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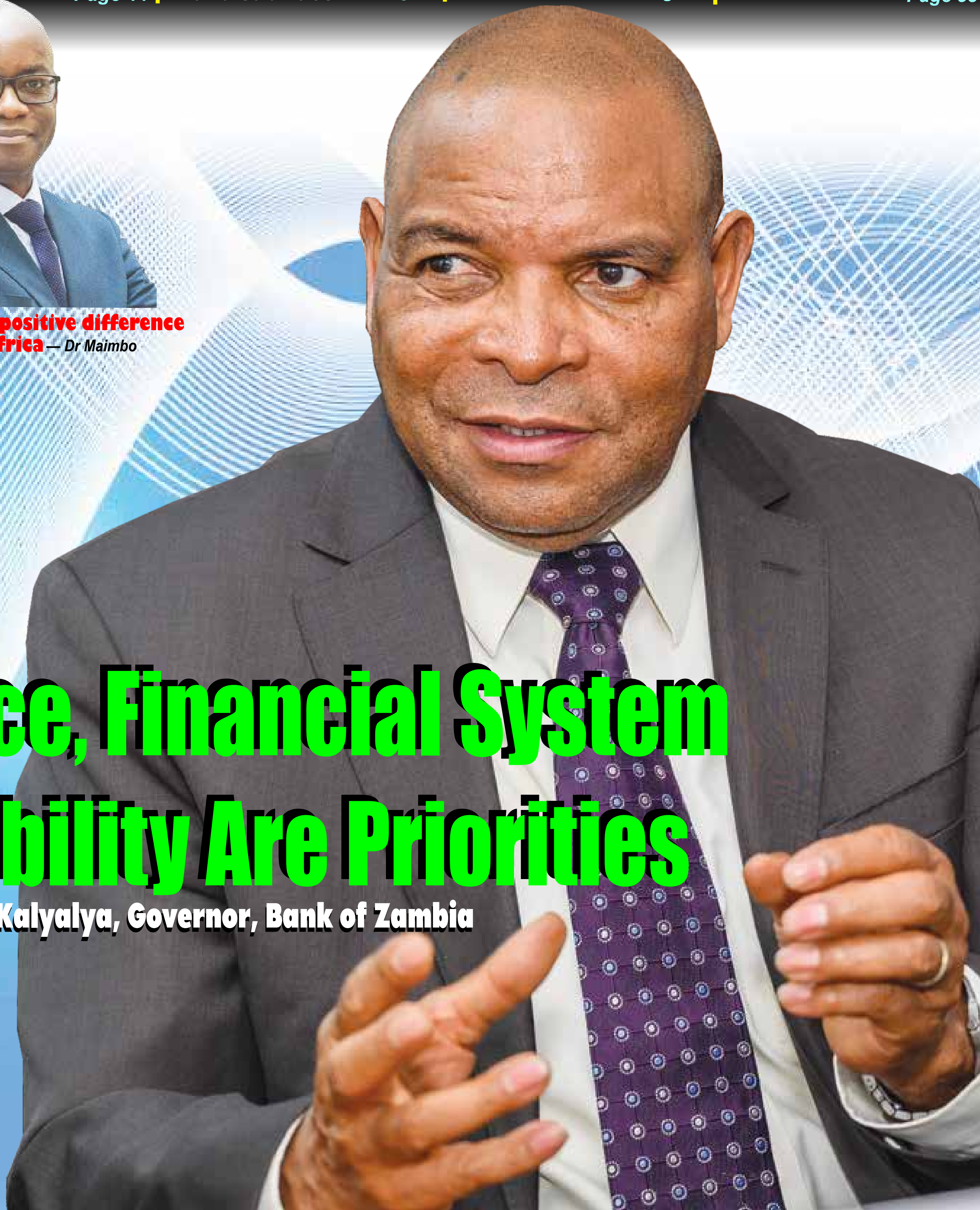
I shall make a positive difference in AfDB and Africa — *Dr Maimbo*



Price, Financial System Stability Are Priorities

– Denny Kalyalya, Governor, Bank of Zambia

Bank *of* Zambia

Mission

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

"PROMOTING INCLUSIVE AND SUSTAINABLE DEVELOPMENT IN A DIGITALISED WORLD"

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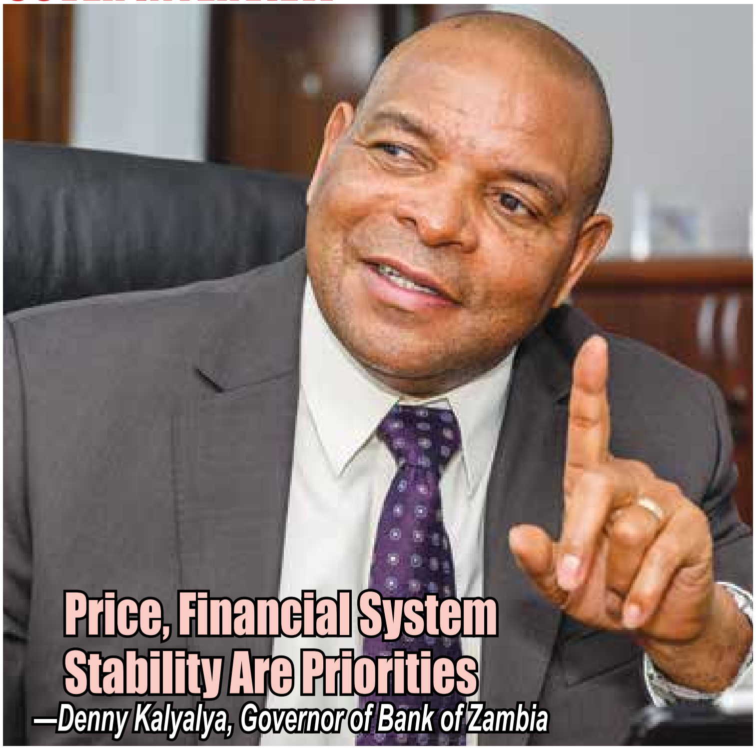

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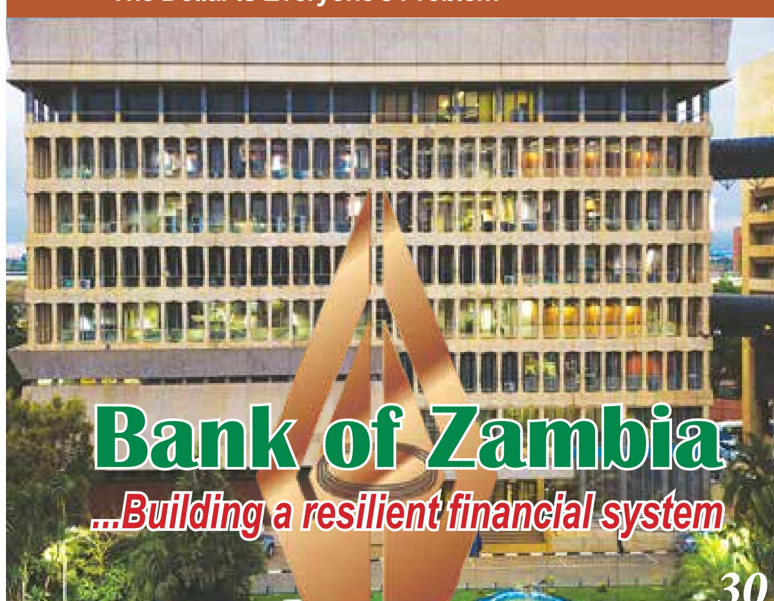

Bank *of* Zambia

2024-2027
Strategic Plan

FOCUS AREAS:

1 PRICE STABILITY

1.1 Enhance the Transmission Mechanism of Monetary Policy

2 FINANCIAL STABILITY

2.1 Strengthen the Resilience of the Financial System by Adopting and Entrenching Environmental, Social, and Governance (ESG) Issues and Practices within the Bank and in the Financial Sector

2.2 Improve Data Collection, Management, and Application

2.3 Strengthen Cyber Security Resilience and Fraud Mitigation in the Financial Sector

3 FINANCIAL INCLUSION

3.1 Leverage the Bank's Vantage Position to Influence Adoption by Financial Service Providers of Relevant Housing Finance Products

3.2 Leverage Technology to Promote Safety and Efficiency in the Financial System

4 ORGANISATIONAL RESILIENCE AND GROWTH

4.1 Improve Operational Efficiency and Effectiveness

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Towards a robust Zambian financial sector

WHEN *Dr Denny Kalyalya was re-appointed as the Governor of the Bank of Zambia (BoZ) in September 2021, he reiterated the preparedness of the nation's apex financial regulatory authority to deliver on its mandate of price and financial system stability to assist the government in fostering sustainable and inclusive development.*

Since then, Dr Kalyaya has been working round the clock with his team in the Bank to stimulate a sound financial sector through a slew of well-targeted monetary policy initiatives. The Bank is enhancing its financial sector by promoting financial inclusion, facilitating seamless transactions, and managing exchange rates to maintain economic stability, demonstrating its unwavering commitment to the financial system and overall economy.

To further improve its processes and services to the financial system and, by extension, the national economy, the Bank of Zambia launched in April this year a comprehensive action plan. It is aptly tagged: The 2024-2027 Strategic Plan with an all-encompassing theme: "Promoting Inclusive and Sustainable Development In A Digitised World."

The Plan focuses on four areas, namely Price Stability, Financial Stability, Financial Inclusion, and Organisational Resilience and Growth. These focus areas address key operating challenges and opportunities. The Bank intends to leverage information and communication technologies (ICTs) and digitalisation to achieve these goals.

In our Cover Interview, Bank of Zambia Governor, Dr Kalyalya, sheds light on the strategic plan and investment opportunities in the country's financial sector. He also elucidates how the Bank has been working harmoniously with the fiscal authorities as well as the two other regulatory agencies—the Pensions and Insurance Authority (PIA) and the Securities and Exchange Commission (SEC) —to build a resilient and inclusive financial sector in Zambia.

Chris Ajaero

President Hichilema's Bold Financial Inclusion Strategy

PRESIDENT Hakainde Hichilema has been forthright about his plans to reform the Zambian economy in a manner that focuses on the role of the financial sector in promoting economic growth and overall development of Zambia.

The President's major financial sector goal is to develop a robust industry capable of funding his bold ambition of transforming Zambia into a middle-income country by 2030. Financial inclusion continues to be at the forefront of government policy as it is essential for economic growth, poverty reduction, and gender equality as a whole and has a positive impact on all groups of the population.

The Second National Financial Inclusion Strategy (NFIS-II), which spans from 2024 to 2028, succeeds the previous one, which ran from 2017 to 2022. This second strategy was developed with the support of the United Nations and the World Bank. It was launched at a time when the Hichilema administration was actively implementing progressive monetary and fiscal policies aimed at fostering a stable and sustainable macroeconomic environment where individuals and businesses can thrive.

The strategy is in tandem with the President's objective to see the financial sector play a more significant role in improving people's livelihoods, contributing to economic growth, and alleviating poverty. This strategy rides on the vision: "To develop an inclusive and robust financial ecosystem that provides accessible, affordable, and sustainable financial products and services to all segments of the population, which help increase their resilience, improve their financial health, and build their confidence."

The first strategy, launched in 2017, significantly increased financial inclusion from 59.3% in 2015 to 69.4% in 2020. President Hichilema aims to build on 2017's financial inclusion success by addressing the remaining challenges like rural-urban, gender, and income gaps. The new strategy aims to achieve 85% financial inclusion within five years, driving national development and fostering an inclusive and resilient financial sector.

Efforts to increase financial inclusion are part of the President's overall economic development strategy, which led to the establishment of three new ministries: the Ministry of Technology and Science, the Ministry of Green Economy and Environment, and the Ministry of Small and Medium Enterprise Development.

President Hakainde Hichilema

Small and medium enterprises (SMEs) account for over 95% of Zambia's businesses. They play a crucial role in fostering private sector development, boosting economic growth, and reducing unemployment.

The President reckons that small-scale businesses and entrepreneurs cannot achieve their objectives without affordable access to finance; hence, the NFIS 2024-2028 is being implemented to ensure sustainable and accessible financial products and services.

The new strategy emphasises electronic transactions in rural areas, financial inclusion integration, warehouse receipt financing, and green, customer-centric financial products for various populations and businesses.

The plan also aims to enhance interoperable transaction pricing, improve the National Financial Switch's operational efficiency, and boost awareness about available financial products and services. Certainly, President Hichilema's agenda is for a holistic development of Zambia's financial sector.

By 2027, Zambia expects 40% more copper

ZAMBIA'S copper production is expected to rise by 40%, reaching one million tonnes by 2027, up from about 700,000 tonnes in 2023. The figures are under the government's Medium Term Budget Plan for 2025-2027.

Zambian authorities say this surge will be spurred by resolving issues at major mines, launching production at new deposits, and expanding production at existing mines.

Last year, Zambia's copper production hit a 14-year low, mainly due to frequent changes in mining taxes and conflicts between mining companies and the previous government. Copper is crucial for the energy transition, and it makes up about 70% of Zambia's export earnings.

Four WAEMU States raise CFA143bn on public securities market

President Alassane Ouattara of Cote-d'Ivoire

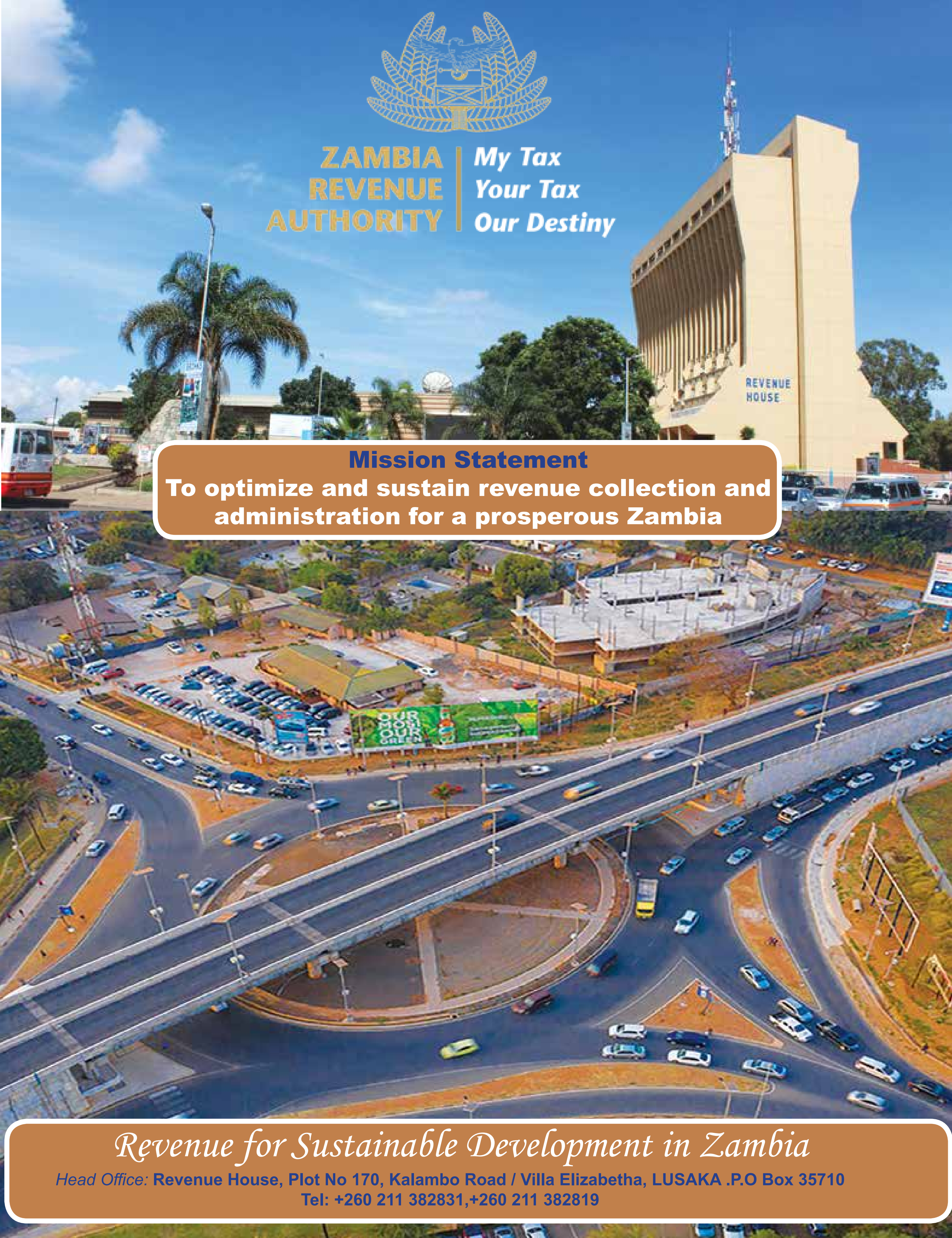
SEPTEMBER saw the buyback of CFA41 billion ($69.5 million) in debt on the public securities market run by UMOA-Titres by four member countries of the West African Economic and Monetary Union (WAEMU): Guinea Bissau, Côte d'Ivoire, Mali, and Senegal. Even while regional investors are still demanding high yields, the market is nevertheless regularly issuing securities to help the states.

From September 17-20, 2024, Senegal, Mali, Guinea-Bissau, and Côte d'Ivoire raised CFA143 billion (about $242 million) through public securities issuance, meeting their cash needs and repurchasing public debt. Côte d'Ivoire also repurchased public debt amounting to CFA41.1 billion.

On September 17, Guinea-Bissau raised CFA11 billion, surpassing its initial goal of CFA10 billion using Treasury bills. With a coverage percentage of 147.64%, the nation saw high demand. The return on the 364-day bills was particularly noteworthy; it was 10.30%, which is equivalent to recent operations in Niger and a figure not often seen in the region.

The same day, Côte d'Ivoire raised CFA62.9 billion in bonds and Treasury bills with maturities varying from three years to 28 days. Weighted returns on average varied from 6.03% to 7.64%. The Ivorian government, meanwhile, paid CFA41.1 billion to repurchase short-term Treasury bonds with maturities ranging from nine to 70 days. Yields from 2.74% to 3.87% indicate that this procedure was successful.

Mali successfully raised CFA25.1 billion on September 18, surpassing its goal of CFA25 billion, owing to a coverage percentage of 115.27%. Three-year bonds yielded 9.38%, while 140-day bills yielded 8.84% on average. Two days later, on September 20, Senegal concluded the week with an oversubscribed auction, having achieved a coverage rate of 255.78% on an initial target of CFA40 billion. In the end, CFA44 billion were obtained. The weighted average return on the three-year bonds was 7.85%.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Mixed results for Mali, Niger in bond market

Mali raises CFA22.6bn while Niger struggles in regional bond market


President Abdourahamane Tchiani


President Assimi Goïta

MALI earned CFA22.6 billion ($38.2 million) in a bond sale in September after initially targeting CFA25 billion. The overall bid amount was CFA26.24 billion.

Mali appears to be regaining investor trust after prior mixed results, with a coverage rate of 104.96% for its 364-day Treasury bills (BAT) and 90.62% for its three-year Treasury bonds (OAT). However, the truth is more nuanced: demand for long-term bonds remains low.

Mali's competitive fixed rates of 6.15% for BAT and 6.35% for OAT drew investors. However, the average weighted yields of 9.73% for the BAT and 9.78% for the three-year bonds suggest that the country must continue to offer high-risk premiums to attract lenders. This enterprise's relative success may be due in part to investors seeking returns in an increasingly discriminating environment.

While Mali's ability to raise substantial funds in a tough economic environment is praised, the accomplishment is just partial. The market remains wary regarding longer-term bonds, showing that investors are cautious about the country's medium-term economic future.

In contrast, Niger's bond auction in the same period saw a disappointing 57% coverage for its 182-day BAT, with no bids accepted for its three-year OAT, and an average weighted yield of 9.34. Only CFA10.125 billion of the CFA20 billion requested was received.

Niger's challenges in securing medium-term bonds, economic uncertainty, regional tensions, trade issues with Benin, and lack of transparency in debt management are warning signs of a potential crisis, causing a significant reliance on short-term funding.

Earlier this year, Niger secured $400 million in 12-month financing from a Chinese company for its oil operations, backed by its oil production and with an interest rate above 7%.

Analysts suggest that market yields align with Niger's current situation, particularly due to uncertainties regarding oil blockages.

BEAC's CFA250bn injection fails to boost CEMAC banks' liquidity


Abbas Mahamat Tolli, Governor, BEAC

THE Bank of Central African States (BEAC) injected CFA250 billion into the Economic and Monetary Community of Central Africa (CEMAC) region's banking system on September 3, 2024, amid high liquidity demands, but commercial banks quickly absorbed the entire amount.

Seven banks requested CFA423 billion, leading to a 170% oversubscription rate. BEAC could only provide CFA250 billion, highlighting liquidity needs for banks to support the economy. BEAC has resumed liquidity injections since June 2024, following a year-long suspension. The bank has previously implemented tighter monetary policies and raised interest rates to manage inflation.

Bank lending in CEMAC region grew 10.5% in 2023, reaching CFA11.742 trillion, despite stricter refinancing conditions from the central bank. Inflationary pressures in the region have eased, prompting BEAC to relax its policies and resume liquidity injections in June 2024.

Over time, banks' liquidity has increased from CFA50 billion to CFA250 billion, aiming to support the CEMAC region's projected 3.6% growth rate in 2024, the highest in a decade.

Price, Financial System Stability Are Priorities

—Denny Kalyalya, Governor of Bank of Zambia

Dr Denny Kalyalya is the current Bank of Zambia Governor and the immediate past chairperson of the Association of African Central Banks (AACB). He is on a second mission, having previously served as Governor from 2015 to 2020. He was re-appointed in September 2021. This reflects his extensive grasp of the intricate workings of Zambia's financial sector as well as the challenges of central banking in Africa.

For good measure, Dr. Kalyalya discusses these issues with the ease and aplomb of one with a broad swath of experience in global finance. Early in his career, he served as a Special Appointee at the International Monetary Fund (IMF) and later as Executive Director at the World Bank Group's Africa Group 1 Constituency. It is worth mentioning that he started out as a University of Massachusetts/Amherst-trained academic who was Head of Department of Economics and Assistant Dean of Postgraduate Studies, School of Humanities and Social Studies, at the University of Zambia, his alma mater.

