a rental contract for, usually, the short-term or temporary use of an asset by the lessee. In an operating lease the lessee hires an asset for a period shorter than its likely useful life. As an example, it is unlikely that a tenant in residential property will occupy or use the house for the longer period of the economic life of the house. In the operating lease, the maintenance and insurance responsibilities (and most risks associated with the ownership of the asset) remain with the lessor, who recovers the costs and profits from multiple rentals and the final sale of the asset. The client gets to use the equipment without the hassle of disposing of it at the end of its life.

Finance leases

A lease is a finance lease if any of the following tests are met:

- Ownership of the asset is transferred to the lessee at the end of the lease term;
- The lease contains a bargain purchase option to buy the equipment at less than fair market value;
- The lease term is for a major part of the economic life of the asset even if title is not transferred;
- At inception of the lease, the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset;
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The key criterion in classifying a lease as a finance lease is the substantiality of all the risks and rewards of ownership that are transferred to the lessee. The transfer of risk to the lessee may be shown by lease terms such as an option for the lessee to buy the asset at a low price (typically the residual value) at the end of the lease. The nature of the asset (whether it is likely to be used by anyone other than the lessee), the length of the lease term (whether it covers most of the useful life of the asset), and the present value of lease payments (whether they cover the cost of the asset) may also be factors.

A finance lease, therefore, can be defined as a contract where a party being the owner (lessor) of an asset provides the asset for use by the lessee for consideration (rentals) that are either fixed or dependent on certain variables, for a certain period (fixed or flexible lease period).

The Banking and Financial Services Act classifies the provision of a finance lease as a financial service. Therefore, a person that seeks to provide finance lease services is required to obtain a licence from the Bank of Zambia. A finance lease is a type of financial service in that it has the component of a person providing a service similar to a loan. In a finance lease arrangement, there are typically three parties in a transaction. These are the lessee, who want to acquire the use of an asset, the lessor who is the owner of an asset and a financier, who has the capital to purchase the asset for purposes of providing access to the lessee. The financier buys the asset on behalf of the client and hires it out to the client over a contracted time frame. A finance lease is characterized by the following:

- The lessee (customer or borrower) will select an asset (equipment, vehicle, software);
- The lessor (finance company) will purchase that asset;
- The lessee will have use of that asset during the lease;

Story continues on page 36

Story continues from page 35

UNDERSTANDING LEASING AS AN ASSET ACQUISITION OPTION

- The lessee will pay a series of rentals or installments for the use of that asset;
- The lessor will recover a large part or all of the cost of the asset plus earn interest from the rentals paid by the lessee;
- The lessee has the option to acquire ownership of the asset (e.g. paying the last rental, or bargain option purchase price);

The finance company (lessor) is the legal owner of the asset during the duration of the lease. However, the lessee has control over the asset providing them the benefit and risks of economic ownership. This definition makes the assumption that a lease is necessarily a three party arrangement i.e. supplier (or manufacturer) lessor and lessee.

Difference between Operating and Finance Lease

A lease is categorised as a finance lease if any of the following conditions are met:

- The lease transfers property of the asset to the lessee by the end of the lease term
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, and at the inception date of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for a majority of the useful life of the asset and where the title to ownership may or may not eventually be transferred.

Any lease contract that does not meet any of the above conditions is characterised as an operating lease.

Difference between Leasing and Other Similar Transactions

Hire Purchase

A hire-purchase transaction is usually defined as one where the hirer (user) has, at the end of the fixed term of hire, an option to buy the asset at a token value. In this arrangement, a financier purchases the equipment or vehicle (asset) on behalf of a client. They then hire it out to the client over a contracted time frame. During this period, they still own the asset. When the contract term is finished and the client has paid in full, the client owns the asset. This definition makes a hire-purchase arrangement similar to that of a finance lease.

Hire-purchase legislation in Zambia is contained in the Hire Purchase Act Chapter 399 of the Laws of Zambia. In paraphrased form, the Hire Purchase Act defines a hire purchase agreement as a contract wherein an asset is purchased using two or more instalments and ownership does not pass until full payment is made.

The differentiating factor between a hire-purchase arrangement and a finance lease is the provision of a 'cancellation option' in hire-purchase transactions by statute. This is where the hirer is provided, by statute, an option of returning the asset and walking away from the deal. Under such a condition, the hire-purchase becomes different from a finance lease as the risk of obsolescence gets shifted to the hire-vendor.

