

Caleb M Fundanga: Improving the savings culture of Zambians

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official launch of CETZAM's "Tusunge" Savings Product, Lusaka, 8 July 2011.

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The Board Chairperson of CETZAM Financial Services Limited, Mr Frederick Nduna;

Members of the Board of CETZAM Financial Services Limited;

The Chief Executive Officer of CETZAM Financial Services, Mr Dyson Mandivenga;

Chief Executive Officers and Representatives of various organisations present;

Distinguished Invited Guests;

Members of the Press;

Ladies and Gentlemen.

Let me begin by thanking the Board of Directors and Management of CETZAM Financial Services Limited (CETZAM) for inviting me to this occasion, which marks the official launch of the "Tusunge" Savings Product. May I commend the Management of CETZAM for their foresight in developing this new savings product, which will go a long way towards inculcating a savings culture and enhancing financial inclusion within our financial sector.

As a financial sector regulator, the Bank of Zambia is pleased to be associated with the achievements of the institutions we regulate, particularly where these developments lead to increased access to financial services for the Zambian public. This is what CETZAM is doing this morning. CETZAM's focus to introduce innovative products is adequate testimony of its commitment to serve the financial needs of the Zambian people.

I am informed that one of the key objectives of CETZAM Financial Services Limited is to provide sustainable microfinance services to the economically disadvantaged citizens of Zambia. In so doing it targets the entrepreneurial poor, the majority of whom are women. I also know that CETZAM was licensed by the Bank of Zambia as a deposit-taking MFI on the 3rd of October 2008. Today, CETZAM has 5 branches in Lusaka, Livingstone, Ndola, Kitwe and Chingola while 9 satellite offices have been set up in the provinces to serve its rural clients.

Mr. Chairman, The Bank of Zambia is particularly encouraged by CETZAM's role as an active lender to the Small and Medium Enterprise (SME) sector, which is a growth sector in Zambia's economy. It is also gratifying to note that the company currently has about 8,000 active clients with a repayment rate of over 90%.

Distinguished invited guests, an important element for financial service providers is to endeavour to keep their customers satisfied by offering superior but affordable products and delivering excellent service. The ability to offer diverse products appealing to a wider range of clients leads to enhanced access to financial services. The Bank of Zambia is determined to facilitate the introduction of new and innovative financial products, to tap savings and facilitate the interface between savings and investment. The Bank of Zambia will, therefore, continue to work in close collaboration with the financial sector to cultivate partnerships in order to establish the framework necessary for building strong institutions that will mitigate risks and build confidence in the sector.

Mr. Chairman, as you are aware, Zambia's economy has continued to grow underpinned by growth in various sectors including Agriculture which has recorded significant increase in output of maize in 2009 and 2010. It is also worth noting that a large portion of the Zambian population depends on agriculture for its livelihood, yet lending to agriculture has been limited. The challenge, therefore, is to devise financial products that meet the requirements

of the rural and pre-dominantly agricultural areas while at the same time devising means of “ring fencing” the financial institutions from risks associated with agricultural lending.

However, I am pleased that the improved performance in the agricultural as well as other sectors of the economy is expected to continue, which will invariably translate into higher incomes in Zambia. Potentially, the scope for savings both in the formal and informal sectors is expected to improve; hence, products such as the one CETZAM is launching today are likely to capture this potential.

Furthermore, I am reliably informed that the “Tusunge” Savings Product offers a cheaper option of funding for CETZAM which undoubtedly should trigger a reduction in the cost of credit. The product has a minimum deposit balance of K20,000, unlimited withdrawals, no withdrawal charges and an interest rate of 6 percent per annum. The product is specifically targeted at the informal sector and SMEs. People in the informal sector and SMEs who hitherto were unable to open savings accounts with banks due to high minimum deposits and service charges should find the “Tusunge” Savings Product attractive.

Ladies and Gentlemen, in the face of an ever growing fear of donor fatigue, public deposits and private capital are likely to be the main source of funding for the microfinance industry to achieve the growth required for it to have significant impact on financial inclusion and poverty reduction across the region.

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 SME’s who form the backbone of the economy. This sector provides employment for many people who cannot be absorbed into formal employment. However, increased access to financial services remains a key challenge to this segment.
- (ii) Although the Bank of Zambia has licensed 25 Microfinance Institutions, most of them operate along the line of rail providing mainly salary-backed loans. There is need for microfinance institutions to support production by providing finance to agriculture and manufacturing instead of merely providing consumption related salary backed loans.
- (iii) There is need for all microfinance institutions to utilise the credit reference bureau at all times. A robust credit reporting apparatus will enable the financial sector to share critical customer information that will lead to lowering the credit risk and ultimately lending rates in the financial sector.

In conclusion, allow me to reiterate the Bank of Zambia’s concerns with regard to high lending rates being charged by financial institutions, especially Microfinance Institutions, which are inhibiting the expansion of credit. I acknowledge that some financial institutions have begun to lower their interest rates but I am certain that there is room to do more. The continued lowering of lending rates by Microfinance Institutions will not only stimulate our economy but also reduce non-performing loans in the industry as low lending rates reduce the risk of default.

I am informed that CETZAM’s interest rates range from 48% to 72% per annum. I have also been informed that CETZAM introduced an agricultural loan product for rural areas and last year lowered the interest rate from 60% to 48% per annum. It is my sincere hope that CETZAM will further reduce lending interest rates to these clients that they are targeting for savings deposits.

The Bank of Zambia undertakes to continue pursuing policies that will drive financial innovation, build strong financial institutions and partnerships to ensure a stable financial sector in the country. It goes without saying that strong financial institutions can weather shocks more easily and thus contribute to Zambia’s economic growth.

Finally, Ladies and Gentlemen, I wish to take this opportunity to once again congratulate and commend the Management of CETZAM for introducing this new savings product, which is expected to improve the savings culture of the ordinary Zambians in the community. I am hopeful it will be a successful product.

With these remarks, it is now my singular honour and privilege to declare CETZAM's "Tusunge" Savings Product officially launched.

I thank you for your attention.