

## Caleb M Fundanga: Increasing access to financial services in Zambia

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of National Savings and Credit Bank, Lukulu Branch, Lusaka, 27 May 2009.

\* \* \*

The Guest of Honour; the Honourable Minister of Finance and National Planning; Dr. Situmbeko Musokotwane, MP

The Honourable Minister for Western Province;

The Deputy Permanent Secretary for Western Province;

The Honourable Members of Parliament for Lukulu East and West;

The Acting Ngambela Imbua Imwaka representing the Barotse Royal Establishment;

The District Commissioners for Lukulu and Kaoma;

The Board and Management of National Savings and Credit Bank;

Distinguished invited guests;

Ladies and gentlemen.

1. On behalf of the Bank of Zambia Governor, I would like to thank the Board of Directors and Management of National Savings and Credit Bank for inviting us to the occasion of the opening of another rural branch in Zambia, this time in Lukulu.

2. National Savings and Credit Bank (also commonly referred to as NATSAVE) was established on 1 April 1972 by the National Savings and Credit Bank Act of 1972 and it commenced business operations in March 1973. The amendments to the Banking and Financial Services Act of 2000 extended the supervisory authority of the Bank of Zambia to NATSAVE which was until then, supervised by the Ministry of Finance and National Planning (MoFNP).

3. NATSAVE was set up to administer savings and to provide credit facilities in urban, peri-urban and rural areas to individuals and small business enterprises. Its business strategy is to target the low and medium income earners through the establishment of a sustainable network of outlets and by offering sustainable financial services. The Bank has continued to be a leading public vehicle in ensuring financial inclusion to all citizens across the country through the vast branch network. Currently, NATSAVE has 27 branches (including Lukulu branch), spread across the country.

4. **Honourable Ministers and Distinguished invited guests**, a key element in the strategy of poverty reduction is the provision of financial services to the majority of our people, the small and micro enterprises who have traditionally been neglected by the formal banking sector. NATSAVE's expansion program therefore has the potential to improve access to financial services and enhance competition in the financial sector. This improves financial services delivery to the Zambian people and brings more of the financially excluded population to the financial institutions. The Bank of Zambia views this development positively, particularly as recent trends indicate that many institutions in the financial sector are extending their branch networks.

5. However, it is important for financial service providers to complement branch expansion with increased product innovation. The ability to offer a broad range of products and services is the hallmark of financial sector deepening, as different types of products appeal to a wider range of clients, leading to enhanced access to financial services. The Bank of Zambia, as a regulator, is determined to facilitate viable branch expansion, and the introduction of new and innovative financial products, to tap savings and channel these savings to investment. The BoZ will therefore continue to work in close collaboration with the financial sector to cultivate partnership in order to establish the framework necessary for building strong institutions that will mitigate risks and build confidence in the sector.

6. As at 30th April 2009, NATSAVE held customer deposits in excess of K135 billion with a loan portfolio of K92 billion and served over 120,000 clients. NATSAVE has also endeavoured to introduce various products such as marketeer and pensioner accounts (specific savings products for people in these categories), as well as loan products such as individual loans, salary loans and money transfer services. The development in Lukulu therefore offers some hope that rural areas, and especially the agricultural sector, may eventually be offered attractive financial products.

7. Notwithstanding this, allow me now to reflect on some of the key challenges in the financial sector that all of us must strive to address:

- (i) Increasing access to financial services by the small and micro entrepreneurs who form the backbone of the economy. This sector provides employment for many people who cannot be absorbed into formal employment; increased access to financial services remains a key challenge to this segment.
- (ii) The BoZ took a step towards regulating microfinance institutions (MFIs) in 2006 because these institutions can help in narrowing the access gap in the delivery of financial services. So far, 21 MFIs have been licensed but most of these operate along the line of rail providing mainly salary-backed loans. More institutions are still needed to increase outreach and deliver financial services in a safe, sound and sustainable manner;
- (iii) Zambia is predominantly an agricultural country, but lending to agriculture has been limited. The challenge therefore is to devise financial products that meet the requirements of the rural and predominantly agricultural areas while at the same time devising means of protecting the financial institutions from risks associated with agricultural lending.

8. Allow me to conclude my remarks by highlighting the need for banks and non-bank financial institutions to consider their customers and potential customers when determining the pricing of their products and services. The public continues to decry the high level of charges and interest rates for banking services and products.

9. The BoZ has previously and will continue to appeal to the financial sector to review their charges and to explore ways of enhancing efficiency in service delivery.

10. The majority of Zambians cannot afford the current banking charges and are effectively shut out of the financial system. More affordable banking services will draw in a larger number of Zambians to the financial system, which will in turn be beneficial to the development of the banking system and the economy at large.

11. According to a market knowledge study called the 'FinScope Demand – Side Survey' which was conducted in 2005 to review the inclusiveness of the Zambian financial system, two thirds (or 66.3%) of the Zambian adult population do not have access to financial services and only one third (or 33.7%) use banks, other formal and informal financial services and products (such as those offered by microfinance and savings clubs). Furthermore, only 15% of the adult population access commercial bank services. A huge market therefore exists to tap if transaction costs are reduced.

12. Finally, Honourable Guest of Honour, let me congratulate NATSAVE for its participation in addressing the issue of increased access to financial services for the people of Lukulu despite the challenges of physical access and resultant higher transaction costs.

I thank you.