Another difference between a hire-purchase and a finance lease is that the hire-purchase is a form of sale of goods, whereas a lease (whether operating or finance) does not, of essence, make an ex-ante assumption that ownership of the asset will pass to the lessee. The essence of a lease is that the lessee is paying "rental payments" for the use of the asset and not "instalment payments" towards the purchase of the asset.

Commercial Loan

There are two broad differences between a loan and a lease:

i) Nature of transaction

In the case of a lease, the asset (equipment, machinery, etc) is the commodity that is lent out. In a loan it is money that is lent out. Such money lent out may not necessarily be linked to the asset being purchased. i.e. the loan amount may be applied to other uses apart from the purchase of an asset and the asset may not necessarily be the security for the loan.

ii) Ownership of the asset

With a loan, the asset belongs to the borrower, whereas with a lease, the asset belongs to the lessor. In other words, the difference lies in the ownership of the asset during the course of the transaction.

Conclusion

The use of leasing presents an opportunity for persons to acquire the use of assets through means other than obtaining direct loans. This is important in an environment such as that in Zambia where Small and Medium Scale Enterprises, in particular, can use this tool to acquire the equipment that can be used for productive purposes and use the same equipment to secure the loan. This being an essential component of asset based lending, it is therefore incumbent upon financial service providers and potential clients to seek to explore mechanisms for making finance leasing a viable option for acquiring assets in order to engage all stakeholders in fostering an appropriate eco-system that facilitates the provision of finance leasing services.

Banji Milambo is Senior Inspector, Regulatory Policy in the Non-Bank Financial Institutions Supervision Department.

THE BoZ BRAND MANUAL - WHAT YOU NEED TO KNOW

Mr Kabwe

By NKATYA KABWE

The Bank of Zambia has revised its Brand Manual - a guide to help you determine what to do when presenting Bank material both within and outside the Bank. The manual applies to any material where the BoZ logo has been applied i.e. business cards, emails, memorandums, letter heads, PowerPoint presentations, internal reports, external publications and related branded collateral, etc.

The revised manual will enhance consistency and credibility in the Bank's communications and contribute to building its credibility as a reliable source of information - especially in the age of fake news.

This series – "The BoZ Brand Manual – What you need to know" - will support you familiarise yourself with specific areas of the brand manual that will affect or relate to your everyday work and the operations of the Bank at large.

In this edition, we discuss the Logo.

The Logo

The Logo is the key building block of the Bank's identity and must be applied consistently across all communication platforms for visual recognition.

The signature is a combination of the symbol itself and the organisational name. They have a fixed relationship that should never be changed in any way.

Elements of the Logo

The logo comprises two cupped hands with a coin in between - all finished in copper colour.

Together the elements represent:

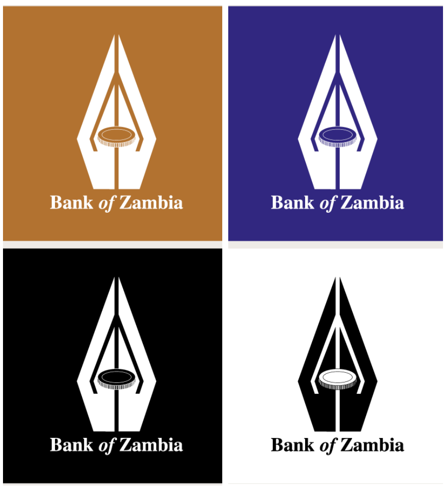
- The Bank's role of safeguarding the value of the Zambian currency; the 'Kwacha' and ensuring stability in the financial system, all of which are vital preconditions for sustainable economic growth and development;
- The store of 'value' (the coin);
- The mineral wealth of the country (copper colour).

Logotype

The words "Bank of Zambia" in the logo are combined as follows:-

- 'Bank' and 'Zambia' are in Andes typeface and are in title case, while "of" is in BIBLE SCRIPT typeface and is in lowercase;
- The two typefaces used create a strong visual style by which customers and the public can recognise the Bank of Zambia. All work using this logo must be carried out to these standards.