In this exclusive discourse with the editorial echelon of Banking & Finance in Africa, he lays bare the strategies the country's apex financial regulatory authority has been employing to fulfil its mandate of price and financial system stability while assisting the government to maintain growth and sustainable development.

What is the thrust of the Bank of Zambia's monetary policy?

Our monetary policy's thrust has been properly defined under the new Bank of Zambia Act, Number 5 of 2022. Although we have had a Bank of Zambia Act since 1996, the new Act was only enacted in 2022. The new Act defines the Bank's focus, which is maintaining price and financial system stability to foster sustainable and inclusive economic development. These are the Bank's two primary objectives. Nevertheless, in case of conflict, price stability always takes precedence over financial stability.

Why is it so?

The reason for this is that price stability is considered much more important. Although we often focus on financial stability, price stability should come first because if it isn't done correctly, financial stability will suffer. Price stability impacts everyone, particularly those with fixed incomes, making it a critical concern. For this reason, we prioritize price stability. However, we consider both price and financial stability when determining monetary policy, carefully balancing the two.

Are there circumstances where price stability conflicts with financial stability?

Yes, such circumstances do arise. In the grand scheme of things, these objectives actually complement each other in a number of ways, but in general, the financial system needs to be stable for monetary policy to effectively work its way through to stabilize prices.

Could you provide one?

For example, if we raise the policy rate by a significant margin, it could actually put some banks under pressure. The increase in the policy rate could result in the repricing of some loan facilities and consequently difficulties in servicing such obligations. This could result in a deterioration in the asset quality and adversely impact capital. Therefore, before making the final decision, we do evaluate the impact. The result may lead us to moderate the extent to which we tighten monetary policy.

What are the guiding principles of your monetary policy?

Let me just stress that we have a forward-looking monetary policy framework. We do this over a horizon of eight quarters, which is two years. So, we assess our current situation and make projections for inflation over the next eight quarters. While doing so, we also examine the risks underlying that forecast. We then inform the public about our observations. We highlight the risk factors that can push inflation up if left unaddressed. That way, it serves as a signal to the general public and economic agents, in particular, that we may decide to tighten or loosen monetary policy depending on how these risks play out. When we first started using this forward-looking framework, some people were worried because it appeared like we were going into other people's turfs, but we allayed their fears by explaining that a myriad of factors impact price stability.

Are these eight quarters in two years' framework part of the reforms you introduced?

Yes, it is part of the reforms that we initiated in 2012. We started this process at that time. This was informed by the changing structure of our economy. Before, we relied more on monetary aggregates, but with the advent of digital finance and mobile money, the economy is changing. Therefore, worrying about primary liquidity was no longer a true reflection of what was happening in the economy.

What are the achievements of the Bank's 2020-2023 strategic plan, and how has the institution built on it?

This period was very significant in our lives, as 2020 marked the height of the COVID-19 pandemic. The newly enacted Bank of Zambia Act is undoubtedly one of the plan's major achievements. For the first time in the history of the country and the Bank, we actually have a Monetary Policy Committee (MPC) that is established by statute. The Financial Stability Committee (FSC) is another committee of similar rank established by statute. The main difference between the two is that the Monetary Policy Committee is pretty much in-house, although we do have three external members. The Financial Stability Committee, however, brings together all the financial sector regulators. We have two other regulators: the Pensions and Insurance Authority, which regulates and supervises the pensions and insurance industry; and the Securities and Exchange Commission, which deals with the capital markets. So, the three institutions were brought together, plus the Ministry of Finance and National Planning representative of the Secretary to the Treasury. We also have some external partners who give us genuine feedback. When the Financial Stability Committee determines that there is a problem that threatens stability, it will issue a policy directive for the Bank to implement. Both the MPC and the FSC are independent committees that do not receive any directives from the Board. The Board is distinct from the committees. The committees make decisions independently, and their committees are expected to act independently. That is one clear deliverable. To that end, we recently published the Monetary Policy Report for our monetary policy deliberations and the Financial Stability Report for financial stability issues. Furthermore, accountability has increased in the institution to the extent that we have to make ourselves available to Parliament every so often. Indeed, under the former and current Acts, we are required to present our audited financial accounts to Parliament within 120 days of the end of each year. That is transparency and accountability.

> **The Zambian financial system is open for foreign investments. In fact, we are currently attempting to implement open finance. We have no quota in terms of who wants to establish a financial institution in the country. The economy accommodates foreign banks that wish to open shop in Zambia**

Are there other similar initiatives?

We also implemented a new framework for tracking export proceeds. Prior to 1991 when the new administration took over, we had a one-party state. While we had a multiparty state at independence in 1964, the country transitioned to a one-party system of government in 1973. However, in 1990, the constitution was amended to restore a multiparty state. What was more important for the economic side was the prevalence of exchange controls, which had resulted in significant shortages of goods, notably essential commodities. So, when the new administration took office in 1991, one of the first things it did was to eliminate exchange controls. We have stuck with that arrangement to date. Simply put, Zambia has sustained a regime of no exchange controls for 33 years. However, we discovered along the way that we had lost some of our information gathering levers. Each time we tried to ask economic agents to submit information, they would immediately inquire whether we were reintroducing what we had previously discarded. So, this year, after engagement with stakeholders, we introduced the Electronic Balance of Payments (e-BOP) and Export Proceeds Tracking Framework. This means that all exporters are required to receive and record their exports with a local bank. So, effective January 1st, this year, all exporters are required to comply. This means that when they export, we need to know the size of the revenues. They are free to use the money anyway they see fit, but we require records in order to provide accurate balance of payments information. We believe this is a significant adjustment that we have implemented in collaboration with the Zambia Revenue Authority.

Are all these things you have mentioned part of the 2024–2027 Strategic Plan or the 2022–2023 Plan?

There are many aspects of the plan that we have carried over, but the bulk of the work began on January 1, 2024. We also upgraded the real-time gross settlement (RTGS) system last year. This is intended to improve payment systems. In addition, we updated the central securities depository (CSD). As readers may be aware, the central bank serves as a fiscal agent of the government, issuing government securities on its behalf. This role entails that the Central Bank has a government securities depository. As previously stated, there are three regulatory institutions. One of them is the Securities and Exchange Commission. It has a depository for stock exchange traders. However, the two systems should be communicating. So last year, we upgraded the CSD. In addition, the significance of the RTGS upgrade is that we are now on track to meet the ISO 20022 Standard for Electronic Data Interchange (EDI). What this

The Bank has therefore set up dedicated units to prevent money laundering and financing of terrorism and strengthen the resolution of consumer complaints

means is that for domestic transactions, we have expanded the space where you must enter information on anti-money laundering and other issues. So, when making transfers, you should be more explicit about what the money is for. This is for documentation. We are also working towards cross-border deals. That one is scheduled for November of next year. Right now, if you are making international transfers, you are limited to 35 characters, but we want to be able to thoroughly describe the remittances.

What is your investor portal all about?

Yes, we also developed an investor platform. Previously, participants in government securities auctions were required to go through banks. We discovered that some people found it restrictive, both in terms of time and money, because banks charged commissions. So, we created this platform where organizations and individuals can directly bid and register in the central securities depository. I recall that in 2020, we had about 975 participants who were small players, or what we term the retail category. However, by 2023, this number had risen to 6,359. As a result, many individuals, particularly those from the Diaspora, are becoming interested, and we believe it is the appropriate direction to take.Moreover, we strive to keep pace with technological advancements, as many people believe that regulators are slow to adjust while players are nimbler and faster. So, in 2021, we introduced what we term the Regulatory Sandbox. Consider it analogous to children playing with sand in a box to learn about all of its qualities before progressing to real-world construction. Before completely launching novel ideas, we test them in controlled conditions to ensure that we understand the related risks.

Do you believe that is a good idea for the economy or the financial sector?

It should be beneficial to both the economy and the financial sector, but particularly the latter, primarily for fintechs. That's where we discovered it to be very relevant. In the payment system, we have a straight-through payment. When you push a payment, it must go through, which is why central bank money comes in. It is not reversible; once the pay button is pressed, you cannot recall that message because doing so will create problems. Consider what happens when you are driving along the highway and suddenly you halt or wish to reverse. You are going to cause some serious problems. Therefore, the same principle applies there. Previously, when you wrote a cheque, it was based on the pull principle, meaning money only moved when someone received it. But now, when you pay with this, you are pushing money through. This is what we did to shorten the time and lessen the "float." When we first started, the banks were concerned that they did not have enough float because it was not like a cheque.

The Bank recently launched the 2024-2027 Strategic Plan with the theme 'Promoting Inclusive and Sustainable Development in a Digitalized World.' Could you provide more insight on the plan?

It is a new plan we launched this year. From the theme of the previous plan, we added "in a digitalized world." The aim being to further our digitalization drive. Digitalization has made an impact on our financial system, but we want to raise it to a higher level. The plan focuses on four key areas: price stability, financial stability, financial inclusion, and organizational resilience and growth. These priority areas are intended to address the significant problems and opportunities in our operational environment. As the economy recovers from the negative impacts of the COVID-19 pandemic, new challenges have emerged. These include the effects of climate change, cyber threats, ongoing geopolitical tensions, and the debt overhang. These challenges threaten the financial sector and sustained economic growth. In this dynamic and complex environment, the Bank has developed a strategic plan that will guide it towards stable prices and financial system stability, as well as enhanced financial inclusion. In terms of price stability, we decided that, as part of our unwavering commitment to achieving and maintaining price stability, we would deepen the interbank money market to enhance the transmission mechanism of monetary policy and our data collection capabilities. In the area of financial stability, we believe that a robust financial system is the lifeline of a healthy economy. To promote financial stability, we will strengthen our supervisory framework by, among other things, entrenching regulatory frameworks for environmental, social, and governance practices, improving cyber risk management, and adopting modern technologies. With respect to financial inclusion, we believe that every citizen deserves access to affordable financial services. We will champion financial inclusion and increase access to finance for underserved and unserved communities. The Bank will also leverage technology to increase financial system safety and efficiency. Regards to our fourth area of focus, organizational resilience and growth, the Bank acknowledges that our people are our most valuable asset, and therefore we will strengthen our human capital management and champion an organizational culture based on our values. By the end of the plan period, we expect to have achieved significant progress in providing financial services to the unbanked and underbanked segments of the population, with a particular focus on women, youth, and micro, small and medium enterprises. We will also embed sustainability considerations in the pursuit of the Bank's mandate and leverage ICT and digitalization to achieve these goals.

What is the essential difference between this new plan and that of 2020-2023?

In the previous plan for 2020-2023, we focused on two areas: financial inclusion and financial stability. We believe that we have made some progress in those areas, but it remains an unfinished business, necessitating continuity in the new plan. We have carried over financial stability and financial inclusion, to which we have added price stability and organizational resilience. The reason is that we still need to work on the monetary policy transmission mechanism. We have observed some challenges. When we send a signal, it does not land exactly where we want it to. So that is our primary objective in terms of price stability. Under financial stability, we have included the subject of ESG, which stands for Environmental, Social, and Governance arrangements designed to address a variety of challenges. That is why we include sustainable development in our plan because we feel that unless we properly manage the environment, everything we do would be unsustainable. We now insist that regulated institutions

In this dynamic and complex environment, the Bank has developed a strategic plan that will guide it towards stable prices and financial systems stability, as well as enhanced financial inclusion

adhere to the principles we champion. Furthermore, we are improving data collection management. We are establishing a more encompassing data warehouse so that we can use big data analytics since we collect a lot of information as part of our operations. When we use AI, for instance, we should be able to make better use of information for our policies. In the same vein, we are strengthening cyber resilience and fraud mitigation because, with digital finances, cyber risks are heightened. What we have done is to go beyond our setting in the Bank to work with other central banks.

So, are there collaborations among central banks in Africa or globally?

Yes, we have the Southern African Development Community (SADC) Committee of Central Governors (CCBG), but we also have continent-wide collaborations. It does not end there; we belong to other groupings where collaboration is important. There is no question that we have found it beneficial to collaborate. We do some things jointly. For example, in terms of bank supervision, we have a joint system that was developed by Mozambique, which we all use. We also have a regional payment system known as Real Time Gross Settlement (RTGS), which we use to facilitate trade using our local currencies. In our financial sector, we have resolved to expose all misdemeanours and indicted persons to strengthen the entire system. Under financial inclusion, we want to leverage technology to increase it from 73% to 90% or somewhere close to that. We realize that we can't accomplish all these goals until we review our setting as an organization. So, we are simultaneously improving our operational efficiency and effectiveness. We must be able to deliver services in an efficient manner and as effectively as possible.

We have a forward-looking monetary policy framework

What are the achievements recorded so far?

It is too early in the day to talk about the achievements of the 2024-2027 Plan. However, we are completing some of the tasks that were previously unfinished. For example, one of the things we had to do was to establish a new stand-alone unit for anti-money laundering and financing of terrorism. We have also established a unit to look into the establishment of depositors' insurance funds. By the end of the year, we should have established the fund. We have also made some organizational changes. In place of our Economics Department, we now have two departments: Research and Statistics. The Statistics Department will house the e-BOP and Export Tracking System that I mentioned earlier, as well as the data warehouse. We have hired consultants to assist us with that. We are also revamping the ICT Department to allow for more personnel in that area, as everything is now ICT-driven. We are working to improve our enterprise risk management. The supervision department is now also split into: Prudential Supervision, which looks at the banks and the deposit-taking non-bank financial institutions, and Financial Conduct Supervision, which deals with non-bank institutions, consumer protection, and AML/CFT issues. Everything I have stated so far indicates that we are focused on core central banking.

What do you mean by financial conduct?

Financial conduct relates to how banks and non-bank financial institutions under our regulatory ambit engage with their customers and the public. Financial service providers are required to exhibit integrity in their dealings with the public and ensure that they do not promote illicit financial practices within their institutions. They are also required to promptly and fairly deal with customer complaints in order to promote public confidence in the financial sector and enhance financial inclusion. The Bank has therefore set up dedicated units to prevent money laundering and financing of terrorism and strengthen the resolution of consumer complaints. This will ultimately complement our mandate to maintain financial stability.

Analysts say that Zambia's financial inclusion policy will be crucial in bringing capital from the informal sector into the formal sector, where the multiplier effect can enhance its use. How would you rate the implementation of your reform initiatives to enhance financial inclusion, including the Small and Medium Scale Enterprises (SMES) guarantee scheme?

The focus of our financial inclusion is on small players. We have agency banking. With digitalization, some banks have closed their brick-and-mortar locations. They use technology for their operations, but they also have agents working for them who serve as their eyes, ears, and local outlets.

The Bank has a particular interest in promoting access to finance for Micro, Small and Medium Enterprises (MSME's) because they currently contribute about 70% to the country's GDP and 88% to employment. We are therefore working with the Ministry on Small and Medium Enterprise Development to develop a finance strategy to help these enterprises access reasonably priced finance and promote their growth.

We are also encouraging village banking. It is still informal, but the idea is to transition to a more formal setting. There are savings groups as well. However, we have also observed that some greedy people attempt to transform them into illicit pyramid schemes. As part of our public education and awareness campaigns, we sensitize the public to be on the lookout for such schemes. We recently show-cased this in conjunction with the banks at the Agricultural and Commercial Show in Lusaka. We are alive to the fact that the small players need to be brought in, and the fintechs are moving in very strongly. The idea behind fintech is that volume matters more than quantity. Using artificial intelligence, the fintechs are also building their own algorithms that allow them to give small loans intra-day, literally. In the morning, one receives money, and by afternoon or evening, they repay it. As they repay, their credit score improves.

Do you have a framework to integrate these fintechs and mobile money managers into your banking sector?

Yes, we've started, but it was quite tough at the beginning. The mobile networks wanted to participate, but we declined their requests because this is a regulated service. To be involved, they must set up a separate company. So, these mobile network providers that want to engage in payment system services and/or businesses have to establish separate companies that are subject to our regulation. They would then be designated as such. .It is important to stress that we oversee the financial services sector and not the technology side of things. In reality, the money they use for this purpose is linked to a bank. Banks are thus involved throughout the entire process.

What impact has mobile money made since you introduced it?

It is huge because mobile money has really taken off and we have recorded growth in digital payments. Digital payments were K52 billion in 2014; by last year, they had risen to K801 billion. It is extremely strong. Even in terms of our GDP, ICT and digital payments are among the key drivers. Mobile money payments did extremely well during the COVID pandemic era. This and ICT in general are two areas that unambiguously benefited from this very unfortunate development, and they in turn helped to save lives and livelihoods. Ever since, it has been extremely strong. As an example, politicians now use mobile money a lot instead of cash, as was previously the case, and have no trouble transmitting money to their agents in the field, even during elections. We have embarked on a "go cashless" campaign so that we use less cash, which is very expensive and too risky.

What are the investment opportunities for the global community in the Zambian financial system?

The Zambian financial system is open for foreign investments. In fact, we are currently attempting to implement open finance. We have no quota in terms of who wants to establish a financial institution in the country. The economy accommodates foreign banks that wish to open shop in Zambia. The taste of the pudding is in the eating. Credit growth is currently relatively low in our country. In the past quarter, we had about 85% in nominal terms. When we talk in real terms, we are talking about 15%, which is very low. It means that we do not have enough competition. Even though there are many banks in our country, they are not effectively competing. When we looked at the Kwacha loan-to-deposit ratio, we observed that it is actually less than 50%. We still have not reached the desired level of intermediation. Thus, we will examine their business plans and welcome any legitimate foreign banks that come in to raise these figures. The important thing is that our system allows for orderly entry and exit. We have a business-friendly environment. Banks in Zambia are still making profits, and there is still room for more. Our population is quite young. More debt restructuring plans are on the horizon. Mining, which is the beacon of foreign direct investment (FDI), is growing. Therefore, for the economy to flourish, more and different actors are needed, and this need goes beyond the commercial banking sector. Mortgage, merchant, and investment bankers are also invited. We also want venture capitalists to come in. Simply put, we are open for investments.

Furthermore, accountability has increased in the institution to the extent that we have to make ourselves available to Parliament every so often. Indeed, under the former and current Acts, we are required to present our audited financial accounts to Parliament within 120 days of the end of each year. That is transparency and accountability

What is the outlook for the Zambian financial sector in the next five years?

The vision of the Zambian government is for us to attain the status of a prosperous middle-income country by 2030. That is the trajectory we have embarked on. We are pushing for the financial sector to take the lead in driving it. In the next five years, we want the banking sector to be even more vibrant.

Finally, how would you describe the quality of Zambia's candidate for the 2025 presidential election of the African Development Bank (AfDB)?

In one word—superb! He is the right man to lead the AfDB at this pivotal moment because he is committed to ensuring that the Bank can deliver a more ambitious development agenda and drive Africa to the forefront of the global economy. He has a lot of experience in multilateral institutions. In addition to his managerial acumen, he is a skilled resource mobilizer. He has worked at some of the highest echelons of the World Bank. He is currently the World Bank's Vice President for Budget, Performance Review, and Strategic Planning. Prior to attaining this position, he served the Bank as Chief Financial Officer and Chief of Staff to two former presidents. Therefore, he has garnered the requisite experience at the global level. By the way, our candidate, Dr. Samuel Maimbo, is a world-class artist. As an artist, he is very meticulous and perceptive. You know, artists see things before others notice them. I believe strongly that it will be a great opportunity for the continent to have this vibrant, energetic, and relatively young development expert with excellent interpersonal skills to serve as the AfDB President.

Zambia's regulatory system is business-friendly — *Francis Chipimo*

DR Francis Chipimo, Deputy Governor at the Bank of Zambia and Registrar of Financial Service Providers, oversees monetary policy formulation and implementation at the Bank. He has deep expertise in economics, finance, and commerce.

The Chevening scholar, who previously held positions as Director of Economics at the Bank of Zambia, Advisor at the Ministry of Finance, and Senior Economist at the Ministry of Commerce, Trade and Industry, earned his Doctorate and Master's degrees in Development Economics from the University of London, the School of Oriental and African Studies (SOAS), as well as from the University of Zambia.

The exclusive interview excerpted hereunder relays Dr. Chipimo's insight into the complexities of monitoring the operations of Zambia's central bank and the country's growing financial sector, including non-bank financial institutions

The Bank of Zambia Act, effective a year ago, enhances the Bank's operational autonomy and establishes the Monetary Policy and Financial Stability Committees. How would you appraise the overall impact of the Act on the activities of the Bank?

The Bank of Zambia Act Number 5 of 2022 has significantly strengthened our regulatory framework with the formal establishment of the Monetary Policy Committee (MPC) and the Financial Stability Committee (FSC). The Act accomplished several things: First, Zambia's constitution was amended in 2016, and in this amendment, the independence of the Bank of Zambia was formally established. This required that the subsidiary legislation governing the Bank needed to be amended to recognise this independence, and this is the first point. The second point is that while the price and financial stability mandates of the central bank were reaffirmed, the new Act emphasises the primacy of the price stability mandate with the provision that, in circumstances where the two mandates were in conflict, the price stability mandate would take precedence. The new Bank of Zambia Act also strengthened governance arrangements within the Bank, relating to matters such as the composition and authority of the Board and Board Committees; security of tenure for the Governor and Deputy Governors; issues relating to financial independence; and strengthening the oversight of regulated entities. An overarching theme of the reforms was not just strengthening governance arrangements, but also increasing transparency. In this regard, the Monetary Policy and Financial Stability Committees both publish quarterly reports after their meetings, which strengthen communication with the market.

Zambia's financial sector presents a unique opportunity for investment given that we have retained an open current and capital account for over 30 years

As Registrar of Financial Service Providers, how have you ensured the proper supervision and regulation of Zambia's banks and other financial service organisations under this framework?

The new Act has strengthened the regulatory framework significantly—particularly aspects relating to financial stability. First and foremost, as I already stated, we have established the Financial Stability Committee. This Committee brings together all the regulators in the financial sector, that is, the Pensions and Insurance Authority; the Securities and Exchange Commission; and the Bank of Zambia. In addition, it includes a representative of the Ministry of Finance as well as members from the private sector. This has enabled us to look at issues of across-risk in the financial sector. This is important because some financial institutions regulated by the Bank of Zambia—specifically the non-deposit-taking non-bank financial institutions—also have a leg in the capital market, given that they often raise capital through capital market instruments regulated by the Securities and Exchange Commission. The composition of the Financial Stability Committee now enables us to address regulatory gaps and assess industry-wide risks in a holistic way.

