

## **Denny Kalyalya: Regulatory framework for microfinance institutions in Zambia**

Keynote address by Dr Denny Kalyalya, Deputy Governor - Operations of the Bank of Zambia at the 2nd AFRACA Microfinance Forum, Lusaka, 3 and 4 April 2003.

\* \* \*

Honorable Deputy Minister of Finance and National Planning, The Secretary General of the African Rural and Agricultural Credit Association (AFRACA),

The Chairperson,

The Honorable Member of Parliament and Chairperson for Economic Affairs - Labour,

Members of the Diplomatic Corps,

Your Excellencies,

Representatives of International Organisations,

Distinguished Invited Guests,

Ladies and Gentlemen,

It is a great honour for me to be given this opportunity to address this important workshop and share a few words with you this morning. I therefore wish to sincerely thank AFRACA and Micro Bankers Trust, the organizers of this workshop, for extending this invitation to me.

Ladies and Gentlemen,

AFRACA's decision to host this workshop in Lusaka has come at an important time for us when, as a country, we are working towards finalisation of the development of a regulatory framework for microfinance institutions in Zambia, with a view to foster balanced growth in our financial sector. Our staff will therefore listen extra attentively to the deliberations of this workshop so that we get as much information and ideas as possible to assist us in this very important exercise. It is also our hope that, you, the participants, will share your views and experiences freely at this workshop. I have noted from the programme, with excitement, that in addition to the presentation on the Process of Product Development by Microsave, there will be several presentations on the experiences of different institutions from various countries. In this regard, it is our sincere hope that these experiences will not only provide a rich learning ground to upcoming microfinance institutions to enable them establish themselves in the market, but also that these experiences will enable established microfinance institutions to consolidate their positions in the market.

Invited Guests, Ladies and Gentlemen,

As you may all be aware the microfinance industry has emerged to meet the financial needs of people who have had limited or no access to the traditional sources of credit and other financial services. Lack of credit facilities, rural and agricultural finance is one of the major contributing factors to the poverty of this rather large segment of our populations. Microfinance institutions are and can be efficient and effective channels for mobilizing savings, credit, in-country remittances, and insurance services to lower-income people, particularly in those areas where traditional financial services are hardly there or do not exist. Microfinance is also increasingly being seen as an effective tool for poverty reduction. Moreover, when microfinance is provided in an environment where there are sufficient alternatives for diversified household income generation, and where access to information, appropriate physical infrastructure, and integrity in loan repayments are present, can be and it is a key success factor in reducing poverty.

Ladies and Gentlemen,

Looking back through history, one of the best-known microfinance success stories is perhaps the Grameen Bank of Bangladesh. Its success may be expressed in terms of its staying power and that it has offered to help disadvantaged groups to enable them meet basic needs. This has been attributed mainly to its concentration on lending to women groups.

Around the world, various Grameen models have been replicated, especially in South America. Within Africa, microfinance organizations have emerged in Bukina Fasso, the Gambia, Ghana, Kenya,

Malawi, South Africa, Tanzania, Uganda, and Zimbabwe, to mention a few. However, what appears to be the common factor in all these areas is the lack of adequate supervision for the sector.

In the Zambian case, the principal financial legislation, the Banking and Financial Services Act of 1994 (BFSA) did not provide for the regulation and supervision of microfinance organizations until the 2000 amendment.

Chairperson, Ladies and Gentlemen,

In most developing and transitional countries, microfinance institutions are using field-based “best practices” that have emerged from many years of world-wide experience in providing credit and savings to lower-income groups. However, best practices alone cannot guarantee the success of microfinance programmes in the absence of an appropriate legal and regulatory framework. Practitioners and policy makers worldwide now realize that without appropriate regulatory and supervisory framework, support from commercial banks and appropriate infrastructure, most microfinance services will continue to be donor-dependant and will remain limited in outreach.

Ladies and Gentlemen,

Since I have been given the floor I now wish to take this opportunity to briefly share with you the Zambian experience with regard to the microfinance market.

Despite its land-based wealth, Zambia faces very significant development challenges. The rapid structural adjustment process that took place during the 1990s has had a harsh impact on our people, with the result that poverty is now widespread in our country.

Currently, a significant number of the 10 million or so Zambians strive for survival on far less than one US dollar a day and like in many other African countries there are high HIV/AIDS rates and indebtedness which have contributed to persistent low economic performance. Thus, our government’s focus with assistance from cooperating partners has to increasingly be on poverty alleviation via income generation and micro enterprise stimulation, using small business development and microfinance as mechanisms to improve household standards.

Following the structural adjustment period, particularly from the early 1990s, affordable and publicly funded rural financial services have collapsed. A private microfinance movement, though still in its infancy, has had to emerge offering modern microfinance services. Today in Zambia we have an interesting blend of microfinance institutions that are private sector, for-profit firms, and non-profit, non-governmental organizations (NGOs). Although expansion is much slower in rural areas, growth is evident along the line of rails and the peri-urban areas of our country.

Invited Guests, Ladies and Gentlemen,

In 1999, a survey of the microfinance market in Zambia was conducted to determine the status of the microfinance market and its players, and the basis for establishing regulation and supervision of the industry. The survey revealed that although most microfinance institutions were exceptionally weak, they had the potential to grow as an industry and to provide sustainable financial services to the majority Zambians.

The results of the survey enabled us to recognize that appropriate legislation, regulation and supervision were essential to assist this young industry to grow and be able to find investors, expand and provide sustainable services to an increasing number of low-income groups. Accordingly, we have placed our focus on the establishment of a regulatory and supervisory framework that would encourage responsible growth and create a safe, sound, stable and efficient environment in which microfinance institutions can operate.

The regulation development process that we have adopted has been a regular system of consultations with stakeholders and various interested parties. We have managed to achieve this through public and focus group discussions and one-to-one meetings with key players in the market.

Further, we have also made consultations with supervisory bodies, practitioners and other stakeholders from other countries at various workshops as well as regional and international training forums. I am happy to note that some of the countries we have been sharing ideas with are represented at this forum.

I wish to acknowledge the valuable information and lessons that these different forums have provided to us in developing the regulatory and supervisory framework for microfinance in Zambia.

I therefore wish to urge all of you participants to take this workshop seriously and participate fully in the various activities that have been lined up.

Ladies and Gentlemen,

I now wish to conclude by informing you that we now have Draft Microfinance Regulations in place, which are being circulated to all stakeholders and interested parties for comments before they are finalized. These regulations can also be downloaded from the Bank of Zambia website: [www.boz.zm](http://www.boz.zm).

Finally, Chairperson, allow me to pay tribute to AFRACA and our co-host, Micro Bankers Trust, for bringing this workshop to our country. I therefore wish all the participants a very good stay in our country and I hope that you will all have a chance to visit our City of Lusaka.

Thank you.