The Logo Colour



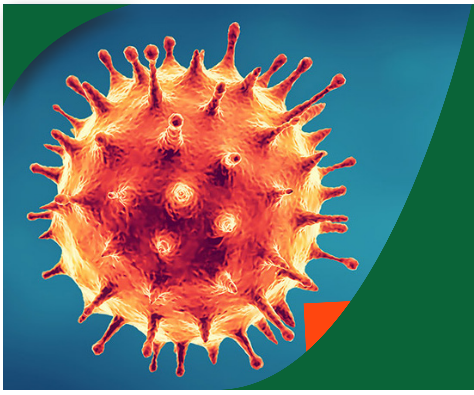
The colour of the logo and logotype is in copper. A white, black or coded blue logo may be used where necessary i.e. placement on full colour image or newspaper advert.

Logo Don'ts

The logo and logotype must not be altered for any reason. The logo and logotype always appear together and never separately.

Board Services department is the custodian of the Bank's logo. For any exceptions, please seek prior approval from Board Services department; info@boz.zm

Nkatya Kabwe is Manager - Strategic Communications, Board Services Dept.

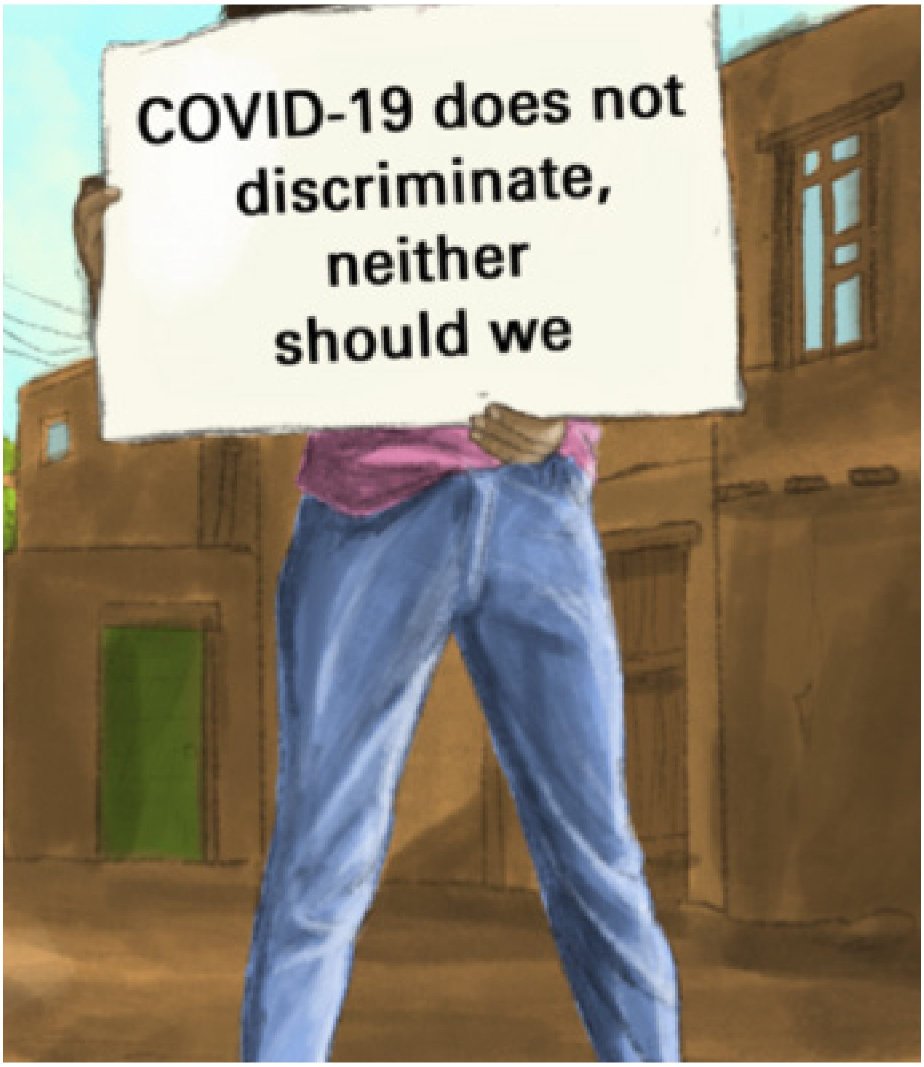


COVID-19 AND STIGMATISATION

"Talk about coronavirus without contributing to stigmatisation"

By SIPHIWE N. MWABA

The spread of the Covid-19 across the country and the globe has been a source of concern for all and this calls for collective action to prevent the virus from spreading further. While we may be feeling worried about how to stay safe amidst this pandemic, it is critical that we keep coronavirus-related stigma to a minimum as it may make this challenging situation worse.