Could you elaborate?

Well, as alluded to in my earlier comments, a good example are microfinance institutions, which are regulated by the Bank of Zambia and play an important role in lending to small and microenterprises. Microfinance institutions often raise capital through the issuance of capital market instruments that are regulated by the Securities and Exchange Commission, such as long-term notes. Many of these institutions are non-deposit-taking institutions. These institutions therefore have responsibilities to two regulators, and when things are going well, there is usually no problem. However, when institutions face difficulties, the resolution process requires coordination between the different regulators. Prior to the revision of the Bank of Zambia Act, there was no formal obligation for us to cooperate, although we had a long-established Memorandum of Understanding to facilitate cooperation. Internally, the Act has also enabled us to be

more focused on the regulatory framework in three ways: First, we have established a Financial Stability Department, focusing specifically on financial stability matters, and this department also serves as the secretariat to the Financial Stability Committee. We then have the Prudential Supervision Department, which supervises all deposit-taking institutions, including deposit-taking microfinance institutions. The Prudential Supervision Department is also responsible for overseeing the management of cyber security risks across the financial sector. The third point is that we have also enhanced our focus on matters relating to consumer protection by establishing the Financial Conduct Supervision department. This is important because the strength and efficacy of consumer protection regulations have an important bearing on faith and trust in financial services and the financial sector as a whole. We also know that financial conduct can be a source of financial stability risks.

The government is also exploring how we can take advantage of the Africa Continental Free Trade Area to promote increased trade and investment with our neighbours

A final point is that in our set-up, issues relating to anti-money laundering, countering the financing of terrorism, and proliferation financing (AML/CFT) have a dedicated division and staff in the Financial Conduct Supervision Department. So, we now have these clear tasks and structures, which we believe make us better equipped to manage risks facing the financial system holistically.

The Bank of Zambia and the financial sector in general have successfully migrated to the new ISO 20022-standard for electronic data exchange. To what extent has this impacted the sector and, by extension, the economy?

We recently successfully migrated to the ISO 20022 messaging standard, becoming one of the few countries that have done so on the continent. I believe that the primary goal of the ISO 20022 Standard for Electronic Data is to provide us with richer data in messaging. The G-20 first promoted this in 2020 by focusing on cross-border payment methods. As a result, it provides a considerably richer supply of information in the messages that we send, allowing us to improve efficiency in certain areas. For example, while performing KYC (Know Your Customer), this message can contain a large amount of information, and when performing payment reconciliation, it can have even more information. So, in this area, the system as a whole can be far more efficient. It also opens up the possibilities of automating a lot of tasks. For example, AML/CFT issues are an important area of risk in the financial sector, and if you do not deal with them appropriately, you can suffer significant consequences, such as the loss of correspondent banking relationships. But how do we deal with all these issues at the international level, where sanctions are in place for various entities and individuals? This requires improvements in processes if the financial sector is to be efficient, and this is done through automation. So, we believe that this new payment standard, which allows us to have more data relating to payment instructions, is really crucial for us. It allows us to develop a much more resilient system.

The new Act has strengthened the regulatory framework significantly—particularly aspects relating to financial stability

The Bank of Zambia recently released Foreign Exchange Market Guidelines aimed at enhancing the transparency, efficiency, and effectiveness of the domestic foreign exchange market in Zambia. How would you appraise the implementation so far in terms of actualising the objective of the whole exercise?

The fundamental objective of the recent guidelines was to improve the operation of the foreign exchange market in terms of enhancing transparency and efficiency. As you know, foreign exchange markets in African countries, including Zambia, are frequently marked by high levels of volatility. This is partially because our economies are generally dependent on commodities; certain sectors dominate supply, and our markets are not very well developed or deep. Because of these reasons, amongst others, our markets are very susceptible to any kind of shock, during which period normal market mechanisms tend to break down. Given that shocks to the economy now seem to occur on an ever more regular basis, we have realised that in order to deal with the various shocks we experienced—such as the financial crisis, the decline in copper prices, the drought, and so forth—we needed to take action by addressing practices in the market whilst maintaining the fundamentals of a flexible exchange rate regime and an open capital account.

To elaborate, the Bank has always had clear authority to regulate authorised dealers (commercial banks). However, the new Bank of Zambia Act explicitly expanded this mandate to include oversight of the whole foreign exchange market—that is, including the actions of non-bank players, whether corporates or individuals. So in the new forex market regulations, one of the things we did was to mandate that all foreign exchange transactions in the market had to be conducted through an authorised dealer. Secondly, we mandated that trades below a certain threshold (currently one million US dollars) were to be consummated at the board rates of each authorised dealer. However, for trades above one million US dollars, parties could negotiate rates. Prior to this directive, we observed that even small trades of US$10,000 could significantly move market rates, contributing to the volatility of the market as a whole. The foreign exchange offshore market was another area of concern for us in that there was a lack of visibility on the trades taking place and there were periodic divergences between onshore and offshore rates that were difficult to explain. We have therefore stipulated in the regulations that all brokers used by our authorised dealers need to be registered with us and that they provide information on market trades. The requirement that all entities generating foreign exchange from Zambia trade through authorised dealers in Zambia also strengthened transparency. As a result, we have witnessed two key things since these regulations were introduced. Firstly, the spread between on-shore and off-shore spreads appears to have narrowed, and secondly, on shore, the margins between the buying and selling rates have narrowed, dropping below the maximum allowed spread of 2%, indicating competition on spreads.

Internally, the Act has also enabled us to be more focused on the regulatory framework in three ways

Is there any process to attract more foreign currencies from Zambia's Diaspora?

Yes. We believe that the fact that we have maintained a highly open system—in fact, one of the most open—is critical to allowing increased investment to occur from Zambians in the diaspora. Secondly, we are developing mechanisms, such as the investor portal for government securities, where Zambians in the diaspora can more easily participate in government securities through electronic platforms. We continue to look at other avenues that could facilitate the participation of Zambians in their economy, and this includes continuous improvement in the payment system channels and in reducing the costs of cross border payments and remittances.

What other ways do you plan to attract and retain foreign currency to lubricate liquidity?

First, promote Zambia as an important destination for foreign direct investment as well as Zambians in the diaspora investing in Zambia, and this is one aspect that the government is pursuing. The government is also exploring how we can take advantage of the Africa Continental Free Trade Area to promote increased trade and investment with our neighbours. On the financial front, you are correct that we must think more creatively about how to attract and retain foreign currency. In this regard, one of the things we have done in the recent past is to improve the information we collect on our financial transactions with the rest of the world. This is because when we got rid of exchange controls in 1994 (completely liberalised the capital account), we lost access to a lot of information. So, in 2019, we implemented what we call the electronic balance of payments system to enable us to better capture financial inflows and outflows through the banking system. This system has two features: the first is that it captures from the core banking systems of the commercial banks all inflows and outflows. The second feature is the requirement that all export earnings need to be repatriated to Zambia through a local bank account before they are spent. Prior to this, we had to capture information through surveys, and respondents were not always forthcoming. Companies and individuals were also sending out funds for purposes for which we did not know. Therefore, this system has helped close some of these gaps. We intend to extend the system by tracking and reconciling flows related to imports and services. However, we know that there is still a lot of work to be done to earn and retain more foreign currency as a country, and promoting diaspora linkages is one avenue.

Zambia has one of the freest markets in Africa. In this regard, Zambia has a very proven track record of remaining consistent even in the most trying circumstances

Digital currencies have been regarded as an idea whose time has come. How prepared is the Bank of Zambia to embrace this?

I think digital financial services, in general, are an idea that has come of age. For instance, I look at CBDC (Central Bank Digital Currency) as simply one component of the constellation of possibilities presented by the digital age we are living in. In thinking specifically about CBDCs, the key question we are asking is: What is the use case? Because you must understand this before you can embrace CBDCs. And what is the benefit that CBDCs will bring? Of course, when it comes to establishing CBDCs and other initiatives, resources, both human and financial, as well as extensive interactions with the financial sector, are all involved. We have conducted numerous consultations to gather ideas and explore the potential of CBDC in digital financial services in Zambia. Digital financial services and related developments in the payment system are already playing an important and effective role in areas such as mobile payments and instant payments, allowing Fintechs to work with financial institutions and non-banks to transmit money instantly across the country. We are therefore examining the use case of CBDC in countries like Barbados, where some success has been observed, especially for individuals already financially included, to see what we can learn and determine where the real value addition lies. Maybe the real value is in the application of the underlying blockchain technology rather than the specific form of a digital currency.

What measures has the Bank adopted to tackle the emerging issue of cyber risk?

Cyber risks are real and present danger in our financial sector, and we have had numerous and increasing incidences of attacks. To an extent, this is to be expected as we expand the use of digital financial services and as the world gets more integrated digitally. We therefore have to learn to live with this risk but manage it by being more vigilant. From our perspective, because this is where many frauds originate, we need to recognise the fundamental importance of having proper digital (biometric) identification (ID) in preventing frauds, as a lack of a proper ID system compromises KYC (Know Your Customer) and wider issues around safety and security. So, one of the things the government is doing is developing a national biometrics ID. The second point is to adopt and develop up-to-date tools to manage cyber security. In a world that is being made ever more complex by AI capabilities, we have no choice but to make the investments that ensure we are not left behind. You also need to invest in people, systems, and AI itself. Collaboration is another factor, and we are currently in the process of working with the financial sector to implement a financial sector cyber incidence response team that will allow us to share information in real time when cyber incidents occur.

We are building resilience because we are improving our regulatory and legal framework

Generally, it's expected that there is more financial awareness in urban centres than in rural areas. What steps is the Bank taking to incorporate more rural dwellers into the financial system?

Financial inclusion is a task that needs to be addressed at multiple levels. At one level, the rural-urban divide in terms of inclusion mirrors or reflects a broader developmental issue. In Zambia today, there is a stark divide between rural and urban poverty. Whilst overall poverty levels are around 60 percent, rural poverty accounts for perhaps 70 percent, while urban poverty is 30 percent, and that is partly because of disparities in financial infrastructure. To address this, bridging the infrastructure gap between rural and urban areas, particularly in technology, is crucial. Additionally, one of the major factors that has allowed us to improve formal financial inclusion from roughly 59 to 69 percent is, quite simply, mobile money. However, more needs to be done to reach our goal of reaching 80 percent in terms of formal financial inclusion over the next five years, and this requires that we address issues relating to the "last mile.". In our case, this means onboarding merchants to enable them to accept digital payments (especially mobile money) wherever they operate, be it in urban markets or remote rural areas. In this regard, we are promoting a project to introduce a national QR code to facilitate fast payments. We also remain focused on financial literacy and education more generally. This includes promotion of financial literacy early in the education ladder by incorporating materials into the curriculum and financing local language publications. This approach aims to ensure children grow up with financial inclusion, making it an inbuilt aspect of education and hopefully of our financial lives. We also sponsor and collaborate with other partners in promoting financial literacy through local radio programmes that broadcast financial inclusion messages in local languages. Based on what we've seen so far, these interventions are quite effective, and we're getting positive feedback.

Briefly, what will you describe as the unique attraction of Zambia's financial sector on the global stage?

In my opinion, Zambia's financial sector presents a unique opportunity for investment given that we have retained an open current and capital account for over 30 years. We have a regulatory framework that is being modernised and adapted to meet the new challenges of the digital world we now live in and which fosters competition. We are also encouraging closer regulatory collaboration between all financial sector regulators, which is a positive for financial stability and growth. More broadly, Zambia has eight neighbours, and this offers access to a much broader trade and investment market and is well placed to operate as a central hub for the logistics industry and financial services associated with this. Our regulatory framework is also encouraging innovation, through the operation of a sandbox regulatory framework as well as opening up payment systems platforms such as the National Financial Switch to a wide array of payment service providers. This also fosters competition and innovation. We believe we are developing a very strong regulatory environment because we work closely with the financial sector, which may not be as collaborative in other jurisdictions. Simply put, Zambia has one of the freest markets in Africa. In this regard, Zambia has a very proven track record of remaining consistent even in the most trying circumstances, such as the global financial and commodity price crises. In fact, we are building resilience because we are improving our regulatory and legal framework.


SUSTAINABLE
DEVELOPMENT
GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTIONS
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

Capacity-building is our strength at BoZ — *Rekha Chifuwe Mhango*

OVER the past five years, Mrs Rekha Chifuwe Mhango has been in charge of Administration, as Deputy Governor, Bank of Zambia. A seasoned human resource practitioner and lawyer, she has been instrumental in facilitating the achievement of sustainable corporate governance and driving strategic change within the Bank. She has also led the Bank's initiatives and policies aimed at enhancing financial inclusion as well as adoption and use of digital technologies in delivering solutions across the institution.

In this exclusive interview, Mrs Mhango gives insight on the Bank of Zambia's capacity-building and other efforts to effectively serve the financial sector and ordinary citizens.

The Bank is also exploring technologies that will enhance our existing business model and facilitate efficient and effective delivery of our mandate

To what extent would the recently released 2024 - 2027 Strategic Plan boost efficiency and productivity at the Bank of Zambia?

The Bank's strategic plan has four key pillars, namely, price stability, financial stability, financial inclusion, as well as organisational resilience and growth. Of the four pillars, organisational resilience and growth largely demonstrates our recognition that our people are our most valuable resource, which we strive to develop as productive human capital. The primary focus of this pillar is the evaluation of our internal policies and practices and re-organisation of the Bank's structure to enhance operational efficiency and decision making. The Bank is also exploring technologies that will enhance our existing business model and facilitate efficient and effective delivery of our mandate. In this regard, we are keeping a close eye on advancements in AI and machine learning while leveraging our ICT investments. We are developing policies to guide the adoption of new technologies and facilitate implementation of desired solutions throughout the Bank. In view of the challenges associated with providing regulatory oversight in this fast-paced environment, we strive to be ahead of the curve in terms of providing solutions that are purposeful and market-fit.

How do you assess the current culture to see if it serves the Bank's purpose and help it to achieve its strategic initiatives?

The Bank is committed to nurturing a culture that is based on its values and principles. A culture audit was done ahead of the implementation of the current Strategic Plan. Following this audit, the Bank developed a culture remodelling concept paper which included ideas on potential areas of improvement and initiatives to be implemented in the Bank. The Bank remains positive about its current leadership qualities across the institution and is confident about the process of developing future-ready leadership competencies. Having said that, we therefore have no doubt in the interventions we have implemented and continue to implement regarding our people, procedures, organisational structure, and technological skills. We envision employees, while operating in an agile conducive environment, to possess the right skills and competencies that will in turn enable us to witness a notable boost in productivity and general efficiency throughout the Bank.

Could you throw more light on the Bank of Zambia's capacity-building efforts to prepare its workforce for modern technology tools like ICT and AI as required in a digitalised world?

As I have mentioned, the Bank's 2024–2027 Strategic Plan includes a number of initiatives, most of which are focused on investing in cutting-edge technology and digital transformation. The Bank has initiated a number of digitalisation projects, including data warehousing, currency automation, electronic document management, and enterprise resource planning (ERP) to enhance decision making. In line with our efforts to build capacity among our staff, we are working closely with peer central banks that are at advanced stages of digitalisation. Our peer central banks have provided us with peer learning opportunities on how to implement these digital solutions. Critical knowledge and skills are acquired from these institutions. At the moment, we consider the ICT department to be the bedrock of our digitisation journey. We have to this end expanded the Department to facilitate implementation of our digital initiatives. We are also looking to build capacity to facilitate in-house development and management of some of the IT infrastructure and also be central in the roll-out of certain technologies to Financial Service Providers (FSPs). Additionally, we are actively developing skills to respond proactively to cyber security challenges, which are becoming rampant in the global financial sector.

Most African countries trying to go digital face the challenge of owning some of these technologies since most are imported. To what extent are you indigenising the technologies?

Indeed, we recognise that ownership challenges for some of the ICT solutions being implemented may exist. We have, therefore, established an ICT development team as part of the overall framework, allowing us to develop our own skills. As I earlier alluded to, we have also benefited from peer learning experiences and successes of other central banks. Members of our team have visited various countries including Tanzania, Rwanda, Malawi, Mozambique, Mauritius, South Africa, Kenya, Croatia, Portugal, among others, to learn from them how they are implementing and operationalizing these ICT solutions.

Over the years, we have seen substantial growth of DFS in Zambia, which has greatly contributed to financial inclusion. Digital financial services have made it possible for people to make payments while still feeling comfortable in their homes

In other words, the process of indigenising some of these solutions is ongoing?

Indeed. We have realised from previous ICT solutions we have acquired that we require support from the developers. When we are having challenges with deployed systems, we have heavily relied on their expertise and support. However, in order to guarantee skills transfers and reduce our dependency on the providers of these solutions, we are now strategically incorporating elements of skills development as part of the agreements.

What effort is the Bank of Zambia making to educate the public on financial scams in view of increased use of digital financial services?

As part of our financial inclusion agenda, we launched the Digital Financial Services Campaign in 2016 with the goal of enlightening people about the benefits of embracing digitisation.We also started the "Go Cashless" campaign in 2022. Through these campaigns, we are raising public awareness on the advantages of using digital financial services as well as the safeguards to observe. Scams do exist and are on the rise. So, as a central bank, we are likewise vigilant. Further, the regulatory framework, which covers aspects of cyber security, issuance of electronic money, and resolution of complaints, has been enhanced. We are also continuously monitoring regulated entities, which are required to ensure that they identify and report suspicious transactions as well as put in place fraud detection mechanisms to safeguard the integrity of the DFS ecosystem. Furthermore, in 2022, the Bank working in collaboration with the Zambia Information and Communications Technology Authority (ZICTA) and other stakeholders developed an information sharing framework to enhance oversight and supervision of DFS, which has improved the exchange of information.

So, you normally share it?

Yes, we do share information with stakeholders on some of the frauds that are being detected. This is in order to safeguard the financial system. We also have an internal Strategic Plan, which in addition to the National Payment System Vision and Strategy, addresses issues of cyber security standards to ensure that the financial sector remains resilient.

How do you think the 'Go Cashless' Campaign will affect countrywide transactions, particularly in the rural areas?

The "Go Cashless" campaign was launched in 2022, and it is still ongoing. Through this campaign, we are attempting to accelerate the adoption of digital financial services, especially in the most remote areas. Increased financial inclusion is the goal in this case. Our focus is on how we can bring everyone on board in the fastest and safest manner possible. Accessibility, security and convenience have been the main message of our campaign. Over the years, we have seen substantial growth of DFS in Zambia, which has greatly contributed to financial inclusion. Digital financial services have made it possible for people to make payments while still feeling comfortable in their homes. And this has been the case even for the rural areas. People are able to use the services as long as there is reliable network coverage. Additionally, compared to traditional

we are actively developing skills to respond proactively to cyber security challenges, which are becoming rampant in the global financial sector

Our true goal is to address the nation's long-overdue demand for a thorough financial education programme

paper money, using digital financial payments is associated with lower risks.

Digital financial services is good for educated people. But a lot of rural folks are not that enlightened and may find it difficult to use it. How do you address that?

That is the essence of the sensitisations. So, it goes hand-in-hand. Sensitisation is important for people to effectively use digital financial services. For this reason, the service providers are also involved. It is a team endeavor. As the regulator, the central bank is where it all begins.

Sensitisation, which is a form of education, is bridging the gap. What has been the impact of the "Go Cashless" campaign on the Zambian financial sector?

The expansion of digital financial services in Zambia can be attributed to the "Go Cashless" campaign and other initiatives undertaken by the Bank of Zambia in collaboration with key stakeholders. A FinScope survey conducted in 2020 revealed an overall improvement in financial inclusion from 59.3% in 2015 to 69.4% in 2020. Between 2014 and 2023, we saw a growth of almost 1,427.8% in the retail use of digital and card payments, growing from 52.4 billion Kwacha to 801 billion Kwacha. Starting in 2025, we will be conducting another FinScope Survey, and based on all the signs, these numbers would likely be substantially higher.

The Bank promoted financial education by publishing additional books for pupils in grades 1–12. These books have been integrated into the school curriculum and translated into seven local languages for grades 1–4.

What informed this decision?

Improving financial literacy is the key to it. We collaborated with the financial sector and other stakeholders to support the Ministry of Finance and National Planning in publishing the financial education supplementary material because it is part of the broader efforts to promote financial literacy, and ultimately, inclusion. Our focus is to ensure that learners are exposed to this information so that as they grow up, they can make sound financial decisions.

