

## **Caleb M Fundanga: An appeal to the Zambian microfinance industry to offer affordable financial services**

Opening speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the 8th Annual General Meeting of the Association of Microfinance Institutions of Zambia, Lusaka, 7 July 2006.

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- The Chairperson;
- Senior Government Officials present;
- His Excellencies, member of the diplomatic corps present;
- Members of the Association of Microfinance Institutions of Zambia (AMIZ);
- Distinguished Ladies and Gentlemen

It gives me great pleasure and gratitude to be amongst you this afternoon to officiate at the 8th Annual General Meeting of the Association of Microfinance Institutions in Zambia.

**Mr Chairperson**, as you are aware, micro-lenders are credit providers to people with limited or no access to traditional credit sources. It follows therefore that the primary impact of microfinance in Zambia has been the broadening of access to formalised financial services particularly to many people both in urban and peri-urban areas. The microfinance sector in Zambia has grown rapidly in recent years in terms of the number of service providers as well as outreach which is currently estimated at over 60,000 persons.

**Ladies and Gentlemen**, in recognition of the need to provide a conducive regulatory environment which promotes sustainability, accountability and transparency in the conduct of micro finance business, the Bank of Zambia, in consultation with other key stakeholders in the microfinance sector, introduced the Banking and Financial Services (Microfinance Regulations) of 2006 which came into force on 31 January 2006.

While the Regulations may be focusing on deposit taking microfinance institutions and relatively large non-deposit taking microfinance institutions, it is envisaged that several other smaller players in the industry will continue to be regulated under the Cooperative Societies Act and the Money Lenders Act.

The Bank of Zambia will be holding a workshop for microfinance institutions and other stakeholders during the second half of 2006 to highlight the salient features of these Regulations and the importance of operating microfinance institutions to properly register their businesses.

**Ladies and Gentlemen**, we are aware that lending of small sums of money to a large number of individuals maybe costly, and this may compel microfinance institutions to charge high lending interest rates than commercial banks and other financial institutions. However, it is also important to note that high lending interest rates can lead to high levels of delinquency.

It is in this regard that the Bank of Zambia is concerned about the levels of lending interest rates charged by most financial institutions in Zambia, microfinance institutions included. With the achievement of relative macroeconomic stability in the recent years as evidenced by a significant reduction in the inflation rate to 8.5 percent as at June 2006, it is the expectation of the Bank of Zambia that all prudent lending institutions would make downward adjustments to their lending interest rates. Some commercial banks have taken the lead by reducing their base lending rates and we expect microfinance institutions will follow suit so that many more people can have access to affordable financial services.

**Mr Chairperson, Distinguished Guests**, let me take this opportunity to inform you that following the coming into force of the Credit Reference Services (*Licensing*) Guidelines and the Credit Data (*Privacy*) Code on 30 January 2006, a credit reference bureau has since been issued with an operating licence to provide services to the Zambian market. Although the bureau will initially provide services to the banking sector, it will subsequently extend its services to other credit providers, such as, microfinance institutions. This will help in reducing credit risk through the availability of a widely accessible database on the loan repayment profile of borrowers. This should also provide another incentive for lowering of interest rates.

**Ladies and Gentlemen**, one way of addressing concerns of limited capital and dependence on donor support to the industry is by promoting linkage banking where microfinance institutions not only maintain accounts with commercial banks but also access funds from their respective commercial banks for on lending.

Before I conclude, allow me to mention one area of concern not only to the microfinance sector, but the entire financial sector in general, and that is money laundering. In the absence of effective cooperation among the various players in the financial sector, there will be no realistic change of defeating or significantly curbing money laundering. It is therefore imperative that the microfinance sector becomes more alert and report suspected cases of money laundering to the Anti-Money Laundering Investigations Unit for corrective action. Money laundering, if left unchecked can erode the integrity of our financial system.

**Ladies and Gentlemen**, in conclusion I wish to state that the Bank of Zambia is committed to the development of a robust financial sector in Zambia, and I would therefore like in this particular instance, to call upon the microfinance industry to play its role effectively by expanding its outreach so that more poor people can have access to financial services.

I implore you to discuss issues openly and now declare this 8th Annual General Meeting of AMIZ officially opened.

Thank you and God bless you.