Ms Mwaba

I have noted from the various social platforms on how some employees having tested positive for COVID-19 or having lost someone dear to them from Covid-19 have experienced stigmatisation within their social communities including the workplace. Around the world there have been reports of individuals being subject to verbal or even physical abuse as their ethnicity was unfairly associated with the virus.

Public health emergencies are stressful times for everyone affected. It's important to stay informed and to be kind and supportive to each other. Words matter, and using language that perpetuates existing stereotypes can drive people away from getting tested and taking the actions they need to protect themselves and their communities.

What is Social Stigma?

According to the United Nations Children's Fund (UNICEF) Social stigma in the context of health is the negative association between a person or group of people who share certain characteristics and a specific disease. In an outbreak, this may mean people are labelled, stereotyped, discriminated against, treated separately, and/or experience loss of status because of a perceived link with a disease. Such treatment can negatively affect those with the disease, as well as their caregivers, family, friends and communities. People who don't have the disease but

Story continues on page 41

FAKE NEWS IN THE MIDDLE OF THE PANDEMIC

...Careful what you share...

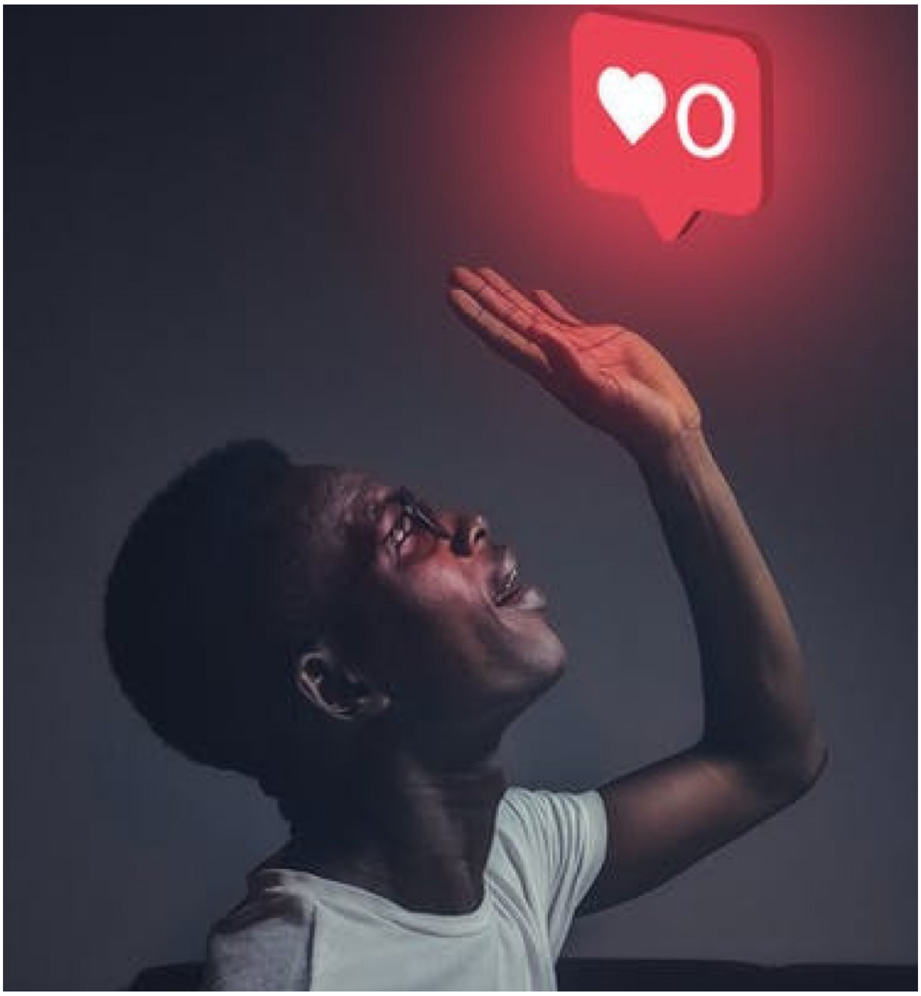
By KATEULE NAKAZWE

Ms Nakazwe

As we continue to live in the middle of the covid-19 pandemic, most of us are making use of social media to keep in touch with loved ones and to share information. The pandemic has heightened the need for information as a response to a situation of uncertainty and high emotional load. This has in turn, led to a lot of fake news and un-verified content growing dramatically and being circulated fast. We have come across all sorts of information from the home remedies, treatments, "fake cures", weird testimonies and interesting conspiracy theories.

Fake news and misinformation surrounding the pandemic are negatively affecting our mental health. The truth is, anyone can post information online and it can go viral. It can start from individuals or enterprises chasing profits, promoting a drug/remedy or ritual; Opportunists looking to discredit official sources. It's up to you to do your own due diligence, research or fact-finding.

One of the main reasons fake news moves fast is that it is often believable.



We need to learn to approach what we see and hear rationally and critically. Ask yourself:

- Why has this been written?
- Is it to persuade me of a certain viewpoint?
- Is it selling me a particular product?

Fake news in the middle of a pandemic adds to the anxiety, fear/paranoia, uncertainty, and agitation and lead to faulty treatments, non-compliance to precautionary measures, prejudice, and stigma. Intense hoaxes can increase stress levels, mood changes and even withdrawals. Here are some ways to protect yourself and your mental health from the psychological effects of fake misinformation and information overload.

1. Check the source

Check who the source or author of the information is. Does it have more than one source? Are the sources credible? Check if the website associated with the information is trustworthy. Check the publication date of the information and check if the timeline it refers to makes sense. If you're the one looking to publish information, share your name and why you're sharing the information.