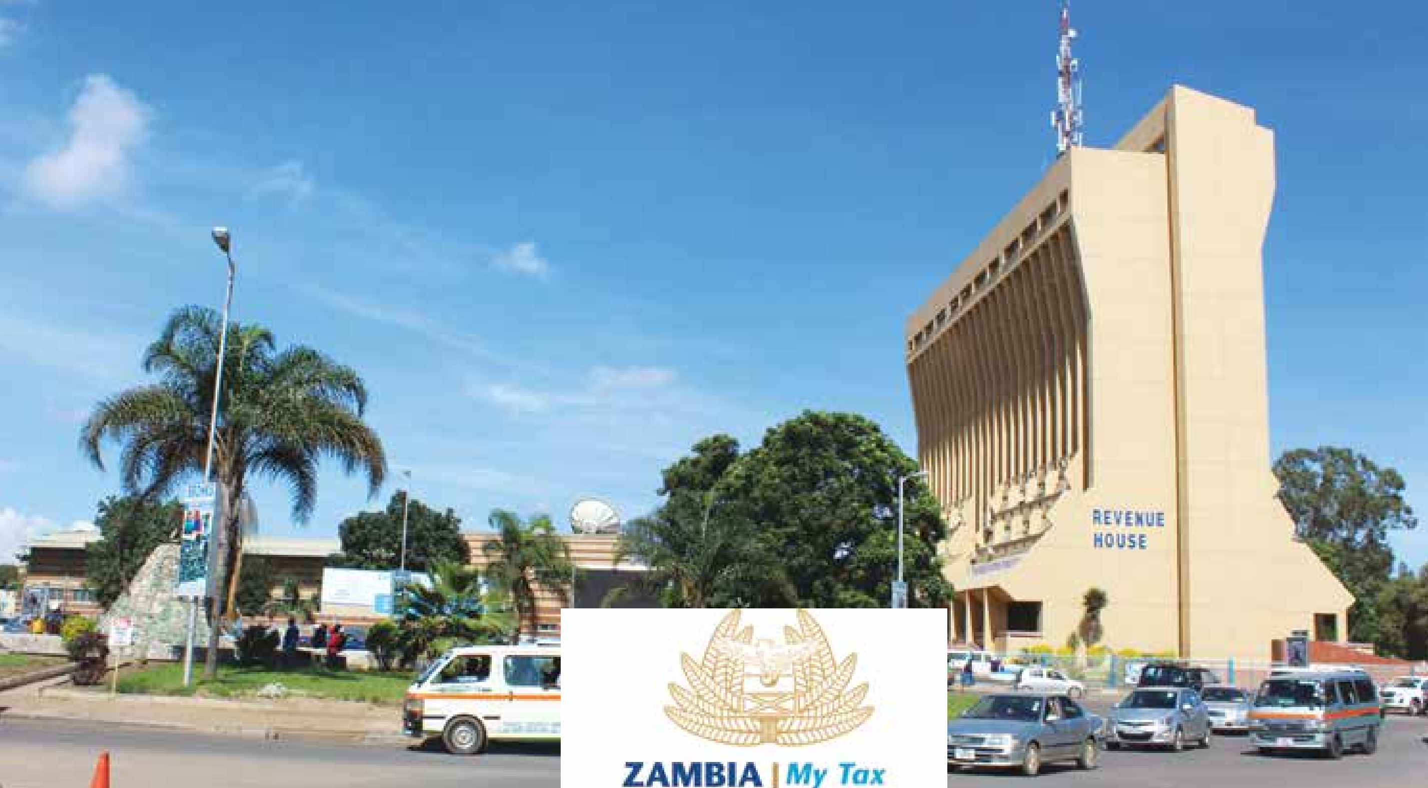
So, it is more like catch them young?

Yes. We want to mould their behaviour and way of thinking while they are still young. So, it helps them to be wiser in terms of financial decisions.The children benefit from these books by gaining a foundational understanding, which they can then use as they get older. The learners will develop critical thinking skills and apply quantitative reasoning as they make financial decisions. The Ministry of Education has incorporated these texts into the curriculum. Our true goal is to address the nation's long-overdue demand for a thorough financial education programme. As you mentioned, I believe that if we catch them young, the economy will ultimately gain from having more financially literate citizens.

Foreign investors desirous of coming to Zambia to invest would like to be assured of capacity. Are you confident that you are developing a skilled workforce for the financial sector?

Indeed, we are. As a country, we have reputable banking and financial institutions. Most if not all of our major universities offer the Banking and Finance first degree. We often run banking and finance programmes through the Institute of Banking and Financial Services. Thus, those also support the curriculum for the training of future bankers on an ongoing basis. As a central bank, we also recognise that it takes a long time to develop a central banker. We therefore have intentional learning and development policies, whereby we assist our employees on an ongoing basis from the point of onboarding until they are ready to take on the management and leadership roles in the Bank. It takes on average, in my opinion, 15 to 20 years to develop a central banker. We introduce our employees to organisations in Africa and around the world that offer capacity building programmes tailored around the principles of central banking. We are glad to share with you that due to the great potential that our staff possess, we have had some of them take on roles in other reputable institutions such as the World Bank, International Monetary Fund (IMF), the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Central Bank of England, and the African Development Bank, among others. This shows that our people have the capacity to not only work but excel in any environment.

AIRTEL ZAMBIA



ZAMBIA REVENUE AUTHORITY | My Tax Your Tax Our Destiny

Unlocking the Power of Zambia's Tax Incentives

ZAMBIA, a vibrant nation nestled in the heart of Southern Africa, boasts a unique blend of geographic and demographic endowments that shape its economic trajectory. Situated between latitudes 10 and 19 degrees south of the equator, Zambia's landlocked position presents endless opportunities for prosperity and growth. With a population of nearly 20 million, predominantly comprising young people aged 30 years or less, Zambia's demographic landscape is ripe for innovation and progress. The country's economy, deeply rooted in the mining industry, leverages its rich mineral deposits to drive growth especially in renewable energy minerals.

Zambia's economic trajectory has been remarkable, with rapid growth between 2000 and 2010, elevating the country to middle-income status. As the nation continues to navigate through her economic journey, the unique blend of natural resources, young population and strategic location position it for future success in the region and beyond. The land of immense economic potential, beckons investors and entrepreneurs with a dazzling array of tax incentives. Zambia's Eighth National Development Plan identifies mining, agriculture, manufacturing and tourism as priority sectors. These economic sectors enjoy benevolent tax incentives designed to propel the economy forward.

In the mining sector, investors can reap the rewards of a guaranteed value added tax (VAT), input tax claim for 10 years on pre-production expenditure for mining, petroleum or gas exploration activities for registered suppliers in the sector, zero per cent tax on dividends, and a 20 percent capital allowance deduction on capital expenditure. This triple benefit is a game-changer for mining investors seeking to maximize profits. Evidently, the policy has contributed to the resurgence of the sector in recent years. Furthermore, capital expenditure on patents, designs, trademarks and similar expenses is deductible, allowing companies to reinvest in innovation and development. The zero rating of VAT on selected capital equipment and machinery also provides a cash flow benefit to mining businesses. In the event of tax losses, mining companies can carry forward losses for ten subsequent charge years for offsetting against future taxable profits, providing a safety net and enabling them to weather financial storms. Companies also have the option to keep books of accounts in United States dollars where a company earns at least 75 percent of its gross income as foreign exchange from outside the Republic thereby mitigating on foreign exchange risks.

Tourism, another vital sector where developers of tourism facilities and infrastructure can claim a guaranteed VAT input tax credit for four years after registration on expenses incurred prior to actual commencement of business, also provides a vital cash flow injection to support investments. Foreign tourists also enjoy the convenience of no import VAT on goods temporarily brought into the country, making it easier for them to travel and enjoy their stay. Furthermore, hotels and lodges can claim a five percent wear and tear allowance on acquiring, construction or alteration of buildings and a one off 10percent initial allowance on construction or alteration of a building, reducing their tax liability and enabling them to invest in upgrading their facilities.

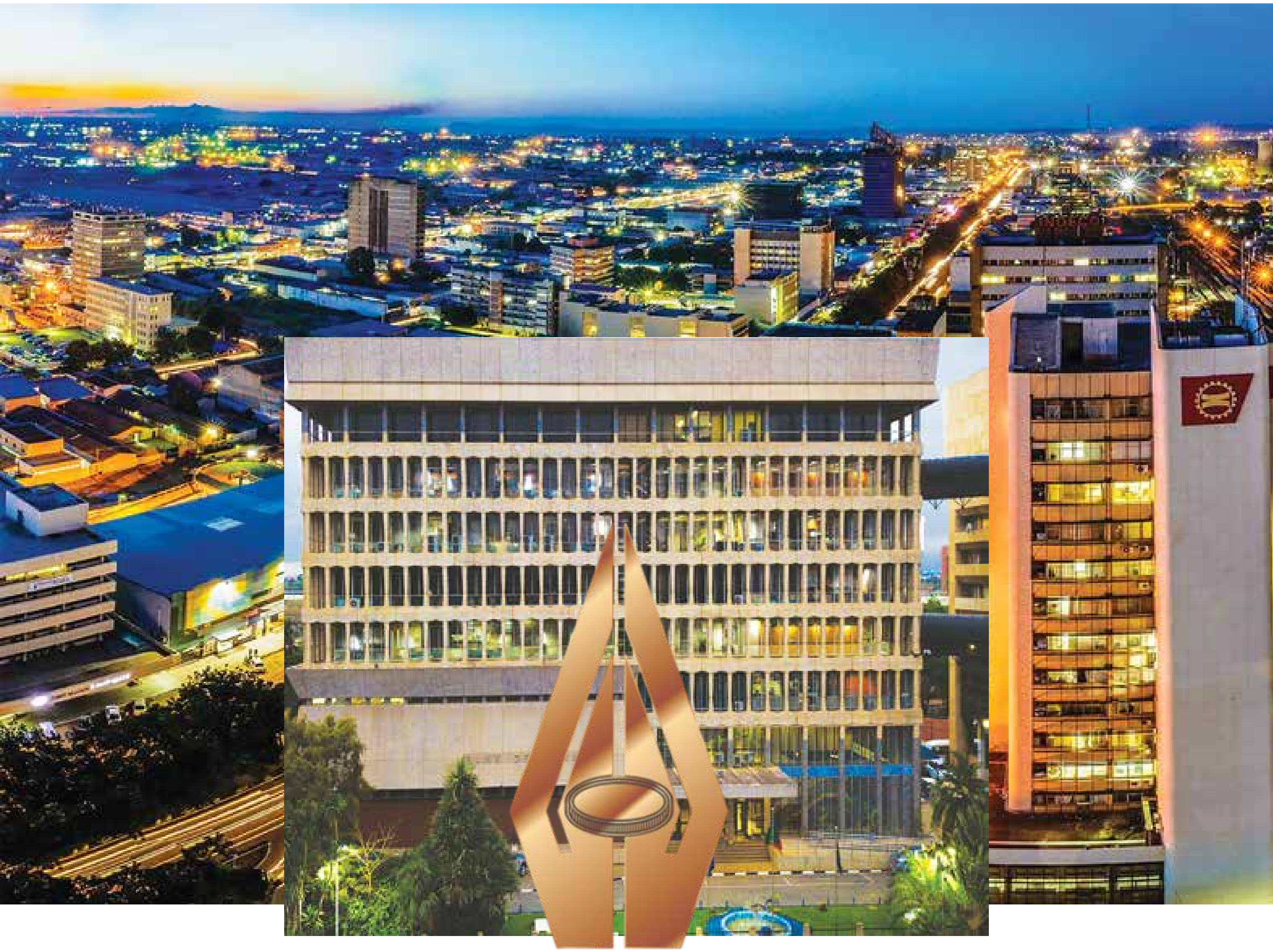
In Agriculture, at the forefront of incentives available is the guaranteed VAT input tax claim for four years prior to production, providing a vital cash flow injection for businesses in the agricultural sector. The sector also benefits from the zero-rating VAT on taxable agricultural products and supplies, as well as an increased number of zero-rated agricultural equipment and accessories. This reduction in tax liability enables farmers and agro-processors to invest in essential inputs and machinery, boosting productivity and efficiency. The reduced income tax rate of 10 percent also provides relief, enabling businesses to retain more of their profits.

Manufacturers, too, can capitalize on Zambia's tax incentives. These incentives include guaranteed VAT input tax claims, reduced license fees, reduced income tax rates for specific activities, capital allowances and investment allowances for industrial buildings and machinery. Additionally, the suspension of customs duty on manufacturing inputs, zero tax rates for specific activities, and reduced excise duty on clear beer further reduce costs and encourage investment. Special incentives are also provided for specific manufacturing activities, such as roofing sheet production and manufacturing in multi-facility economic zones, industrial parks, or rural areas. Small manufacturing entities also benefit from tax relief, ensuring that businesses of all sizes thrive. By reducing tax liabilities and providing relief from customs duty, the Zambian government aims to create a supportive environment for the manufacturing sector, driving economic growth and development. These incentives encourage manufacturers to expand their operations, explore new markets, and invest in essential inputs and machinery.

Dingani Banda, Commissioner-General, Zambia Revenue Authority

In addition to the above sector-specific benefits, Zambia offers general incentives such as import VAT relief, relief of VAT on transfer of business, cash accounting for VAT, and voluntary registration for compliant businesses. Furthermore, the VAT deferment scheme on importation of capital equipment and machinery allows businesses to delay payment of VAT, freeing up resources for other critical expenses. These incentives demonstrate the country's commitment to creating a favourable business environment, conducive to growth and investment. By embracing Zambia's tax incentives, your business can unlock its full potential, driving economic growth and prosperity. With its welcoming business environment and attractive benefits, Zambia is the perfect destination for investors and entrepreneurs seeking to succeed.

Find out more at:
https://www.zra.org.zm/download/tax-incentives-guide/
Contact author on: simbeyel@zra.org.zm



Bank of Zambia:

Building a resilient financial system

By Joni Akpederi

AS far back as 2022, President Hakainde Hichilema's spirited efforts to set Zambia's economy back on the path of sustainability started yielding results. His deft reform initiatives calmed nerves in the international capital markets over the country's default on its sovereign debt in the wake of the COVID-19 pandemic. Now, blocked credit lines are opening up again, causing the Zambian leader to enthuse: "We have reached a significant milestone in the journey towards economic recovery and growth."

The Southern African country has been able to turn the tide against adversity and return to macroeconomic stability. After a series of meaningful engagements with creditors, an International Monetary Fund's Extended Credit Facility sailed through in August 2022, helping to place it on the path of recovery. Inflation that had soared over 20 percent in previous years started trending towards 10 percent. By the third anniversary of President Hichilema's five-year tenure in August, this year, he had led Zambia to a successful conclusion of the long drawn-out debt restructuring process.

While President Hichilema doubled down on reforms needed to rev up the economic engine, the Bank of Zambia (BoZ), the country's central bank, firmed up the Kwacha, the local currency in the foreign exchange market, thus achieving a decent level

President Hakainde Hichilema launching Zambia's 8th National Development Plan 2022-2026 in September 2022

of price and financial stability through a slew of well-targeted monetary policy measures.

The personal testimony of no less a personage than Kristalina Georgieva, Managing Director, International Monetary Fund (IMF), after a working visit to Zambia in January, last year, tells the story of Zambia's resurgence most convincingly.

Said she: "Zambia is making tremendous progress on reforms, at what is a particularly challenging time for the world economy; I want to especially highlight Zambia's efforts to improve the use of public resources by reallocating resources from poorly targeted and inefficient spending and redirecting them to much-needed spending on education and health, a critical investment in Zambia's most precious resource—its people. I also want to commend the government's efforts to improve transparency and tackle corruption—vital steps to help protect public resources for the benefit of all Zambians and create a better environment for investors and businesses."

Since then, Zambia's financial sector has been on a growth stabilisation trajectory, working to keep the economy on the straight and resilient path, robust enough to tackle the challenges of development. The IMF's thumbs-up for the country's financial system in the aftermath of the multiple challenges it faced over the past few years signposted the new, forward-looking attitude in governance. The Fund reckoned that the system was "emerging from the pandemic with higher capital buffers and no alarming signs of stretched asset values and credit froth."

It was the right signal for the country's development partners, institutional and sovereign, to return to full engagement with it and chart fresh mutually beneficial relations.

Zambia's financial system

Zambia has 15 commercial banks (see box). There are other non-bank financial institutions (NBFIs) made up of building societies and microfinance institutions. According to the IMF, the banking sector accounts for around 41 percent of GDP, with the rest of the financial sector accounting for an additional 18 percent.

The World Bank reckons that domestic credit provided by the Zambian financial sector as a percentage of GDP in 2022 was 31.76%. But the corresponding ratio for domestic credit to the private sector by banks alone in that year was 12.2%. That figure increased to 12.5% in 2023, signalling the country's financial system is responding to the aligned reform initiatives of the monetary and fiscal authorities.

Open economy: Investment opportunities in the banking sector

Today, the Bank of Zambia is working assiduously to encourage more investment in the financial sector, which is the indisputable lynchpin for the entire economy. Bank Governor, Dr. Denny Kalyalya, minces no words when he says, "The Zambian financial system is open for

Dr. Francis Chipimo, Deputy Governor, BOZ (2nd left); Dr. Kalyalya, Governor, BoZ (3rd left); Mrs. Rekha Mhango, Deputy Governor, Administration, BOZ (4th left) and two other officials at the recent Monetary Policy Committee Meeting in August 2024

foreign investments…the economy accommodates foreign banks that wish to open shop in Zambia." He assures that the system "provides for orderly entry and exit" in a business-friendly environment. He further discloses that banks are making profits, with "plenty of room for others."

Bona fide investors cannot get a better invitation from a more authentic source than that. Thanks to the highly successful debt restructuring and increase in economic activities, especially in mining, which pulls in foreign direct investments, the Bank Chief says the economy is ready for more players in commercial and investment banking, as well as the venture capital space. The idea is to greatly improve financial intermediation, which impacts the loan-to-deposit ratio positively. In pursuit of this, the Bank of Zambia has worked assiduously to ensure financial inclusion. According to Governor Kalyalya, "our last FinScope showed that our financial inclusion rate had reached 69.4%, which was an improvement from 59.3% five years earlier." (See Cover interview.)

COMMERCIAL BANKS IN ZAMBIA

NO	BANK NAME	SHORT NAME
1.	AB BANK ZAMBIA LIMITED	AB BANK
2.	ABSA BANK ZAMBIA PLC	ABSA
3.	ACCESS BANK ZAMBIA LIMITED	ACCESS
4.	BANK OF CHINA (ZAMBIA) LIMITED	BOC
5.	CITIBANK ZAMBIA LIMITED	CITIBANK
6.	ECOBANK ZAMBIA LIMITED	ECOBANK
7.	FIRST ALLIANCE BANK LIMITED	FAB
8.	FIRST CAPITAL BANK ZAMBIA	FCB
9.	FIRST NATIONAL BANK ZAMBIA LIMITED	FNB
10.	INDO-ZAMBIA BANK LIMITED	INDO - ZAMBIA
11.	STANBIC BANK ZAMBIA LIMITED	STANBIC
12.	STANDARD CHARTERED BANK PLC	STANCHART
13.	UNITED BANK FOR AFRICA ZAMBIA LIMITED	UBA
14.	ZAMBIA INDUSTRIAL COMMERCIAL BANK PLC	ZICB
15.	ZAMBIA NATIONAL COMMERCIAL BANK PLC	ZANACO

Source: Bank of Zambia

The figure is even better today. More so, he says that "73% of households were actively using digital financial services, specifically mobile money payments," as of 2022.

Aligning with the fiscal authorities

The Minister of Finance and National Planning, Hon. Dr. Situmbeko Musokotwane, is of the same disposition as the BoZ boss. He and his colleagues in President Hichilema's cabinet are working on other players in the financial sector, like the pension and insurance subsectors, to deliver more services to the economy.

He has announced the government's commitment to addressing these gaps through strategic reforms and initiatives like the National Financial Inclusion Strategy (NFIS II), which aims to increase pension product uptake to 20% by 2028.

The good news is that the Zambian financial system is resilient in spite of such exogenous headwinds as the volatility of international prices of copper, the country's main revenue and foreign exchange earner. The country's monetary and fiscal authorities are committed to building the strategic private sector and the domestic credit markets and do not shy away from sometimes taking such tough measures as tightening of domestic rates to moderate inflation.

It is comforting to note that non-performing loans in the banking sector have stood at just five percent of total loans, while maintaining what analysts term "adequate liquidity buffers and a good asset-liability match."

BoZ's game plan for Zambia's financial system

Starting from its vision statement, the Bank of Zambia has a clear, unambiguous goal: "To be a dynamic and credible central bank that contributes to the sustainable economic development of Zambia." It expounds in its equally clear but terse mission statement: "To achieve and maintain price and financial system stability to foster sustainable and inclusive economic development."

It is not surprising therefore that the BoZ has put out a comprehensive action plan for improving its processes and services to the financial system it regulates and, by extension, its service to the national economy. The 2024-2027 Strategic Plan was launched under the all-encompassing theme: "Promoting Inclusive and Sustainable Development In a Digitalized World."

President Hakainde Hichilema exchanging pleasantries with the Managing Director of the International Monetary Fund (IMF), Kristalina Georgieva during her visit to Lusaka, Zambia

2024-2027 Strategic Plan

According to Bank Governor, Dr. Kalyalya (See Cover interview), the plan has four focus areas, namely, Price Stability, Financial System Stability, Financial Inclusion, and Organisational Resilience and Growth. These focus areas are directed at addressing the key challenges and opportunities in the operating environment. As the economy recovers from the adverse effects of the multiple headwinds, new challenges have emerged, including climate change, cyber risks, ongoing geopolitical tensions, and the debt overhang. These challenges pose threats to the financial sector and sustainable economic growth. In this dynamic and complex environment, the Bank developed a strategic plan to guide it towards sustainable, stable prices and a reliable financial system that enhances financial inclusion.

The Strategic Plan sets clear targets to foster internal organisational resilience and growth. The grand objectives are to deepen the interbank money market to enhance the transmission mechanism of monetary policy and improve data collection capabilities. The priority areas are:

- **Price & Financial Stability:** Since a robust financial system is the lifeline of a healthy economy, the Bank hopes to keep promoting financial stability by strengthening the supervisory framework. It is also entrenching the Environmental, Social and Governance (ESG) practices, improving cyber risk management, and adopting modern technologies.

- **Financial Inclusion, leveraging the Go Cashless initiative:** Since it is now a well-established notion that every citizen deserves access to financial services, the Plan is championing financial inclusion and promoting access to finance for underserved and unserved communities. It ensures safety and efficiency in the financial system by leveraging technology. Already, the BoZ's Go Cashless initiative, introduced at the tail end of 2022, is promoting awareness of the benefits of digital financial services nationwide. The policy has greatly helped the growth of fintech outfits. These new players in the system are expanding trade and transactions through electronic money transfer services, spreading to hitherto underbanked communities.

The Bank of Zambia is already receiving global acclaim for its successes at improving financial inclusion. Recently, the Alliance for Financial Inclusion (AFI) honoured the Bank of Zambia with the 2024 Institutional Leadership Award at the AFI Global Policy Forum held in El Salvador.

Financial literacy campaign

As part of its financial inclusion strategy, the Bank held its annual Financial Literacy Week celebration in March, this year with the instructive theme: "Protect your money, Secure your future." The objective is to enlighten the mass of the people on the risks associated with the adoption of digital financial services.

The highlight of the celebration was the launch of supplementary books on financial education for students in Grades 1 to 12. The books have been integrated into the country's school

Cashless Policy: Tap topay enabled POS device

curriculum and translated into seven local languages for Grades 1 to 4. The books were developed through a collaborative effort involving the BoZ, the Ministry of Finance and National Planning, the Curriculum Development Centre in the Ministry of Education, and other stakeholders.