2. Choose what you consume

Story continues on page 40

Story continues from page 39

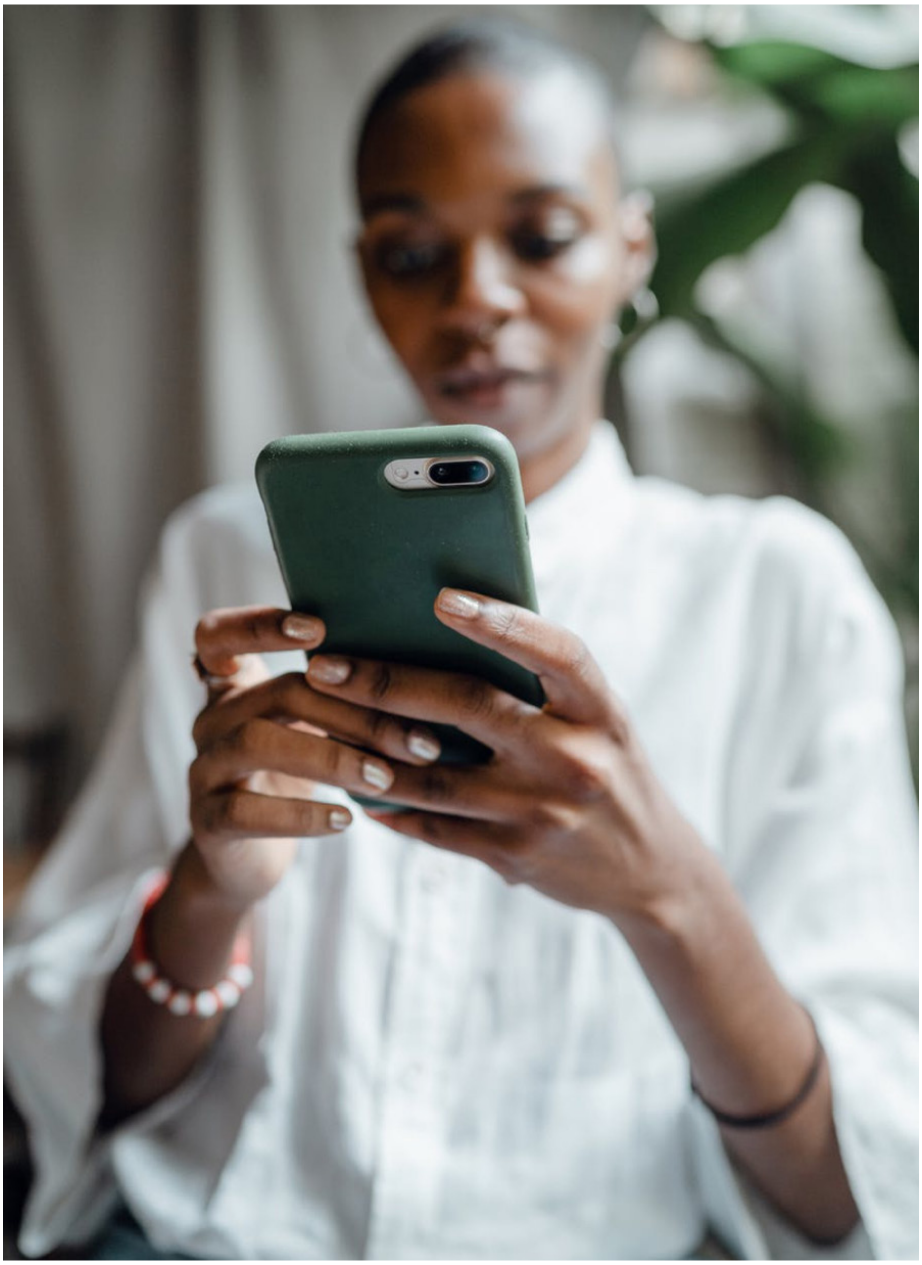
FAKE NEWS IN THE MIDDLE OF THE PANDEMIC

You can choose what to consume online and on TV. If there is a page that's always posting dramatic news or information that leaves you anxious and paranoid, block or unlike/unfollow the page. If a friend is always sharing all sorts of information relating to covid-19 with you, let them know you do not appreciate the sharing. Another thing you can do is limit your screen time. You can decide to only watch the news once a week or to only look at social media for a few minutes a day.

3. Exercise empathy

Just because you received it, doesn't mean you should share it. You may not be as sensitive as the person next you. Before you publish or share any information, think about how this will make others feel and what impact it might have on them.

Since the outbreak of covid-19, we have seen social media platforms make some much needed efforts towards ensuring access to accurate information. For instance;



- Early 2019, WhatsApp announced to its users that it was limiting all its members to forwarding any single message up to five times in an effort to tackle the spread of false information on the platform. Before that, users could forward messages up to 20 times. The current practice is such that when a message is forwarded through a chain of five or more chats (meaning it's at least five forwards away from its original sender) a double arrow icon and "Forwarded many times" label will be displayed. These messages can only be forwarded to one chat at a time, as a way to help keep conversations on WhatsApp intimate and personal.

  WhatsApp has also talked about the use of advanced machine learning to identify and ban accounts engaged in mass messaging to help slow down the spread of viral messages and fake news.

- In September, 2020, Facebook Messenger also put limits to forwarded messages. Messages can only be forwarded to five people or groups at a time. Limiting forwarding is an effective way to slow the spread of viral misinformation and harmful content that has the potential to cause real world harm. Just because you received it, doesn't mean you should share it.
- On Instagram, people who search or even post information related to the coronavirus or COVID-19 now see an educational message connecting them to resources from the World Health Organisation and local health ministries.

Facebook and Instagram also prohibit people from making health or medical claims related to the coronavirus in product listings on commerce surfaces, including those listings that guarantee a product will prevent someone from contracting the virus.

When you identify misinformation or fake news, do not engage with it, do not comment and do not share it. If the information is on social media, report the post to the platform. If you know the person who shared the fake news, send them a private message and tell them the information is likely false. You can contribute by sharing official information from credible sources such as your local health authorities, the CDC and WHO.

Kateule Nakazwe is Assistant Manager-Social Media, Board Services Department.

Story continues from page 38

COVID-19 AND STIGMATISATION

share other characteristics with this group may also suffer from stigma.

Some groups of people who may experience stigma during the COVID-19 pandemic include:

- People who tested positive for COVID-19, have recovered from being sick with COVID-19, or were released from COVID-19 quarantine;
- Emergency responders or healthcare providers;
- Other frontline workers, such as grocery store clerks, delivery drivers, or farm and food processing plant workers;
- People who have disabilities or developmental or behavioral disorders who may have difficulty following recommendations;
- People who have underlying health conditions that cause a cough;
- People living in congregate (group) settings, such as people experiencing homelessness.
- Certain racial and ethnic minority groups, including Asian Americans, Pacific Islanders, and black or African Americans;

What is the impact of stigma?