It is a laudable "catch them young project," Dr. Kalyalya says. According to him, the noble objective is to provide future generations of Zambians with essential financial intelligence for their socio-economic well-being.

Such is the commitment of all stakeholders in the financial sector that the National Financial Inclusion Strategy (NFIS 2024-2028) launched at the beginning of the second quarter of the year intends to achieve 85 percent financial inclusion in the next five years.

Organisational Resilience and Growth

The Bank of Zambia's new Strategic Plan works on the mantra "our people are our biggest asset." It therefore prioritises human capital management and organisational culture based on core values. To promote operational efficiency, it reviews and streamlines internal processes and practices consistent with the established focus areas while leveraging progress attained in the preceding strategic plan.

By the end of the Strategic Plan period, it is anticipated that substantial accomplishments would have been made in extending financial services to the unbanked and underbanked segments of the population.

In line with the dictates of the Strategic Plan, the Bank is leveraging ICT and digitalization for effective delivery on its mandate. Mrs. Rekha Mhango, Bank of Zambia's Deputy Governor in charge of Administration says the apex monetary authority is "focused on investing in cutting-edge technology and digital transformation." (See interview). According to her, the Bank is being repositioned "to be central in the roll-out of certain technologies to Financial Service Providers (FSPs)."

A history of regulatory and supervisory capacity to manage systemic risk

A detailed perusal of records of the IMF engagement with and assessment of the country's financial system credibility shows that in the last decade, the Bank of Zambia has successfully embarked on an ambitious reform programme to upgrade its capacity to effectively supervise and regulate the financial sector and preserve financial stability. Examples of policy and capacity upgrades include:

- A Crisis Management and Resolution Unit and Framework (2013).

- A new Supervision and Resolution of Problem Institutions Policy (2020).

- The Banking and Financial Services Act (BFSA) amended (2020) to provide for a Special Resolution Regime is waxing more robust and going through rigorous finishing touches.

- Cabinet approved the provisions of the BFSA to set up a Deposit Insurance Scheme within the Bank of Zambia (2021).

- Amendment of the Securities Bill (2022).

- A new Bank of Zambia Act (2022), which provides, among other things, for the creation of an inter-agency, the Financial Stability Committee (FSC), comprising membership from all the financial system regulatory authorities. The setting up of the FSC is of particular significance and importance, as it gives the BoZ the mandate, capacity, and tools to observe and manage systemic risk from a broader macro-prudential perspective while focusing on the inter-linkages with the broader economy.

- Also in 2022, the BoZ conducted a comprehensive review of the asset quality of the entire banking sector to evaluate the impact of the challenging macroeconomic conditions since 2019. This assessment aimed to evaluate the impact of COVID-19 prudential relief measures, ascertain whether the interventions should be unwound, evaluate the performance of restructured facilities, and assess banks' compliance with the terms and conditions of the liquidity support facility through the Targeted Medium-Term Refinancing Facility (TMTRF).

On average, the review deemed asset quality to be satisfactory for the bulk of the assessed banks on account of high non-performing loan (NPL) coverage ratios, while the bulk of the restructured facilities under the COVID-19 relief measures were deemed performing even though the BoZ subsequently adversely reclassified around 16 percent of these loans.

Furthermore, the examination revealed that all banks utilised at least one of the prudential relief measures introduced by the BoZ. Regarding concentration risk, the examination noted high credit concentration risk across the banking sector with respect to the top borrowers, the single borrower, and overall asset concentration in the government sector. But it also affirmed the regulatory authority's firm measures to reduce the lopsidedness.

In unwinding the majority of its temporary prudential measures, the BoZ applied a risk-based policy approach, balancing the need for short-term growth with long-term financial stability considerations.

Essence of a new strategic plan

In the earlier plan of 2020-2023, the BoZ focused on two areas, namely, financial inclusion and financial stability. The new 2024-2027 Strategic Plan adds the price stability goal. The reason is that much work is needed in the transmission mechanism of monetary policy, so, there is more focus on price stability.

Under financial stability, environmental, social and governance (ESG) issues have been introduced. Using more ICT solutions, the BoZ is strengthening cyber resilience and fraud mitigation because, with digital finances, cyber risk is heightened. Dr. Francis Chipimo, Deputy Governor, Bank of Zambia says as part of measures to tackle the emerging issue of cyber risk, the Bank is in the process of collaborating with other key stakeholders in the financial system "to implement a financial sector incidence response team that will allow us to share information in real time when cyber incidents occur." (See interview). He notes that the government is also developing a biometric-enabled national registration and identification system, which will help to detect and apprehend cyber fraudsters.

Dr. Francis Chipimo, Deputy Governor, Bank of Zambia receiving the Institutional Leadership Award on behalf of the Bank from the Alliance for Financial Inclusion (AFI) at the AFI Global Policy Forum held in El Salvador in September 2024

Better foreign exchange management

The Bank of Zambia does not have exchange controls, yet the Kwacha is relatively stable compared to other African countries' currencies. Zambia's big mines—copper mines, especially—are the main source of foreign exchange earnings. Whatever problems are currently being experienced in its foreign exchange market are partly caused by a slowdown in the mining sector and debt restructuring, which imposes restrictions on capital flows. The country also has a high cost of oil to contend with, but the Bank of Zambia has been able to effectively run a free exchange market system through a relatively open, competitive bidding system in the past 30 years, to the envy of its neighbouring countries.

Building a virile capital market

As part of extensive financial sector reforms aimed at enhancing the role of the financial industry in bolstering the economy, the Securities and Exchange Commission (SEC), in collaboration with various key sector stakeholders, launched Zambia's first ever 10-year Capital Markets Master Plan (CMMP) on February 23, 2023. The broad objectives of the Plan, according to SEC boss, Phillip Chitalu, include the transformation of Zambia into a choice market for domestic issuers and investors, enabling the market to play a greater role in acting as a source of funds to the real sector of the economy, and enabling a deeper development of liquid capital markets based on the strengthening of financial market infrastructure.

The master plan aims at the following:

- **Enhancing the government bond market to focus on enhancing participation in primary market issuance and transparency:** It will also enable the development of secondary market trade as well as secondary market post-trade.

- Enhancing other traditional security markets to develop corporate bond markets in the local equity market.

L-R: Ms Lowani Chibesekunda, Chairperson of Bankers Association of Zambia; Mr. Danies Chisenda, Permanent Secretary, Ministry of Finance; Mr. Joel Kamoko, Permanent Secretary, Ministry of Education; Dr. Denny Kalyalya, Governor, BoZ; Mrs Namakau Ntini, Registrar, Pensions and Insurance Authority; and one other official at the launch of the 2024 Literacy Week & Financial Education materials for learners in grades 1-12.

- **Developing new and innovative products and markets:** This seeks to enhance the private equity as well as debt and venture capital markets, which have lagged behind. Tracking and supporting of capital markets will also be facilitated through this block. The SEC will aspire to enable the development of Exchange-traded funds (ETFs), real estate investment trusts (REITs), and retail bonds. This will also be extended to the onboarding of in-vogue green bonds.

- **Enhancing Capacity-Building across the Capital Markets:** This entails the enhancement of skills development, encouraging investor education, and sustainable funding models across the capital markets.

- **Enhancing the Capital Markets Regulatory Environment:** As a regulator, the plan will improve oversight, enshrine investor protection, and promote proper reporting guidelines.

8th National Development Plan

Foreign exchange-earning sectors like mining are vulnerable to emerging regulations among top markets, which are increasingly seeking greener supply chains to source commodities. With more than 60% of Zambia's exports concentrated in copper, transition risks (i.e., risks stemming from a shift towards low-carbon production) are particularly acute for Zambia,

Zambian young learners who attended the launch of 2024 Literacy Week in a photograph with Dr. Kalyalya and other prominent personalities given the increasing focus on green minerals globally. This is a challenge the 8th National Development Plan (NDP) and the Capital Markets Master Plan (CMMP) hope to tackle going forward.

The NDP was launched in September 2022 by President Hichilema under the theme "Social Economic Transformation to Improve Livelihoods." It runs from 2022 to 2026. President Hichilema said the 105-page document presents ambitious but bold steps for the country's social-economic development. According to him, the macroeconomic objectives set in the plan are intended to place the economy on a higher growth trajectory.

Green Zambia: Financing a Liveable Future

For Zambia, going green means a combination of adapting regulations and financial supervision frameworks to adequately measure and mitigate climate risks and supporting the market's (financial sector institutions) capacity to develop and target financial products and services. For industries (the real sector), it means the capacity (technical and financial) to innovate and adopt new technologies and for innovative new entrants to be facilitated through business environment reforms. As economic diversification grows in Zambia, there is an opportunity to build green from the ground up while retrofitting more established industries.

Incentives for investors in Zambia's economy

The Zambia Revenue Authority (ZRA) is responsible for collating and announcing the raft of incentives offered by the country to bona fide investors in the economy. Commissioner-General of ZRA, Dingani Banda, recently launched the Tax Incentives and Exemptions Guide. The Guide outlines various tax incentives particularly beneficial to the small and medium-sized enterprises (SMEs) in Zambia.

Enhancing electronic payment system with cash register POS devices

The initiative emphasises ZRA's commitment to support economic development and prosperity in the country.

Generally, the incentives offered by ZRA are hard to beat anywhere in the world of business. In the mining sector, investors can reap an input tax claim for 10 years on pre-production expenditure for mining and for petroleum or gas exploration activities; a zero percent tax on dividends; and a 20 percent capital allowance deduction on capital expenditure. This triple benefit is a game-changer for mining investors seeking to maximise profits. Evidently, the policy has contributed to the resurgence of the sector in recent years.

Furthermore, capital expenditure on patents, designs, trademarks, and similar expenses is deductible, allowing companies to reinvest in innovation and development. The zero rating of value-added tax (VAT) on selected capital equipment and machinery also provides a cash flow benefit to mining businesses. In the event of tax losses, mining companies can carry forward losses for 10 subsequent charge years for offsetting against future taxable profits, providing a safety net and enabling them to weather financial storms. Companies also have the option to keep books of accounts in United States dollars where a company earns at least 75 percent of its gross income as foreign exchange from outside the Republic, thereby mitigating foreign exchange risks.

Sectoral approach

Tourism is an area the authorities would like to contribute a lot more to GDP than the current estimate of 6–7 percent. In this sector, developers of facilities and infrastructure can claim a guaranteed VAT-input tax credit for four years after registration on expenses incurred prior to actual commencement of business. Foreign tourists enjoy the convenience of no import VAT on goods temporarily brought into the country, making it easier for them to travel and enjoy their stay.

Improving good financial governance in Zambia

Hotels and lodges can claim a five percent wear and tear allowance on acquiring construction or alteration of buildings and a one-off 10-percent initial allowance on construction or alteration of a building. This serves to reduce their tax liability and enable them to invest in upgrading facilities.

Agriculture, which employs over 57 percent of the country's workforce, is at the forefront of incentives. Available is the guaranteed VAT input tax claim for four years prior to production, providing a vital cash flow injection for businesses in the sector. The sector also benefits from the zero-rating VAT on taxable agricultural products and supplies, as well as an increased number of zero-rated agricultural equipment and accessories. This reduction in tax liability enables farmers and agro processors to invest in essential inputs and machinery, boosting productivity and efficiency. The reduced income tax rate of 10 percent also provides relief, enabling businesses to retain more of their profits.

Manufacturing too is well taken care of in investors' incentives and freebies. These include guaranteed VAT input tax claims, reduced license fees, lower income tax rates for specific activities, capital allowances, and investment allowances for industrial buildings and machinery. Additionally, suspension of customs duty on some manufacturing inputs, zero tax rates for specific activities, and reduced excise duties on selected productive activities further reduce costs and encourage investment.

Special incentives are provided for specific manufacturing activities, such as roofing sheet production and manufacturing in multi-facility economic zones, industrial parks, and rural areas.

Small and medium-scale manufacturing entities are particularly favoured, owing to their known impact and benefits for the lower segment of society. There are numerous reliefs and government-backed grants to ensure that businesses of all sizes thrive and the most vulnerable groups are well served.

Outlook for Zambia's financial system

Zambia's financial system has recovered from the tight corner it was jammed in following the default of its obligations in 2020 and is now on the path of steady growth and sophistication. Systemic vulnerability indicators have been generally low since last year, according to most international financial institutions and watchdogs. The country is once again enjoying mutually beneficial relationships with bilateral development partners.

Critical stress tests suggest that the financial system can withstand significant credit, asset, and liquidity shocks as it did in the days when its then largely commodity-based economy was enjoying its halcyon years.

All said, the Bank of Zambia's Governor breaks the nation's expectations down to the basics when he invokes the simple but ambitious goal of President Hichilema's government to get the country on the global middle-income table in 16 years' time. "That's the trajectory we have embarked on," Dr. Kalyalya says, brimming with infectious optimism.

Remarkably, he and his colleagues at the iconic BoZ, in his words, are "pressing on the financial sector to be the one that will drive" that vision to reality.

Bank of Zambia's activities

L-R: Permanent Secretary, Economic Management and Finance at the Ministry of Finance and National Planning, Mr Danies Chisenda; Minister of Technology and Science, Mr Felix Mutati; Bank of Zambia Governor Dr Denny Kalyalya; Deputy Governor, Administration Mrs Rekha C Mhango; and Deputy Governor, Dr Francis Chipimo during the unveiling of the Bank of Zambia 2024 -2027 Strategic Plan

L-R: Dr. Francis Chipimo; an official of the World Bank; Dr. Kalyalya; Dr. Victoria Kwankwa, World Bank Regional Vice President for Eastern and Southern Africa; and Mrs. Rekha Mhango after a meeting with World Bank delegation to Lusaka

Dr. Kalyalya being congratulated by his colleagues shortly after his election as the Chairman of the Association of African Central Banks during their 45th Annual Meetings in Lusaka in August, 2023

Dr. Francis Chipimo and Dr. Kalyalya inspecting the stand of one of Zambia's commercial banks during the 2024 Agricultural and Commercial Show in Lusaka

Dr. Kalyalya, Governor, BoZ and Dr Situmbeko Musokotwane, Finance & National Planning Minister viewing a report on the performance of the Kwacha

Dr. Denny Kalyalya exchanges pleasantries with Dr. Janet Yellen, United States Treasury Secretary after a bilateral meeting in Lusaka

Africa's Debt Dilemma: Unpacking the Unfavourable Factors

By Carlos Lopes

The predominant focus of multilateral institutions on poverty alleviation, while commendable, has inadvertently overlooked the pressing liquidity needs of African nations

THE debt situation in African countries has escalated to a critical juncture, as multiple factors compound the challenges they confront. Three pivotal elements significantly contribute to this predicament.

Firstly, the prudential rules governing the international banking system exacerbate the existing practices of capital concentration, amplifying the disparity in access to financial resources and hindering equitable development. Secondly, the predominant focus of multilateral institutions on poverty alleviation, while commendable, has inadvertently overlooked the pressing liquidity needs of African nations. This imbalance creates a distortion that is difficult to rectify, as it perpetuates a cycle of debt dependency rather than fostering sustainable economic growth. Thirdly, the inherent bias within credit rating agencies skews risk perceptions, unfairly penalising African countries and impeding their ability to attract investment on favourable terms.

These intertwined factors underscore the urgent need for a comprehensive understanding and proactive approach in devising effective strategies to mitigate the debt burden and pave the way for a more equitable and sustainable financial landscape across Africa.

International banking system rules of the game

The Bank for International Settlements (BIS), often referred to as the "central bank for central banks", sets regulations and standards for the global banking system. However, these rules tend to favour developed economies, leading to unfavourable conditions for African countries. For instance, capital adequacy requirements may be disproportionately stringent for African banks, limiting their ability to lend and stimulate economic growth. Moreover, the BIS's policies often overlook the unique challenges faced by developing nations, further exacerbating their debt burden.

Following the 2008/2009 sub-prime-provoked financial crisis a set of new regulations known as Basel III were issued by the BIS. Their complexity and stringent requirements have inadvertently accelerated the withdrawal of international banks from Africa, exacerbating the region's financial challenges. The convoluted nature of these regulations, coupled with their stringent capital requirements, has made it increasingly difficult for international banks to operate profitably in African markets. As a result, many of these banks have chosen to scale back their operations or exit altogether, leaving African economies with limited access to essential financial services.

This withdrawal of international banks has significant implications for Africa's financial landscape. It reduces competition within the banking sector, limits access to credit for businesses and individuals, and hampers efforts to promote economic growth and development. Moreover, the departure of international banks undermines confidence in the region's financial markets and hinders efforts to attract foreign investment.

In a recent study by Gastón Nievas and Alice Sodano, it is revealed that the wealthiest countries have assumed the role of global bankers, attracting excess savings by offering low-yield safe assets and redirecting these funds into more profitable ventures. This privilege results in significant income transfers from the poorest to the richest nations, amounting to 1% of GDP for the top 20% of countries and 2% for the top 10%. Meanwhile, it exacerbates current account imbalances for the bottom 80% by about 2-3% of their GDP. Additionally, affluent nations experience positive capital gains, The limitations of Basel III regulations highlight the need for a more nuanced approach to banking regulation, particularly in emerging markets like Africa. Simplifying regulations, tailoring requirements to the specific needs of African economies, and providing support to local banks can help mitigate the negative effects of Basel III and ensure continued access to financial services for African populations. By addressing these challenges, policymakers can create a more conducive environment for sustainable economic growth and development in Africa. Counteracting entrenched privileges will require a series of policies, including tax reform, the establishment of a global reserve currency, and a restructuring of international financial institutions. These measures aim to foster a more equitable global economy, one that benefits all nations, not just the wealthiest few.

Multilateral institutions' focus on poverty alleviation

Multilateral institutions, such as the International Monetary Fund (IMF) and the World Bank, play a crucial role in providing financial assistance to African countries. However, their focus on poverty alleviation often sidelines the urgent liquidity needs of these nations. Instead of prioritising measures to address debt sustainability and promote economic stability, these institutions emphasise poverty reduction programmes, and now climate finance, which may not adequately address the root causes of the debt crisis.

The dire situation in Africa, where access to liquidity is severely limited, exposes the harsh reality of a financial system rigged against the continent. While wealthy nations enjoy the luxury of lenient regulatory frameworks and ample fiscal space, African countries are left to fend for themselves in an environment rife with predatory lending practices and exploitative economic policies. A neoliberal agenda championed unfettered economic liberalisation and incentivised Foreign Direct Investment (FDI) through sweetheart deals, often involving tax exemptions. Consequently, capital flees Africa in search of safer destinations. This exacerbates Africa's struggle with illicit financial practices and widespread Base Erosion and Profit Shifting (BEPS) strategies employed by multinational corporations, draining its already limited resources further.

According to recent research conducted by The ONE Campaign, financial transfers to developing nations have experienced a significant decline, plummeting from a peak of US$225 billion in 2014 to just US$51 billion in 2022, the latest year for which data is available. Projections indicate that these flows will further diminish by over US$100 billion in the next two years, with an estimated outflow of US$50 billion from developing countries in 2024 alone.

The dire situation in Africa, where access to liquidity is severely limited, exposes the harsh reality of a financial system rigged against the continent

Alarmingly, more than one in five emerging markets and developing countries allocated a greater portion of their resources to debt servicing in 2022 than they received in external financing. Despite aid donors touting record global aid figures, nearly one in five aid dollars were directed towards domestic spending hosting migrants or supporting Ukraine, while aid to Africa has stagnated.

Influence of rating agencies

Rating agencies wield significant influence in the global financial landscape, shaping investor sentiment and determining borrowing costs for countries. However, their assessments are often marked by bias, particularly evident in their treatment of African countries.

Countries in Africa often derive significant income from exports, but a substantial portion of this revenue is repatriated to foreign investors, many of whom benefit from an unjust global tax system, BEPS, and illicit financial flows. Between 2000 and 2018, African countries experienced greater financial strain from profit transfers to foreign investors, dividend repatriation, and illicit financial flows than from servicing their external debt. To cover these gaps, they issued foreign-currency debt with high-interest rates, in line with Credit Rating Agencies' assessment of their risk.

African nations argue that without bias, they should receive higher ratings, lower borrowing costs, and brighter economic prospects, as there is a positive correlation between economic development and credit ratings. However, the subjective nature of the assessment system, allegedly incorporating subjective factors, including culture or language that are unrelated to economic stability parameters, inflates the perception of investment risk in Africa beyond the actual risk of default, increasing the cost of credit.

In response, some countries have contested ratings. For instance, Zambia rejected Moody's downgrade in 2015, Nigeria contested downgrades in 2016 and 2017, Tanzania appealed against inaccurate ratings in 2018.

Way forward

The ongoing discourse surrounding Africa's debt crisis often leans towards solutions centred on compensation. These proposals advocate for increased ODA, the implementation of more generous climate finance measures, or the reduction of borrowing costs through hybrid arrangements backed by international financial systems. However, while these measures may offer temporary relief, they fall short of constituting genuine solutions in light of the three structural challenges outlined.

Carlos Lopes is a Professor at Nelson Mandela School of Public Governance, University of Cape Town and Associate Fellow at Chatham House, London.

I shall make a positive difference in AfDB and Africa — *Dr Maimbo*

Two words pop up when you discuss Africa's development with Dr. Samuel Munzele Maimbo: urgency and fast-track. The World Bank's Vice President for Budget, Performance Review and Strategic Planning, believes Africa can't be accused of being too hasty no matter how fast it strives in its effort to be taken seriously, globally. As the world prepares to elect a new helmsman at Africa's premier multilateral finance institution, the African Development Bank (AfDB), the Zambian national and development expert and candidate of the Southern African Development Community (SADC) sees an opportunity to offer his service, given his wealth of experience. In this interview with Banking & Finance magazine, Dr. Maimbo opens up on his motivation for seeking the top job, among other issues.

You are one of the top contenders for the Presidency of the African Development Bank (AfDB) in 2025. What is your motivation?

The simple truth is that Africa's financing requirements for the next couple of decades are so much greater than her present ability to pay. To get back on track towards our development objectives, we must candidly acknowledge and confront this predicament with bolder and more ambitious actions. If we want Africa to thrive and not just survive, we must reassert confidence in our own future and drive Africa to the forefront of the world economy. We must not be held back by our past and instead, turbocharge our continent so that it is fit for the future.