Stigma hurts everyone by creating more fear or anger toward ordinary people instead of focusing on the disease that is causing the problem. According to UNICEF, Stigma can undermine social cohesion and prompt possible social isolation of groups, which might contribute to a situation where the virus is more, not less, likely to spread. This can result in more severe health problems and difficulties controlling a disease outbreak.

Stigma can:

- Drive people to hide the illness to avoid discrimination
- Prevent people from seeking health care immediately
- Discourage them from adopting healthy behaviours.

How to address social stigma?

Health experts recommend showing empathy to those affected, understanding the disease itself, and adopting effective, practical measures so people can help keep themselves and their loved ones safe. Each one of us has a role to play in preventing discrimination through kindness, speaking up against negative stereotypes, learning more about mental health and sharing individual experiences to provide the support needed.

Words Matter - when talking about coronavirus disease, certain words (i.e. suspect case, isolation) and language may have a negative meaning for people and fuel stigmatising attitudes. They can perpetuate existing negative stereotypes or assumptions, strengthen false associations between the disease and other factors, create widespread fear, or dehumanise those who have the disease. This can drive people away from getting screened, tested and quarantined. Use appropriate words.

Spread facts, not fear - Stigma can be heightened by insufficient knowledge about how the novel coronavirus disease (COVID-19) is transmitted and treated, and how to prevent infection.

- Use only credible, official sources such as the Ministry of Health, WHO and UNICEF.
- Check the facts on official websites or social media platforms before acting, believing advice or sharing information online.
- Don't spread misinformation, even if it seems accurate.

Each one of us has a role to play in preventing discrimination through kindness, speaking up against negative stereotypes, learning more about mental health and sharing individual experiences to provide the support needed.

Siphiwe Mwaba is Manager Staff Relations in the Human Resources Department.

NEW FACES

By ZAMBANKER REPORTER

The Bank of Zambia has recruited one member of staff in the fourth quarter of 2020.

The new employee is Mr Sydney Zulu who joined the Finance team on 9th November 2020.

Mr Zulu joined the Bank as a Senior Accountant - Payroll. He holds a Bachelor of Science degree in Applied Accounting from the Oxford Brookes University and is a fellow of ACCA. He also has a Master of Science degree in Professional Accountancy from the University of London.

Mr Zulu is a member of the Zambia Institute of Chartered Accountants.

The Zambanker wishes Mr Zulu all the best in his new role.

SEPARATIONS

By ZAMBANKER REPORTER

Eight (8) members of staff have separated with the Bank through statutory early retirement, Voluntary Separation Scheme (VSS) and resignation in the fourth quarter of 2020.

Two of the eight former employees who separated with the Bank were from Finance, two from Procurement and Maintenance Services and one each from Strategy and Risk Management (SRM), Financial Markets, Non-Bank Financial Institutions Supervision (NBFIS) and Legal Services Departments.

Those who left from Finance Department are Mr Kamfwa Francis Mulenga and Mr Desmond Ntembelwa.

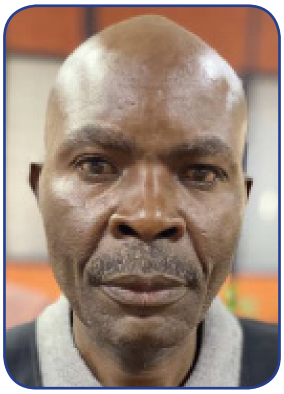
Mr Mulenga resigned from the Bank on 24th November, 2020 after working for slightly over 3 years. He was a Senior Accountant – Financial Management at the time of his separation. Mr Mulenga joined the Bank on 3rd January 2017.

Mr Desmond Ntembelwa worked as an Accountant – Financial Reporting at the time of his separation. He separated from the Bank through VSS on 31st December, 2020 after working for over 28 years. He joined the Bank on 24th September, 1992.

Two members of staff by the names of Mrs Fwila Chipalo and Mr Julius Mwewa left Procurement and Maintenance Services Department

through retirement.