Under my leadership the AfDB will focus on bridging the gap between available concessional financing and development needs by maximising the range of financing institutions available in Africa; improving the long-term fiscal strategy by redefining our global debt resolution efforts and domestic resource mobilisation efforts, and making sure that countries are investing in Africa's future by prioritizing appropriate investments in our immense natural and human resources, and driving a more prosperous future for all.

What are those special things that you intend to bring to the table, if given the opportunity to serve as the AfDB President?

Africa's development needs are clear. What is not always clear are the systems, processes, policies, and procedures for addressing these needs. Far too often, our collective best intentions are overtaken by burdensome or perfunctory procedures and administrative processes that have no place on a continent that urgently needs meaningful transformation. Urgency is of the essence.

Given an opportunity to serve as the AfDB President, I intend to energize the staff with a sense of urgency and build a reputation for getting things done. I intend to strengthen the AfDB's ability to negotiate through development challenges with a resolute clarity of purpose, a focus on simplifying processes, and a renewed commitment to strong partnerships and service of our people always.

What is your vision for the AfDB?

The AfDB is Africa's premier development institution with a powerful mission that I strongly believe in — to contribute to the African countries' sustainable economic development and social progress. But it is a mission that is at risk without significantly more ambitious collective action. In an increasingly polarized world, an Africa burdened by unsustainable debt levels and facing more frequent and impactful climate risks simply cannot achieve that mission.

My vision for the AfDB is that it becomes the institution at the forefront of leading the largest number of African countries from developing to developed country status in our generation; that it is associated with helping our youth confidently confront the future with the firm conviction that their future in Africa is as bright as it can be anywhere in the world.

Over the next five years, if I succeed in this bid, I shall work to ensure that at the very least the financial and operational capacity of AfDB is doubled

I do not simply want the AfDB to have a seat at the table of development. I want the AfDB to own the table at which anyone who wants to contribute to Africa's development willingly comes to sit because they have confidence in an institution that has a renewed reputation for getting this done — transparently and consistently. This will be done by refocusing all its regional and national programmes on sustainable long-term growth strategies.

What qualities stand you out in this contest? Simply put, why should shareholders vote for you?

The qualities I would put at the top of the list are my financial skills, my negotiating skills, and the managerial and leadership capacity I have earned by working within the highest office of the World Bank. All of these are essential for Africa's development in the world today. We often overlook the fact that multilateral development institutions (MDBs) are banks. Shareholders need someone who has a deep understanding of the inner workings of financial institutions. They also need someone who has the ability and team spirit to manage the institution. I have lived the design, development, and implementation of financial products for the better part of 25 years. Financial analysis, risk management, budgeting and forecasting, and strategic planning are essential skills for an effective chief executive of a financial institution. These are skills I have used effectively in shortening the World Bank's business planning and budgeting process from nine months to three months. Just as important are negotiating skills. Development is a people business in which conflicting interests between key stakeholders are the norm.

I come with years of experience in negotiating through complex challenges facing stakeholders with seemingly irreconcilable views. Over the years, I have combined these skills to support Africa's development. For example, I led the "Making Finance Work for Africa" initiative and co-authored the World Bank's Africa Region flagship financial sector research publication: "Financing Africa: Through the Crisis and Beyond", published in 2011 and the World Bank's publication, "Financial Sector Development in Africa: Opportunities and Challenges", published in 2012. Both publications have been the bedrock of the policy on the continent for financial deregulation, increasing long-term finance and financial access. I designed, developed, and delivered the 2018 Development Finance Forum in Africa hosted by President Paul Kagame, which convened 300 participants to discuss Housing, Tourism, and Agriculture. I shall make a positive difference in AfDB and Africa. I have both the managerial and leadership capacity and experience to deliver. I have served as Chief of Staff to two World Bank Presidents, through which I gained valuable insight in positively managing a global institution.

What are some of the major challenges confronting Africa and what is your strategic approach to addressing them?

Some of the challenges confronting Africa today include poverty, food insecurity, infrastructure deficit, high levels of national debt, climate change and fragility. When you are confronted with so many challenges in a resource constrained environment, you must focus on the most fundamental ones with overwhelming force. We must commit sufficient financial resources to overwhelm development challenges, establish new self-sustaining institutional and human capacity, and long-term economic and political consensus of their resolution. As Zambia's founding father, Kenneth Kaunda once said, "To build a new Africa, we must act together, act now, and act decisively". That statement is as true today as it was then.

How would you leverage your many years' experience at the World Bank to reposition the AfDB to effectively drive economic development and social progress in Africa?

My 30-year career in international finance and development, including as a Vice President of the World Bank, has prepared me to lead the AfDB at this pivotal moment. Having worked on projects in over 40 countries, I have a proven track record of leadership which creates sustained change, accomplishments which drive visible results, and building financial systems that deliver real impact. I have successfully led national, regional, and global teams in development, financial markets, resource mobilization and strategic planning.

As the Vice President for Budget, Performance Review and Strategic Planning of the World Bank, I have overseen transformation of its business, planning, and budgeting process. Previously, I served as the Chief of Staff to World Bank Presidents David Malpass and Ajay Banga, as well as Senior Advisor to two World Bank Group CFOs. I also served as the Director of the International Development Association (IDA) Resource Mobilization and International Bank for Reconstruction and Development (IBRD) Corporate Finance department, where I was responsible for the implementation of IDA's hybrid financial model and the policy analysis of IBRD income and corporate finance. In this role, I oversaw the successful IDA20 replenishment one year early, with a record amount of $93 billion. This is the largest source of development finance for the world's 75 poorest countries, 39 of which are in Africa

If you succeed, where do you hope to take AfDB in five years' time?

My vision for the AfDB is of an institution that relentlessly uses its knowledge and funding to support countries in attracting favourable offers from multilateral institutions, governments, philanthropy, and the private sector. A purposeful, process-efficient, partnership-driven, and people-centric Africa will be fit to take control of its future.

The AfDB will work towards a future in which, first, development conferences on Africa in donor countries have been replaced by investor conferences in African capitals; second, African countries are no longer dealing with more than 200 donor agencies but instead working with 200 private sector investment hubs and funds; third, African citizens have an abundant choice of good jobs in Africa spurred by sustained and creative economic growth, and fourth, governments in Africa that require development assistance receive it from both within and outside of Africa.

Over the next five years, if I succeed in this bid, I shall work to ensure that at the very least the financial and operational capacity of AfDB is doubled. In this vein, we shall strengthen existing institutions and create new institutions to specifically drive the bold initiatives that will fast-track Africa's development, just as the bank did in the past with the establishment of Shelter Afriq, African Export-Import Bank and PTA Bank. The AfDB under my watch will focus on building internal and external capacities to drive Africa's development and social progress. I am committed to ensuring that the AfDB can deliver on a bolder and more ambitious development agenda in line with these principles, leveraging its financing potential and technical expertise to create optimal solutions to the continent's most pressing challenges.

My vision for the AfDB is that it becomes the institution at the forefront of leading the largest number of African countries from developing to developed country status in our generation

Zambia's copper ambitions

The government of President Hakainde Hichilema have set its sights on setting up a state firm to own 30% of critical minerals mines, just as copper asset remains a true gold mine

Paul Kabuswe, Mines Minister

ZAMBIA, Africa's second-largest copper producer, plans to establish an investment company to control at least 30% of critical minerals production from future mines, aiming to maximize benefits from its copper, cobalt, graphite, and lithium deposits.

Zambian miners, including Barrick Gold, First Quantum Minerals, and China Nonferrous Mining Corp., are investing in copper projects and utilizing Konkola and Mopani mines for production.

The government aims to produce three million tons of copper annually by 2031, requiring existing assets to double their output to 1.4 million tons. Exploration sites, like KoBold Metals' Mingomba project, backed by Bill Gates, are projected to yield an impressive 1.2 million tons annually.

The Zambian government plans to allocate 35% of procurement costs to local suppliers and review its policy to restrict unprocessed material exports.

Meanwhile, copper asset in Zambia is a true gold mine. It makes sense that Chinese corporations are competing for the southern African country's copper reserves. Chinese firm JCHX Mining Management Co Ltd recently acquired Zambia's Lubambe Copper Mine, utilizing advanced smart mining technologies, including a dual-boom intelligent drilling system for precise drilling adjustments.

Against the backdrop of a growing global need for vital resources from nations and areas, Chinese enterprises' acquisition of the mine was part of a larger drive to acquire raw commodities essential to major industries, thereby broadening their supply chains and intensifying their influence internationally.

The Lubambe mine, which spans over 5,800 hectares, is designed for an annual production capacity of 2.5 million metric tons of copper ore. As JCHX takes the reins, more efforts are expected to be made by the company to help enhance efficiency, technological upgrades and sustainable resource management.

Tim Duffy, Lubambe's former CEO, anticipates JCHX's entry to lead the mine, bringing with it new management approaches and chances for growth.

JCHX, which was listed on the Shanghai Stock Exchange in 2015, has long been known for its decades of expertise in non-coal underground mining, managing services covering the business of engineering, development and operation, offering one-stop solutions for its clients.

The company's expansion into mining resource acquisition, particularly the Lubambe Copper Mine, illustrates its pivot toward integrating mining operations with resource ownership, a strategy aimed at enhancing global competitiveness, industry experts said.

JCHX Chairman Wang Qinghai said that the company's initial foray into Zambia two decades ago marked China's first venture into international nonferrous metal mining operations, and today, JCHX is one of Zambia's largest employers among Chinese enterprises, underscoring its sustained commitment to the region.

The move also came at a time around the 60th anniversary of diplomatic relations between China and Zambia. As Zambia ranks as Africa's second-largest copper producer, the deal strengthens China's footprint in the region while bolstering local economic development.

The company aims to optimize production efficiency and achieve sustainable resource development while creating employment opportunities and economic benefits for the local community. It is also representative of broader efforts by JCHX to expand mining services and resources, which are integral to the firm's international expansion. Beyond Zambia, the company has been actively diversifying its global footprint, acquiring assets in the Democratic Republic of Congo and Colombia.

As it navigates an increasingly competitive global mining landscape, the company remains committed to aligning its business strategies with sustainable development and local community welfare. This includes investment in infrastructure, healthcare and education in project areas, as well as offering competitive wages and job training to over 4,500 local employees.

Chinese companies have been enhancing their international competitiveness and positioning themselves as key players in both China's Belt and Road Initiative and the global mining sector. In recent years, copper demand has risen significantly.

According to Wood Mackenzie, a global provider of data and analytics, the percentage of global copper demand coming from green sectors, such as renewables and electric vehicles, is predicted to double over the next 10 years from about 8 percent to about 16 percent. Wood Mackenzie predicts that world copper consumption will rise about 24 percent year-on-year to approximately 32 million tons a year. To get on course for net zero emissions by around 2050, which is required for the Paris Agreement goal of attempting to limit global warming to 1.5 C, copper supplies will have to increase even faster.

A Goldman Sachs analyst also predicted that green sector use of copper had a 4 percent share in copper consumption in 2020 and this is expected to more than quadruple to 17 percent by 2030. It is estimated that a net-zero emissions pathway will create the need for 54 percent more copper on top of that in 2030.

Bank of Zambia's Bold Steps To Combat Dollarisation

Dr. Denny Kalyalya: Governor, Bank of Zambia

IN a move that signals a significant shift in Zambia's monetary policy, the Bank of Zambia (BoZ) has introduced regulations aimed at reinforcing the Kwacha as the sole legal tender for domestic transactions, addressing concerns about the growing dollarisation of the Zambian economy.

The central bank's decision comes in the wake of increasing economic challenges posed by the use of foreign currencies, particularly the US dollar, in domestic transactions. This phenomenon, known as dollarisation, has been identified as a major threat to Zambia's economic stability.

The BoZ argues that dollarisation erodes the value and role of the Kwacha as a medium of exchange, limits the effectiveness of monetary and exchange rate policies, and increases the vulnerability of the banking sector to financial risks. Moreover, it creates challenges for unhedged borrowers attempting to service foreign currency debts.

The Bank has not shied away from proposing stringent penalties for non-compliance. Violations of these new regulations could result in substantial fines or imprisonment for up to 10 years, or both. This tough stance extends to corporate entities as well, with directors and managers potentially held personally liable for their companies' violations unless they can prove lack of knowledge or consent.

The central bank has defended its 10-year penalty for using foreign currency in domestic transactions, asserting that it is mandated by law. However, it clarified that the penalty would only be imposed following due legal process, including court proceedings.

"The 10-year penalty is stipulated in the law for de-dollarisation. Offenders must go through the court process before facing such a penalty," BoZ Governor Dr. Denny Kalyalya said.

Kalyalya emphasized that the currency regulation campaign aimed to promote the use of the Kwacha for domestic transactions.

He highlighted the effects of de-dollarisation, including the impact on monetary policy tools and the displacement of the Kwacha as the local currency.

"The ability to manage the economy's supply is also affected by de-dollarisation," Kalyalya added.

85%

The percentage of financial inclusion that the NFIS 2024-2028 aims to attain in the next five years

DRC's financial services game changer

Mobile money users surge by 228.8% in DRC over three years

MOBILE financial services are playing a crucial role in enhancing financial inclusion in Africa, particularly among those with limited access to traditional banking. Major telecom operators such as Vodacom, Orange, Africell, and Airtel control the mobile money market in the Democratic Republic of Congo.

The Regulatory Authority for Posts and Telecommunications of Congo (ARPTC) reported a 228.8% growth in mobile financial services subscriptions from 6.59 million in 2020 to 21.67 million in 2023, and a 22.8% increase in mobile money penetration.

Surge in mobile subscriptions between 2020 and 2023 is thanks to the introduction of new platforms and the increasing adoption of mobile telephony, with penetration rising from 45.1% to 59% among the 95.2 million population.

Mobile money adoption is increasing, but penetration rates remain low, despite their potential as a viable alternative banking solution, aiming to enhance financial inclusion.

The World Bank's "Global Findex Database 2021" report highlights mobile money's role in promoting financial inclusion in sub-Saharan Africa, especially for women, through account ownership, savings, and borrowing.

Gabon eyes new international players

General Brice Oligui
Transitional President of Gabon

GABONESE authorities plan to broaden their political and commercial ties with foreign nations to facilitate new opportunities for international collaboration in a country with significant development prospects.

With its 2.3 million inhabitants, Gabon, home to the Economic Community of Central African States (ECCAS), was recognized by the International Monetary Fund (IMF) as the leading nation in continental Africa for per capita GDP in 2023.

Gabon's economy is primarily driven by petroleum, mining, and timber, with hydrocarbon production being the primary driver, attracting foreign capital and major multinational companies.

Gabon's mining sector is experiencing substantial growth, largely due to its significant manganese, iron, and uranium deposits. French company Eramet and China National Machinery & Equipment (CMEC) are actively involved in the development of mining and infrastructure projects in Moanda's rich manganese deposit. The Gabonese economy is thriving in the timber industry, which is facilitated by the vast forests covering over 80% of the territory.

Gabon's rapidly expanding productive fields, including infrastructure, construction, credit, services, technology, tourism, and agricultural and renewable energy, are attracting foreign interest and could be the focus of future investments, according to the Gabonese authorities.

Boosting Financial Sector to Spur Growth in Cameroon

CAMEROON'S government is looking to enhance regulatory frameworks for successful digitalization of its financial system, which could potentially stimulate competition between digital and innovative services, and boost economic growth.

The authorities have put their trust in the National Financial Sector Development Strategy (NFSD), launched on May 31, 2024, to enhance the role of the financial sector in the economy and bolster economic growth.

The NFSD, with World Bank and EU support, aims to transform Cameroon into a financial hub, boosting economic growth, improving living standards, and fostering entrepreneurship.

The National Economic and Financial Committee (CNEF) predicts the NFSD could boost annual growth rate by an additional 2.3%, generating an additional 105 billion CFA francs in revenue, totaling 630 billion CFA francs from 2025 to 2030.

The strategy's initiators describe it as a "game-changer" for economic growth. If successful, it could significantly boost Cameroon's economic growth and reestablish it as an upper-middle-income country.

The financial sector is vital for a nation's economic development, enabling investment, financing, and trade, and is essential for sustainable and inclusive growth.

In the past two decades, the rapid growth of digital technologies in the past two decades has significantly contributed to wealth creation and improved global population well-being.

The World Bank highlights that the digital economy currently accounts for nearly 20% of global GDP and is expected to reach 25% within seven years. However, this contribution is substantially smaller in developing countries.

Louis-Paul Motaze,
Minister of Finance, Cameroon

Addressing Republic of Congo's sustainable forestry and economic growth

THE Congolese economy is recovering, with GDP growth projected to reach 3.5% in 2024, largely driven by increased oil and non-oil activities, despite volatility in oil production.

The World Bank's *Eleventh Economic Update for the Republic of Congo* indicates that inflation in the country rose to an average of 4.3% in 2023. Severe food insecurity is also escalating, affecting 59% of the population. The poverty rate in Congo remains alarmingly high, with nearly one in two Congolese individuals earning less than US$2.15 per day.

The report highlights the need for effective fiscal instruments in the Republic of Congo to address widespread poverty and promote sustainable forestry and economic growth.

Congo's forests cover two-thirds of its territory, and despite economic development and illegal logging, the country has managed to maintain a low deforestation rate. Congo has implemented significant forest policy reforms in the past decade, including a new forest code in 2020 to enhance sustainability. Congo aims to reduce CO2 emissions by 32% by 2030, requiring $7.1 billion in external funding for climate change mitigation and adaptation, despite the critical role of Congo's forests.

Louise Pierrette Mvono, World Bank Resident Representative for the Republic of Congo says the country can implement climate-smart fiscal revenue instruments, like the "bonus-malus" system, to ensure forest sustainability despite budget constraints and limited international funding.

The report suggests addressing Congo's forestry sector's challenges by combining fiscal instruments with improved forest governance, strengthening regional cooperation through harmonized regulations, and providing international support for Congo Basin countries' efforts to preserve forests, which provide essential global public goods like climate regulation and biodiversity services.

President Denis Sassou-Nguesso

Ethiopia's banking sector liberalization

Ethiopia appears set to allow foreign banks to establish local subsidiaries

THE Ethiopian government has begun the process of liberalization of its banking sector. According to a bill recently approved by the cabinet, Ethiopia will allow foreign banks to set up local subsidiaries and foreigners to acquire shares in domestic lenders.

However, the bill, which still needs to be approved by the country's parliament, says that "a foreign bank which is well established, reputable, and financially sound may be allowed to establish a partially or fully owned foreign bank subsidiary, or open a foreign bank branch, or a representative office, or acquire shares of a bank." The bill notes, however, that the board of directors of foreign banks operating in the country must include resident Ethiopians. According to the bill, the aggregate shareholding by foreign nationals and foreign-owned Ethiopian organizations in a bank will be limited to a 40% of total shares, while direct shareholding by strategic investors will be limited to a 30% stake.


Mamo Mihretu

Mr. Mamo Mihretu, Governor, National Bank of Ethiopia (NBE), the country's central bank believes that these legislations represent a significant step in laying a strong foundation in enhancing credibility and attracting investment to the banking sector.

Ethiopia's banking industry is dominated by state-owned Commercial Bank of Ethiopia, and the sector has 29 players, all of them locally owned. However, in recent times, the country has been making efforts to liberalise its banking sector – as well as other critical industries such as telecommunications – in the hope of improving the competitiveness and efficiency of the sector as well as contributing to sustainable economic growth.

Uptick in oil and gas investment

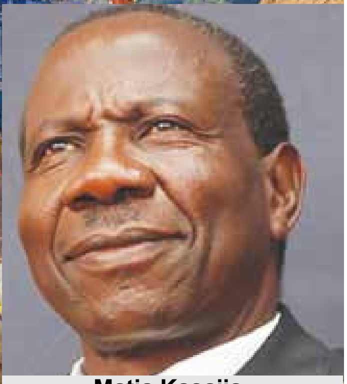
Ugandan government increases investment in oil and gas sector

UGANDA is betting its future on the development of its oil and gas sector. As part of the strategic move to achieve this goal, the government of President Yoweri Museveni has increased its annual budget for the oil and gas sector as it prepares for the commencement of oil production in the next fiscal year.

Finance Minister Matia Kasaija, said the allocation for the year through June 2025 which is Ush920.9bn ($246 million) is an increase from the previous year's Ush447 billion.

This financial boost primarily targets the East African Crude Oil Pipeline (EACOP), a 1,443km pipeline designed to transport crude oil from Uganda's fields to the port of Tanga in Tanzania. The EACOP project is crucial for Uganda, a landlocked nation, to begin production from oilfields discovered in 2006.

China has stepped in to bankroll the building of oil pipeline in Uganda as Western-backed lenders abandoned the project. President Museveni said that his Chinese counterpart, Xi Jinping, had promised his "unwavering support" for the construction of the oil pipeline.


Matia Kasaija

TotalEnergies, leading the development of Uganda's oilfields and the pipeline, is working alongside partners Uganda National Oil Corp., Tanzania Petroleum Development Corp. and China National Offshore Oil Corporation.

Despite securing $2 billion (€1.87 billion) in funding, an additional $3 billion is said to be required for the project's completion. The increased budget will also support the development of a 60,000 barrel-a-day refinery, with Alpha MBM Investments at the helm. The $4 billion plant, expected to start operations in 2028, aims to cater to local and regional markets.

Rwanda on the cusp of financial inclusion


Yusuf Murangwa

RECENTLY, the Rwandan Ministry of Finance and Economic Planning in collaboration with Access to Finance Rwanda (AFR), the National Bank of Rwanda (BNR), and the National Institute of Statistics of Rwanda (NISR), unveiled the results of the Rwanda FinScope 2024 Survey. This comprehensive report evaluates the changes in access to and utilization of financial services since the last FinScope report in 2020.

The report findings reveal that Rwanda has made impressive progress in financial inclusion in 2024, with 96% or 7.8 million Rwandan adults now being financially included, up from 93% in 2020. This places the country close to achieving the universal access target of 100%. Only 4% of Rwandan adults are currently not utilizing formal or informal financial products or services, rendering them financially excluded.