Mrs Chipalo retired on 12th December, 2020 after working for 32 years. She was an Assistant Manager – Office Services at the time of her separation. Mrs Chipalo joined the Bank on 23rd November, 1988.



Mr Mwewa separated with the Bank through retirement on 20th December, 2020 after working for 34 years. He joined the Bank on 30th October, 1986 and was a porter at the time of his separation.

Strategy and Risk Management (SRM) lost one member of staff during the period under review by the name of Dr Musonda Simwayi.

Dr Simwayi resigned from the Bank on 18th December, 2020 after working for over 19 years. He was Assistant Director – Change Management and Innovation at the time of his separation. He joined the Bank on 2nd April, 2001.

Mrs Mirriam Matyola separated with the Bank through VSS on 30th December, 2020 after working for 31 years. She worked as a Central

Securities Depository Administrator in the Financial Markets Department at the time of her separation. Mrs Matyola joined the Bank on 1st November, 1989.

Non- Bank Financial Institutions Supervision Department lost one employee by the name of Ms Mankolo Beyani.

Ms Beyani separated with the Bank through VSS on 31st December, 2020 after working for 18 years. She was Assistant Director - Examinations and Surveillance at the time of her separation. Ms Beyani joined the Bank on 4th November, 2002.

Dr Leonard Kalinde separated with the Bank on 31st December, 2020 after working for slightly over 19 years. He was General Counsel at the time of his separation. Dr Kalinde joined the Bank on 3rd September, 2001.

FUTSAL IN FULL STEAM

The Year 2020 has been challenging worldwide due to the global Corona virus (Covid-19) Pandemic which has hit the world in different sectors.

The Regional Office BoZ Football Team was not left out. The Executive Secretary for the Regional Office football team, Mr Godfrey Goma, informed Zambanker that plans for the year were disrupted as the team became inactive in the first half of the year due to the partial lockdown and the Ministry of Health (MOH) guidelines which required members of the public to maintain social distance, mask up and avoid gathering in large numbers. Mr Goma said that Members of the Football team resorted to self-exercise, early morning jogging, taking long walks and 25 push-ups which was circulated on the football team WhatsApp group for members to keep in shape and avoid mental stress which could have been caused by staying indoors for long periods of time.

Mr Goma said the third quarter of 2020 saw reduced numbers of Covid-19 cases which resulted in relaxed restrictions by the Government. Some sporting games like football were allowed to return to the pitch but with no fans in the stadium and gatherings were restricted to 50 people only. The BoZ Social Football team took advantage of this development and returned to keep-fit training which was restricted to active participants only and no spectators.

The challenges brought about by the Covid-19 dynamics called for the Football executive members to review and brainstorm on which training facility would be generally Safer and attract fewer spectators. This led the executive to settle for Futsal. Futsal only allows Six people per side and has very few spectators. Futsal Friday was then introduced and was very well received by football team members.

The first game only saw 6 participants, which was expected, as fear and anxiety still gripped members as they ventured into the new normal.

The Football executive organised more training sessions, more members joined and opened up to training under the new normal. Innovation kicked in, the Football executive decided to arrange games with other companies, to make training more exciting and interesting with emphasis on strict adherence to health guidelines such as washing hands and sanitising.

A total number of five (5) games were played with the following teams; First National Bank, Misunda Madalaz, Ndola Welfare Social Club and Eddie's Social club.

Bank of Zambia emerged victorious in all the games that were played.

The fifth and final game to wrap up 2020 was an internal game between Regional Office Management and Non-Management staff, an interesting encounter lined up and coached by Mr Lovemore Chakatala assisted by Mr Joseph Kawaya. Non-Management staff emerged victorious with a 2 – 1 win.

The Football executive thanked Regional Office Director Mr Visscher M. Bbuku and Assistant Director Mr. Musapenda J. Phiri for the support rendered to the BoZ Social football team.

TOGETHER WE CAN ERASE COVID-19.

If you have a high fever, cough, sore throat, fatigue, difficulty breathing, loss of smell or taste, or general body pains, call **909** for assistance.

MINISTRY OF HEALTH

ZNPHI
ZAMBIA NATIONAL PUBLIC HEALTH INSTITUTE

USAID
FROM THE AMERICAN PEOPLE

JSI