The survey highlights a significant increase in formal financial inclusion, rising from 77% (5.4 million) in 2020 to 92% (7.5 million) in 2024, surpassing the targeted 90% mark for this year. Notably, the adoption and usage of formal non-bank products and services have also surged to 92% (7.5 million) in 2024 from 75% (5.3 million) in 2020, driven primarily by the uptake of mobile money services, insurance, and pension products.

Yusuf Murangwa, the Minister of Finance and Economic Planning, said the findings of the report were in line with the country's national priorities as outlined in the Financial Sector Development Strategic Plan (2018-2024).

Stimulating sustainable economic growth in Tanzania


Dr. Mwigulu Nchemba

THE Tanzanian government is focused on realizing an inclusive and competitive economy. To achieve this goal, the Minister of Finance, Dr. Mwigulu Nchemba says government is committed to stimulating economic growth through deepening industrialization, strengthening energy and transport infrastructure, human capital development as well as enhancing the business environment.

According to him, government is also investing in education and integrating research into the productive sectors. Dr. Nchemba notes that despite the achievements recorded by leadership of President Samia Suluhu Hassan in the past three years, Tanzanian citizens still yearn for improved social services such as roads, water, health, education, and electricity.

The Minister says the implementation of the 2024/25 budget would enable Tanzanians to have a better life through the building of an industrial-based economy which will increase employment opportunities and promote social welfare. Dr. Nchemba says the amendments for the Financial Year 2024/25 aim to address societal needs and stimulate economic activities by focusing on strategic sectors such as industry, agriculture, tourism, education and health.

Additionally, the Tanzanian authorities plan to continue implementing alternative project financing strategies to fund development projects and reduce reliance on the government budget. Notable initiatives include the successful issuance of a Green Bond and providing training on alternative project financing methods.

Widening gap between Moroccan dirham and a weakening Algerian dinar

AS the Moroccan dirham has appreciated, the Algerian dinar has dramatically declined in value over the past decade. Compared to 2014, one dirham was worth ten dinars, but by 2024, the gap has doubled, with one dirham worth 20 dinars.

Algeria's economic dysfunction is attributed to a steady devaluation of the dinar, not an appreciation of the dirham against the euro and dollar. What is more, the government's use of money printing following the decrease in oil prices from 2014 is attributed to the situation.

Nearly 1,000 billion dinars were injected into the economy without any real increase in production or wealth creation.

Furthermore, the government has kept its generous public spending and subsidy policies during the Arab Spring to buy social peace and quell pro-democracy calls. Although these measures encouraged consumption, overreliance on imports depleted foreign currency reserves.

The government's decision to print money instead of monetary policy and economic reforms led to double-digit inflation, affecting salary hikes in a crowded society.

Algeria's import restriction policy, one of the world's most severe, has led to shortages in medicine, food, cars, and spare parts.

Salah-Eddine Taleb
Governor, Bank of Algeria

Egypt advances financial inclusion for persons with disabilities

THE Central Bank of Egypt (CBE) is implementing a financial inclusion strategy for 2022-2025 to improve accessibility to financial services, especially for individuals with disabilities.

The Bank has undertaken ambitious reforms aimed at integrating marginalised groups into the formal economy. The CBE's financial inclusion strategy for 2022–2025 emphasises underserved groups, including women, youth and persons with disabilities (PWDs). The CBE believes this aligns with global best practices while addressing local needs.

Looking at the progress achieved over the past few years, Egypt has made significant progress in financial inclusion, particularly for persons with disabilities. The financial industry has shifted towards topics like consumer protection and inclusive green finance. Egypt is advancing financial inclusion, adopting international best practices and focusing on unexplored areas. The CBE has issued a financial inclusion strategy for 2022-25, focusing on marginalized segments like women, youth, and PWDs. The CBE emphasizes the need for overhauling the banking sector to meet PWD needs.

Hassan Abdalla,
Governor, Central Bank of Egypt

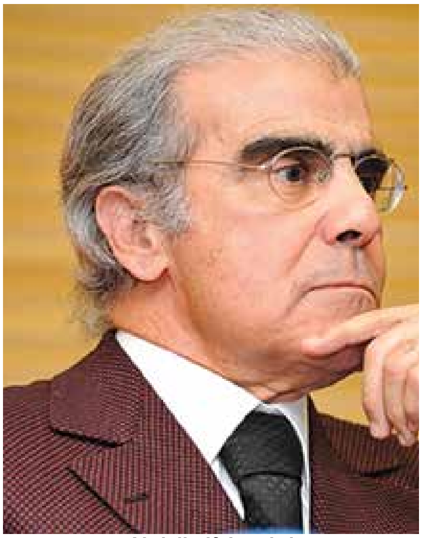
The financial inclusion of Persons with Disabilities (PWDs) necessitates a comprehensive approach, encompassing policies and regulations that empower the banking sector to serve this segment. Hence, in 2021, regulations were introduced to include PWDs in financial products and services, mandating new branches and 10% of existing ones to be designed and equipped with braille application forms, sign language customer service representatives, and tiered KYC regulations.

The CBE launched an annual financial inclusion event in December, last year, allowing banks to conduct commercial activities outside branches to raise financial awareness and promote inclusion.

The banking sector has reacted and responded positively to these developments. The sector has improved accessibility, adopted a single window system, and enhanced services for clients with disabilities, surpassing the CBE's accessibility percentage. 9,300 employees have received sign language training to assist clients with hearing or speech impairments. Braille account opening forms and signature stamps and fingerprints are now available for visually impaired clients.

Banks are integrating screen reading software into their electronic channels and issuing debit and credit cards to clients upon request, provided they are appropriate and easy to use.

Concern Over Cash Circulation Surge in Morocco



Abdellatif Jouahri

MOROCCO ranks highest globally in cash reliance, accounting for 74% of transactions in 2022. Addressing this issue is crucial for the country's economic growth. But, what is to be done to lop off this tentacle?

The country's central bank, Bank Al-Maghrib (BAM), has put faith in a newly constituted high-level committee to tackle the issue of a substantial amount of cash in circulation.

BAM Governor Abdellatif Jouahri termed the situation as "unacceptable," adding that "what matters to us now is the problem of cash in Morocco. We cannot continue in this direction."

Jouahri highlighted the urgent situation, stating that the country's cash circulation has risen to MAD 430 billion, constituting nearly 30% of its GDP, a global record.

The central bank's committee, comprising representatives from banks, the finance ministry, and academic researchers, is tasked with generating a comprehensive report on cash surplus causes and recommending solutions.

Jouahri highlighted that Morocco is falling behind other nations in modernizing its financial transactions.

"It is inconceivable that at a time when countries like Kenya or Jordan have advanced in these matters, we are still struggling. I'm not talking about India or China. In China now, if you go to buy anything, there is no cash. You have a card code that you use, and that's it; you pay what you want and go,"he said.

Jouahri emphasized the need for a gradual, moderate approach to reduce cash dependency and promote digital transactions.

Part of the strategy will involve promoting digital banking, focusing on inclusivity and ensuring access to banking services for vulnerable populations."We should also promote a certain type of culture. The approach should include citizens and especially vulnerable populations who should gain access to banking services,"the central bank governor said.

Morocco's population, despite institutional efforts, is largely unbanked or underbanked, with only 44% of adults having bank accounts, according to a 2022 World Bank report.

The study shows a significant decline in bank account ownership among Morocco's poor adult population, with only 33% of Moroccan women owning a bank account.

Algeria's New Digital Strategy to Drive Economic Modernization

The Algerian government is set to advance its information society by integrating ICT across all economic sectors. A clear roadmap has been established to achieve these goals

President Abdelmadjid Tebboune

ALGERIA is preparing to implement a digital transformation strategy, the first of its kind since independence, aiming to improve transparency, combat bureaucracy, and enhance economic performance, as well as maintaining service quality.

The strategy, spanning 2029, aims to meet socio-economic and cultural needs through a digitalization law and enhanced cybersecurity. The digitalization law aims to streamline the digital sector, remove administrative barriers, and enhance cybersecurity through collaboration with the Ministry of National Defense.

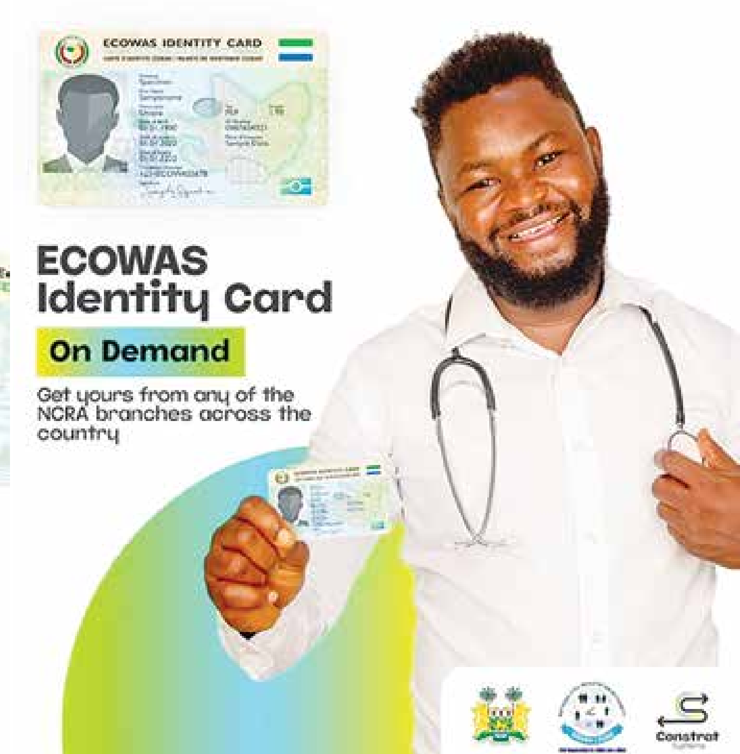
President Abdelmadjid Tebboune's digitalization project, launched in 2019, aims for local sustainable development, overcoming challenges like limited resources, bureaucratic resistance, and sectoral complexities.

Initial results were evident in the latest report from the International Telecommunication Union (ITU) released in December 2023. Algeria improved significantly in the ICT Development Index (IDI), rising from 102nd to 88th place out of 169 ITU member countries, with a score of 77.8, surpassing the African (47.4 points), Arab (74.5 points), and middle-income countries (62 points) averages

NATIONAL CIVIL REGISTRATION AUTHORITY

Modernising Sierra Leone through Civil Registration, Vital Statistics, Data Collection & Identity Management

— Mohammed Massaquoi,
Director-General



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Modernizing Namibia's financial sector

A change is afoot in Namibia's financial landscape

Johannes Gawaxab, *Bank of Namibia Governor*

NAMIBIA'S financial landscape is undergoing a significant transformation with the Bank of Namibia's Instant Payment Programme (IPP), aiming to boost economic growth and prosperity.

Namibia expects that this would increase financial inclusion, allowing everyone to transact digitally and electronically, regardless of where they live.

The IPP, which is designed to be accessible on any device, even non-smartphones, will ensure that everyone, including vendors, taxi drivers, pensioners and small business owners, can use the programme.

Namclear, the licensed payment system operator, will collaborate with the IPP's special purpose vehicle (SPV) to operate its Instant Payment Solution (IPS) over the long term.

The National Payments Corporation of India International will develop the IPP, while the Payment Association of Namibia will provide a collaborative platform for its members.

PricewaterhouseCoopers(PwC) will be the industry programme management office, renowned for its expertise in leading payment transformation programmes.

The project aims to modernize the financial sector by 2025 by achieving full interoperability of payment instruments, particularly for underserved populations.

The BoN aims to advance financial sector progress and innovation, aligning the IPP with national strategies like National Development Plans and National Payment System Vision and Strategy 2025.

The initiative aims to promote financial inclusion in the informal economy and rural sectors, ensuring universal access to financial services, despite high fees and charges.

Zimbabwe moves to bolster ZiG currency

Reserve Bank of Zimbabwe intensifies efforts to bolster ZIG, its new currency

John Mushayavanhu,
Governor, Reserve Bank of Zimbabwe

THE Reserve Bank of Zimbabwe is building up the nation's gold reserves to help bolster its new currency – the ZiG which was launched in April. Dr. John Mushayavanhu, Governor, Reserve Bank of Zimbabwe said it is the only way to build trust in its new currency by ensuring it remains fully backed by reserves.

According to him, the Bank was taking steps to curb exchange-rate volatility and an inflation spiral. Mushayavanhu notes that so far, the Bank has been able to increase those reserves by about 30%. He said the government had a plan to increase use of the ZiG and build up gold and foreign exchange reserves, which stood at $285 million when the currency was launched and now exceed $380 million. The ZiG is currently used in about 20% of local transactions, compared with 80% for foreign currencies. He noted that these have been increased through royalties that the Bank was collecting from mining companies. He believes that the Bank has been making steady progress in bolstering the new currency. "We want to gradually tilt that ratio to 70:30 by year-end or 60:40 thereafter, until we get to a situation where everybody is indifferent as to which currency they are using. This is the roadmap," Mushayavanhu said.

The new currency, called Zimbabwe Gold or ZiG for short, is the Southern African country's sixth attempt at a local currency in 15 years after a bout of hyperinflation under former leader Robert Mugabe. The last currency, the Zimdollar, fell 80% in the three months before it was scrapped, and authorities face an uphill battle to convince a sceptical population to stop transacting in foreign currencies."Confidence can only come with us walking the talk," Governor Mushayavanhu says, referring to the central bank's commitment not to print money to finance government spending, which drove previous currency collapses.

Catalyzing Botswana's growth through manufacturing

FOR Botswana's President, Dr. Mokgweetsi Masisi, his sights are set on a fully industrialised, diversified and knowledge-based economy. He, however, wants the manufacturing sector to be the engine for country's growth as is the case in developed economies around the world. "Botswana should use the manufacturing sector to boost her GDP growth, through creating the urgently needed quality jobs in a host of mining operations, and in the emergent industrial development linkages and supportive services sector," President Masisi said.

The President was speaking at this year's Local Manufacturing Summit with the theme: "Shaping the Future of Botswana's Manufacturing Sector: Growth, Diversification and Job Creation." He described the theme as quite apt. According to him, it aligns with government's objective of collaborating with the private sector and development partners to boost Botswana's economy. He said the manufacturing sector should be supported to ensure that it serves not only the domestic market , but contributes towards achieving Botswana's goal of becoming an export-led and high income economy by 2036.

President Masisi said the country intends to set up a high-level consultative board to take the necessary measures to attract investors into the country's manufacturing sector. According to him, the board will remove red-tape hindering potential investors from investing in the sector.

President Mokgweetsi Masisi

Angolan Sovereign Wealth Fund's $5 million Investment deal

Angolan Sovereign Wealth Fund commits $5 million investment to BFA Asset Management's Kimbo Fund

THE Angola Sovereign Wealth Fund (FSDEA) has formalised its entry into the Kimbo Fund, Angola's debut private debt fund managed by BFA Asset Management (BFAAM), with an equity investment of USD 5 million.

The investment will allow BFAAM's Kimbo Fund to invest in businesses with high growth potential that generate income and tackle key challenges in the local market aligned with the national economic diversification programme, including downstream agribusiness and logistics. The equity commitment is also expected to help BFAAM to raise additional capital from other investors including the country's pension funds, high net worth individuals, insurers, and foreign institutional investors.

Armando Manuel, Chairman of the Board of Directors of FSDEA, says the investment in the Venture Capital Fund is a strategic step that reinforces the Sovereign Wealth Fund's commitment to supporting the growth of small and medium-sized enterprises in Angola through third-party entities. "This initiative not only contributes to strengthening the national economy but also promotes financial inclusion, encouraging entrepreneurship and innovation in various areas, especially among women and young people," he says.

Rui Oliveira, Chief Executive Officer & Co-CIO of BFAAM, notes that his organisation's partnership with FSDEA will have a significant positive impact on Angola's economic and social development. He says the agreement not only symbolises the mutual trust between the two institutions but highlights the vital role both play in creating a more dynamic and resilient financial environment in Angola. Oliveira adds that the collaboration between FSDEA and BFAAM aligns with the long-term vision of both institutions to foster a more inclusive, sustainable, and diversified financial markets in the country.

Armando Manuel

With a fundamental objective to support the growth of companies led by young people and women, Kimbo Fund aims to contribute to filling value chains, promote job creation, strengthen financial inclusion, and improve access to financing.

Cape Verde embraces digital banking

Cape Verde launches digital bank to promote access to credit


Prime Minister Ulisses Correia

IN a significant step for Cape Verde's financial sector to embrace modern technology, streamline financial services and make them more accessible to underserved populations, the country recently launched its digital bank. Cape Verdean Prime Minister Ulisses Correia e Silva said it was also aimed at financing investments for young people and women, and reducing barriers to accessing credit.

Correia e Silva added that the new bank will enable greater investment from young people and women. The digital bank is tasked with managing the entire credit process using digital and IT means, including credit application, credit approval decisions, and follow-up until the credit is disbursed. The Prime Minister said that in this way, entrepreneurs will benefit from total transparency and be able to track every step of their credit application, ensuring a much faster response. He noted that the digital system will equally ensure a smooth and efficient process for users, offering favourable financing conditions supported by state guarantees and subsidies.

By focusing on young people and women, the bank aims to empower these groups, promoting entrepreneurship and economic development within the country. Additionally, the initiative aligns with Cape Verde's broader goals of digital transformation and financial inclusion. By leveraging digital tools, the government hopes to create a more inclusive financial ecosystem that can adapt to the changing needs of its citizens.

Scaling up SMEs financing

Ghana launches SME Growth and Opportunity Programme to stimulate economic growth


Dr Mohammed Amin Adam

THE Ghanaian government is increasingly encouraging the provision of technical and financial support to Small and Medium-sized Enterprises (SMEs) to enable them stimulate the country's economic growth. President Nana Akufo-Addo said at the recent launch of the SME Growth and Opportunity Programme (SME GO) that "SMEs are the backbone of Ghana's economy, contributing 70% to our GDP and constituting 92% of businesses."

The President highlighted several success stories that exemplify the potential of Ghanaian SMEs. According to him, Kasapreko Company Limited, a homegrown beverage company, has grown from a small business into a multinational corporation with a strong presence across Africa. Similarly, Blue Skies Holdings Limited started with a small facility in Nsawam and has expanded its operations to multiple countries. President Akufo-Addo said that government has a mobilized GHC8.2 billion to provide financial and technical support to the sector.

On his part, the Minister for Finance, Dr Mohammed Amin Adam pointed out that SMEs play a key role as the "lifeblood" of the Ghanaian economy hence, the need for all stakeholders to collectively ensure their growth and success.

The SME GO programme jointly coordinated by the Ministries of Finance and Trade & Industry aims to improve access to finance, streamline regulations, foster innovation, and also enhance entrepreneurial skills in order to create a viable SME sector. The implementing partners include Ghana Enterprise Agency, Ghana Exim Bank, and Development Bank Ghana.

Sierra Leone's financial inclusion drive

Bank of Sierra Leone improves financial inclusion in the West African country through digital banking solutions and financial literacy promotion

Dr Ibrahim Stevens

THE Bank of Sierra Leone is making progress in its quest to improve financial inclusion in the country. The Governor of the Bank of Sierra Leone, Dr Ibrahim Stevens said that in alignment with the goals of the National Development Plan's Big Five Priority areas, the bank is driving financial inclusion through digital banking solutions and financial literacy promotion.

In his keynote address at the recent 60th anniversary of the nation's apex financial institution in Freetown, Dr. Stevens, reiterated the bank's commitment to adapting to the rapidly changing financial landscape. He said that the expansion of digital financial services, particularly mobile money, has significantly improved financial inclusion in the country. According to him, there are over eight million mobile money accounts and this has witnessed the transformative shift towards digitization in the financial sector.

The Bank of Sierra Leone is the first to operate a digital sandbox in the West African sub-region. It is also developing regulatory frameworks for safe and accessible digital financial services. It conducted extensive financial literacy and education campaigns to ensure the population is well-informed about digital financial services.

Dr. Stevens promised that the bank will continue to harness advancements in technology, tackle financial exclusion and maintain economic stability despite external shocks including the rise of crypto currency, digital currencies, artificial intelligence and cybercrime.

Key legislative reforms which have helped to improve financial inclusion in Sierra Leone include the Deposit Protection Act 2023, the Credit Reference Act 2011, and the Revised Borrowers and Lenders Act 2019. These reforms are instrumental to strengthening the financial rate of 29%, particularly in rural areas, while fostering partnerships with fintech companies.

New Vista for Liberia's apex bank

IN a decisive move to restore confidence in Liberia's financial sector, President Joseph Nyuma Boakai recently appointed Mr. Henry F. Saamoi as the acting Executive Governor of the Central Bank of Liberia (CBL).

With nearly 25 years of experience in the banking sector, Saamoi steps into his new role with a formidable track record. Prior to his appointment, he served as the Chief Executive Officer of International Bank Liberia Limited (IB), where he was instrumental in driving significant growth and innovation.

Shortly on assumption of office, Saamoi said his vision is to transform the Bank by developing talents, forging a teamwork culture, developing a new strategic plan and promoting transparency and accountability. He underscored the importance of building capacity and working together to achieve CBL's core objectives of price and financial sector stability, financial inclusion, operational efficiency, and support for economic growth. He announced the formation of a committee tasked with developing a comprehensive five-year strategic plan that will embrace innovation and leverage technology to improve the Bank's operations. He added that through the new strategic plan, the Bank will embrace innovation, leverage technology to enhance the delivery of its mandate, ensure operational efficiency and promote value for money.

Henry F. Saamoi

Polish EV Charging Infrastructure Rollout Gets EBRD Support

THE European Bank for Reconstruction and Development (EBRD) is lending €20 million to European charge point operator Allego to finance the construction of EV charging stations in Poland. The EBRD financing will enable Allego to benefit from support from the CEF-Transport Alternative Fuels Infrastructure Facility in decarbonising the Trans-European Transport Network.

Allego, which owns and operates 35,000 public charging ports in 16 European countries, will install and operate 200 light and heavy-duty EV charging points in 50 locations across Poland, as part of its expansion in European markets.

Accelerating the rollout of electric mobility, including electric vehicles, is key to meeting the European Union's decarbonisation targets for road transport, which is responsible for most of the transport sector's global CO2 emissions.

To enable the shift to electric vehicles, however, significant investment in charging infrastructure is needed. This is particularly true for Poland, which lags its EU peers in terms of EV penetration and availability of charging stations.

Allego is a European charge point owner and operator. It connects charging points to power grids, installs, maintains and operates them, and handles the smart charging and billing.

The EBRD is among the leading institutional investors in Poland. Since the start of its operations in the country in 1991, the Bank has invested more than €14 billion in 532 projects. Last year, the Bank invested a record €1.3 billion in Poland.

Switzerland Unveils Supercomputer Alps

Guy Parmelin

SWITZERLAND unveiled its fastest supercomputer, Alps, at the Swiss National Supercomputing Centre in Lugano, aiming to establish Switzerland as a leader in artificial intelligence solutions.

Swiss Minister of Economy, Education and Research, Guy Parmelin, emphasized that the Alps represent a vision of a future characterized by knowledge and progress.

The Alps, ranked as the world's sixth most powerful supercomputer in June, was only 60% of its potential at the time of its ranking. The supercomputer was created to handle significant data and computing demands, enhancing the full utilization of artificial intelligence.

It is the central part of an initiative "to position Switzerland as the world's leading hub for the development and implementation of transparent and trustworthy AI solutions", ETH Zurich said.

Andreas Krause, head of ETH Zurich's AI Centre, highlighted that the Alps enable the training of complex AI models for crucial applications like medicine and climate research.

MeteoSwiss is utilizing the Alps to develop a high-resolution weather prediction model that accurately represents Switzerland's diverse mountain and valley topography.

Parmelin stated on X that the Alps will open new horizons, clear the future path, and position Switzerland at the forefront of scientific research.

CSCS deputy director Michele De Lorenzi stated that it would take 40,000 years for a commercial laptop to perform the same operations as Alps can do in a day.

European Bank pledges €110m to Romania's green ambition

IN what marks a growing confidence in Romania's renewable energy market, the European Bank for Reconstruction and Development (EBRD) and Raiffeisen Bank International have arranged a €110 million international financing package to fund two solar photovoltaic plants in the country.

The two solar photovoltaic power plants in Lepuresti and Ghimpati, south-eastern Romania, will have a total installed capacity of around 300 MW.

EBRD loan of €55 million, matched by Raiffeisen Bank International, will be split into €25 million and €30 million tranches, partially covered by InvestEU programme.

The project aims to produce 386 GW/h of renewable electricity annually, reducing carbon dioxide emissions by 160,000 tonnes annually, which will be sold locally.

Romania's renewable energy sector is gaining momentum, supported by the EBRD, following a decade of limited investments, aiming to improve the environment and safeguard energy security.

IMF Approves $7 Billion Loan Facility for Pakistan

Muhammad Aurangzeb, *Pakistan Finance Minister*

AFTER months of wrangling between Islamabad and IMF officials both were able to unlock a new loan agreement culminating in the approval of a $7 billion facility for Pakistan. The loan aims to bolster its faltering economy, a relief package that Islamabad has pledged would be the last from the Washington-based lender.

The three-year loan program "will require sound policies and reforms" to support Pakistan's ongoing efforts to strengthen its economy "and create conditions for a stronger, more inclusive, and resilient growth," the IMF said in a statement.

The South Asian nation in July agreed to the deal - its 24th IMF payout since 1958 - in exchange for unpopular reforms, including widening its chronically low tax base.

Pakistan last year came to the brink of default as the economy shriveled amid political chaos following catastrophic 2022 monsoon floods and decades of mismanagement, as well as a global economic downturn.

It was saved by last-minute loans from friendly countries as well as an IMF rescue package, but its finances remain in dire straits, with high inflation and staggering public debts.

"This program should be considered the last program," Prime Minister Shehbaz Sharif said in July when the loan deal was agreed.

It came on the condition of far-reaching reforms including hiking household bills to remedy a permanently crisis-stricken energy sector and uplifting pitiful tax takings.

In a nation of over 240 million people where most jobs are in the informal sector, only 5.2 million filed income tax returns in 2022.

Navigating today's Frothy Financial Markets

By DAMBISA MOYO

THE signs of bubbles emerging in financial markets are clear to see. The Dow Jones index recently surpassed 40,000 for the first time, and the UK FTSE 100 and French CAC 40 also have reached new highs. Forward price-to-earnings ratios in the United States are trading at a multiple of around 25 – well above the historical average of 16 – and these high valuations have persisted despite interest rates above 5%.

Such trends certainly justify worries about new stock-market bubbles. But not all bubbles are equal, and only some are problematic for the wider economy. What matters – as we saw after 2007 – is whether a burst bubble will trigger a chain reaction that undercuts growth for years thereafter.

From an investment perspective, two factors can provide an early warning of where and when a bubble might burst, and whether it will be followed by a market correction or broader economic crisis. The first is the underlying or intrinsic value of an asset (whether it is productive or unproductive); and the second concerns how that asset is financed (be it through equity, cash, or a substantial degree of leverage).

With this two-factor framework, we can evaluate four types of bubbles. The first – and least dangerous for the wider economy – involves a productive asset primarily financed by equity or investor cash. Think of an equity investment in a telecommunications or broadband cable company. If the bubble bursts, the lost capital will be largely contained or ring-fenced among the direct investors (those holding the stock), without many spillovers to the wider economy. Moreover, telecoms/cable companies hold tangible assets with intrinsic value, which both limits the downside risk and represents upside potential for when the economy recovers.

Greater scrutiny of unproductive, leveraged assets is crucial to avoiding a financial crisis

The second category is a bubble of productive assets funded by debt, as when corporations take on debt to finance their operations or remain a going concern. In this case, a bubble bursting can have systemic implications, because large losses will reverberate through the banking system or capital markets, ultimately slowing the economic recovery as financial institutions work through their losses and reduce lending. However, the losses to the economy will be limited, because this scenario still involves productive assets.

In the third scenario, unproductive assets are funded by equity or cash, as in the case of much cryptocurrency investing. Here, the underlying asset is unproductive in the sense that it will not yield a future cashflow stream. If it falls in value, there is no fundamental basis – business or financial, such as hard assets – from which it can recover. But like the first category, the equity/cash financing implies that the spillovers will be contained. That brings us to unproductive assets financed by debt. The prime example is the subprime mortgage crisis that erupted in 2008-09.

In today's financial markets, one can find pockets of highly levered, arguably unproductive assets. Even more worrying, many of these lie outside the purview of regulatory oversight. For example, roughly 70% of leveraged loans and mortgages in the US are now held in the shadow banking sector, where institutions take on debt and provide financing without being subject to traditional banking regulations and without recourse to emergency federal bailout facilities should they become illiquid or insolvent.

These investments obviously carry risk by dint of their debt exposure, and it remains unclear whether they are supported by productive or unproductive assets. Because they are in the shadow banking sector, there is far less visibility regarding the capital structure (the nature and sources of capital used to finance the investments).

While a loss taken by someone who used accumulated savings will have only a limited effect on the wider economy, losses taken on "borrowed" money, especially with high leverage, could prove contagious. A system with low visibility regarding the sources and forms of capital underlying many investments is a risky one. Greater scrutiny of unproductive, leveraged assets is crucial to avoiding a financial crisis.

Dambisa Moyo, an international economist, is the author of four New York Times bestselling books, including Edge of Chaos: Why Democracy Is Failing to Deliver Economic Growth – and How to Fix

The limits of central bank independence

By Stefan Gerlach

CENTRAL banks are not sovereign principalities, and their governors are not sovereign princes. While central bank independence has been essential to effective policymaking in recent decades – giving monetary authorities the political cover to pursue necessary but potentially painful measures when conditions demand – the limits of the principle are almost certain to become clearer in the coming years.

The reason is not that there have been catastrophic monetary policy mistakes, or that governments want to manage monetary policy themselves. Central banks have generally done a good job, and governments are happy to let them do it.

While the US Federal Reserve and other central banks certainly could have stepped in earlier to stop or mitigate the recent surge in inflation, most sober observers regard that episode as unavoidable. It was caused by a series of extraordinarily large and entirely unexpected shocks to the world economy – not least COVID-19 and Russia's invasion of Ukraine. Central bankers can be forgiven for not anticipating the first global pandemic in a century and the first major war in Europe in 80 years.

So, why is the principle of central bank independence becoming more vulnerable? The main concern is the growth of central banks' balance sheets – owing to years of quantitative easing – which are now leading to large losses.

While central bank independence is fine for governments, in principle, losses that will have first-order effects on public finances are another matter. And this is especially true if losses are materialising at a time when demand for public spending on climate change adaptation and mitigation, strategic competitiveness, and defence has increased massively.

Central bank independence is often seen as a panacea to the type of high and persistent inflation that characterised the 1970s and early 1980s. To many, it looks like a free lunch: disinflation and long-term price stability without any adverse effects on growth and unemployment. But defenders of central bank independence have almost certainly overestimated its role as a guarantor of low inflation.

Central banks would do well to be more sensitive to the consequences that their actions may have on public finances

Consider a counterfactual: the Monetary Authority of Singapore, MAS, has achieved an average inflation rate of almost 2.0 per cent since its monetary policy framework was introduced in the early 1980s. Few central banks can match this stellar record, and yet four government ministers sit on the MAS's board, and there is little doubt that the Singaporean government can control monetary policy if it so wishes. Singapore has achieved consistently low, stable inflation without a robust regime of central bank independence.

What matters most for price stability is the central bank's ability to set interest rates and other policy levers as it sees fit. Firm political support for the objective of maintaining low inflation is essential; but complete legal independence does not seem to be a necessary condition for achieving it.

Moreover, when economists quantify central bank independence, the Fed itself scores poorly – worse than central banks in many inflation-prone Latin American countries – yet it is generally regarded as doing a good job of ensuring price stability. Again, the key question is whether there is a political consensus against meddling in the central bank's pursuit of low inflation.

Central banks are quick to point out that their objective is to ensure stable prices, not to generate government revenues. While this claim is certainly true, it is a little naive. When central bank independence was embraced around the world a quarter-century ago, no one anticipated that central banks' profits and losses would matter much for public finances.

But large losses do matter, and since the situation has changed, politicians might come to believe that the consensus behind central bank independence and the form it takes also need to change.

Governments hold the power to appoint monetary policymakers, so it stands to reason that they will not appoint officials who are tone-deaf about government interests and priorities.

Central banks would do well to be more sensitive to the consequences that their actions may have on public finances. Ultimately, that may be the only way to protect their freedom to align monetary policy with their price stability mandate.

Stefan Gerlach, Chief Economist of EFG Bank in Zurich, is a former deputy governor of the Central Bank of Ireland

Can Central Banks Still Go Green?

But with the return of inflation, monetary policymakers have grown more cautious

By Lucrezia Reichlin

DURING the years of low inflation and zero or negative interest rates, many central banks joined the fight against climate change and started experimenting with various tools such as special loans, asset purchases, and collateral requirements biased toward "green" investments. But with the return of inflation, monetary policymakers have grown more cautious.

Presumably, they are eager to demonstrate that price stability is their primary focus, implying that when inflation is persistently above target, climate policy matters less. But a firm commitment to price stability does not require central banks to drop green-oriented monetary policies altogether. Since today's central banks have more than one instrument at their disposal, hiking interest rates to fight inflation can, in principle, go hand in hand with targeted green policies. The question is how to do it now that central banks' balance sheets are supposed to be shrinking.

Moreover, the return of inflation does not alter the original case for green monetary policymaking. Central banks still have two good reasons to remain committed. First, they need to account for climate change in order to manage their own portfolio risk. With regulators and supervisors asking the financial sector to do this, it is only natural that central banks should do it, too.

Public authorities have drawn up new guidelines for the private sector because they recognize that climate risks are financially significant, and that limiting exposure to fossil-fuel assets is fully consistent with traditional risk-management criteria. This is especially true for larger portfolios, and notwithstanding the recent decline in central banks' holdings, their assets worldwide still total around $40 trillion.

The second reason is that in most countries, central banks are mandated to support the general objectives of their governments in guaranteeing citizens' welfare, as long as doing so doesn't interfere with price stability. Supporting the green transition therefore should figure prominently within any framework that rigorously assesses the potential trade-offs between price stability and economic policymaking.

Central to this process is the concept of "double materiality," which holds that you should do what you can to have an impact, and not focus solely on mitigating your own financial risks. Although central banks are not in charge of industrial policy, they do have tools to allocate capital within their normal operations, and these are already in use in many countries.

When the Network for Greening the Financial System (NGFS) reviewed current policies for eight case studies in Asia and Europe, it found that most green measures were motivated by the aim of mitigating climate change, rather than risk management.

The NGFS's findings point to an accumulation of valuable experience in green policymaking by central banks. Though there are relevant differences across these institutions, they collectively represent a huge amount of fire power.

But won't central banks have to shrink their balance sheets, and won't that harm their green-related financing? Not necessarily, because with interest rates on reserves, a central bank can, in principle, increase rates to tame inflation while still maintaining a large balance sheet.

Under this framework, central banks that have adopted a double-materiality approach can aim for an asset portfolio that is consistent with their government's climate and industrial policies. In making the choice between larger or smaller balance sheets, they should consider the longer-run advantages of supporting green financing.

To be sure, some will object to any policy that encourages central banks to leave a large footprint in markets, or that tasks unelected officials with what looks dangerously close to an industrial policy. We have all heard the argument: "Central banks are doing too much and risking their independence."

But climate change is the existential problem for all of humanity. At a moment when the private sector is withdrawing resources from climate funds and public finances are constrained everywhere, the idea that central banks can play a larger role should not be discarded. The devil, of course, will be in the details. Transparency and careful management of trade-offs will be crucial.

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The Dollar Is Everyone's Problem

By Hippolyte Fofack

The unusual steps recently taken by Japan's monetary authorities instead reflect the high costs of monetary-policy divergence for global stability and growth

IN 1971, US Treasury Secretary John Connally famously told his counterparts in the G10 that "the dollar is our currency, but it's your problem." Connally was being unexpectedly candid about the fact that, even though the greenback was the world's main reserve currency, its foremost purpose was to advance US interests.

That remains true today. But in recent decades, the dollar's central role in global trade and finance has posed more of a problem for emerging-market and developing economies (EMDEs) than for the world's rich countries. For example, the US Federal Reserve's current tightening cycle – like others before it – has disproportionately affected EMDEs by fueling massive and inordinate capital outflows. This, in turn, has triggered currency gyrations that exacerbate macroeconomic challenges and increase debt-servicing costs, resulting in limited fiscal space for public investment.

Recent monetary-policy divergences between the Fed and other advanced-economy central banks are, however, stoking exchange-rate volatility in the world's rich countries. The spillovers from the Fed's higher-for-longer policy position are perhaps most pronounced in Japan, which has recently taken to intervening in foreign-exchange markets to stem the yen's rapid slide.

In June, the US Treasury added Japan to its "monitoring list" for potentially unfair foreign-exchange practices. Although the Treasury stopped short of designating Japan as a currency manipulator – which could have resulted in the US imposing sanctions on one of its staunchest allies – the move was significant, not least because it highlighted the global risks of monetary-policy divergence and the inherent challenges of international coordination on this front.

Japan made the monitoring list because it met two of the three criteria that the Treasury uses to assess the policies of major US trading partners – specifically, a trade surplus with the US of at least $15 billion, and a current-account surplus above 3% of GDP. The third criterion is persistent, one-sided intervention in foreign-exchange markets, with net purchases totaling at least 2% of GDP over 12 months. The Treasury report to Congress noted that while Japan has not reached that threshold, it has aggressively intervened in foreign-exchange markets.

Japanese authorities have indeed spent billions of dollars to prop up the yen, which has lost a third of its value since 2021 and fell to a 34-year low of more than 160 per dollar in April. This is largely because of the yawning interest-rate differential between the two countries: when the Fed sharply raised interest rates in early 2022 to combat inflation, the Bank of Japan maintained its negative interest-rate policy to address domestic deflation. In its report, the Treasury emphasized its expectation "that in large, freely traded exchange markets, intervention should be reserved only for very exceptional circumstances with appropriate prior consultations."

Despite the scale of these efforts, the yen's descent continued, illustrating the challenges of defending a plunging currency in a highly integrated global financial system.

For months, investors have increasingly turned to carry trades, which involve borrowing in yen to invest in higher-yielding assets abroad. This, combined with rising bond yields, puts downward pressure on the yen. Moreover, the currency's depreciation has discouraged exporters from converting foreign earnings into yen due to heightened exchange-rate risks, further decreasing demand and reinforcing yen weakness.

Ordinarily, monetary authorities will intervene to weaken the local currency to boost exports and enhance competitiveness. The 1985 Plaza Accord, which led to the yen appreciating 46% against the dollar, did just that for the US, but diminished Japan's competitiveness, prompting Japanese automotive companies to establish factories in America.

The unusual steps recently taken by Japan's monetary authorities instead reflect the high costs of monetary-policy divergence for global stability and growth. While the weak yen has boosted inbound tourism and exports to the US, it has also led to excessive exchange-rate volatility, dampening corporate investment and raising costs for industry and importers. Private consumption, which accounts for more than half of the Japanese economy, has slowed, increasing the risk of stagflation. As a result, the Japanese government has revised downward its growth forecast for the current fiscal year (ending March 2025) from 1.3% to around 0.9%.

Some signs point to the interest-rate differential narrowing and the yen stabilizing. In the second half of July, the yen strengthened against the dollar by 4% and rallied to its strongest level since March the day after the BOJ raised its benchmark interest rate to 0.25%. The yen's surge followed milder US inflation data in June and a softer labor market in July, both of which could lead the Fed to cut rates sooner as it shifts from a single-minded focus on the inflation target to the dual mandate of price stability and maximum employment in the face of a renewed threat to growth.

But this new period of policy divergence among systemically important central banks has underscored the greenback's enormous global impact. When these monetary authorities moved in sync, it was easy to view the US currency as an issue only for EMDEs. Japan's recent currency stress, though, serves as a stark reminder that the dollar is a problem for rich and poor economies alike.

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The Alternative: How to Build a Just Economy

Title: The Alternative: How to Build a Just Economy

Author: Nick Romeo Publisher: Public Affairs New York 2024

Reviewer: Bob Douglas

"THE Alternative: How to build a just economy" by American author, Nick Romeo, is a welcome arrival to a human world in crisis.

The Professor of Economics at the University of London, Ha-Joon Chang, says of the book "TINA (There is No Alternative)" has been the most powerful weapon deployed against its critics by neoliberal free market economists in recent decades. In this informative and courageous book, Nick Romeo, shows there is an alternative – or, rather many alternatives – to the currently dominant neoliberal economic system. In doing so, he liberates our economic imagination and puts the backbone into economics as a moral science. This is a very valuable field manual for those who want to change our economics for the better."

Romeo argues that a major obstacle to an expanded sense of economic possibility is the widely shared belief that is promoted by advocates for neoliberalism, that current social and economic arrangements are the result of immutable economic laws that have resulted from years of mathematical modelling. He strongly challenges the validity of that view, and calls for recognition of the relevance and importance of new thinking about issues like a living wage, participatory budgeting, worker cooperatives and new, combined public and private sector initiatives.

He points out that the best evidence that alternative arrangements are viable, is to show that they already exist. And his book has demonstrated the viability of profoundly different social and economic models from the one under which we currently live.

Everything that is actual, says Romeo, is possible, while the converse is not true. There were once no job guarantees, no employee stock ownership plans, no participatory budgeting, no true prices, no corporate takeovers by investment funds, but all of these ideas were possible before they were trialled and have now been shown to be viable.

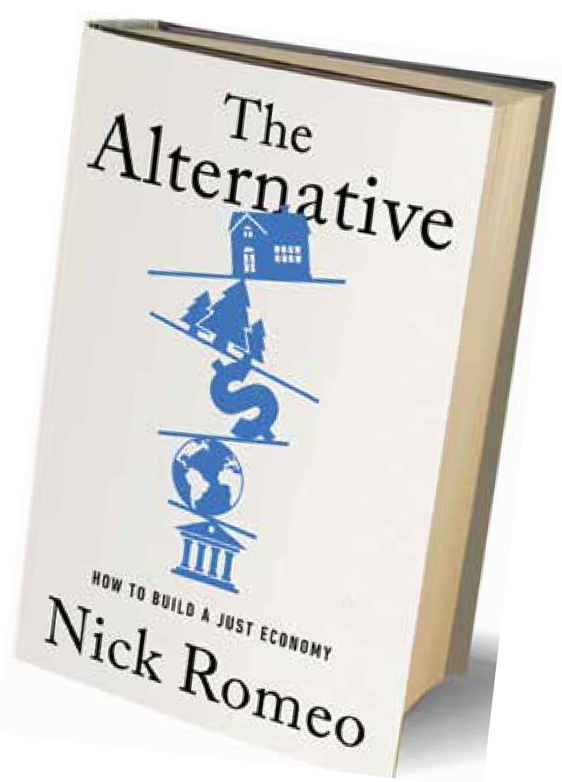
I am particularly impressed and excited by the chapter about participatory budgeting (PB).

In "Chapter 8, "A Tale of Two Cities: Building Economic and Climate Democracy, Romeo says that the city of Cascais conducts a process in which citizens propose, debate and vote on ideas that the public budget will fund. Winning projects receive up to 350,000 Euros, and the city guarantees to complete them within three years. About 15% of public expenditure in the town goes towards PB projects. Since this process was introduced in 2011 the town has spent 51 million Euros on this task, and collectively, these projects have reshaped the urban landscape.

The basic premise of participatory budgeting, (PB), is that, since citizens are a source of public funds and users of public services, they deserve a direct say over how some of this money is spent. Romeo states that when executed well, PB can address central political elements of our age, strengthening civil society, increasing transparency and trust in government and improving the quality of public works and services.

As we confront the multifaceted risk to long-term human survival from a group of human-induced catastrophic threats, new economic thinking becomes a vital ingredient of new policy development.

The book deserves a wide readership by politicians, economists and public servants, and its proposals should be considered and discussed by community members of all ages.



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Stable climate
Good quality of life
Food for 9 billion
Water for 9 billion
WWF
ZERO
Loss of natural habitats
ZERO
Extinction of species
HALVE
Footprint of production & consumption
A NEW AMBITION BY 2030
Place nature on the path to recovery by 2030 for the benefit of people and the planet, in support of the Sustainable Development Goals

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