

Bwalya K E Ng'andu: Improving access to finance by the SMEs in Zambia

Remarks by Dr Bwalya K E Ng'andu, Deputy Governor (Operations) of the Bank of Zambia, at the Signing Ceremony for a credit line of US\$ 5 million between NORFUND and BancABC Zambia, Lusaka, 1 December 2011.

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YOUR EXCELLENCY, THE NORWEGIAN AMBASSADOR, MR ARVE OFSTAD;
MEMBERS OF THE DIPLOMATIC CORPS PRESENT;
THE CHAIRMAN OF BANCABC ZAMBIA LIMITED, MR. CHANDA CHILESHE;
THE MANAGING DIRECTOR OF BANCABC, MR. DANA BOTHA;
HEAD OF THE NORFUND SOUTHERN AFRICAN OFFICE, Mr. DEEPAK MALIK;
DISTINGUISHED INVITED GUESTS;
MEMBERS OF THE PRESS;
LADIES AND GENTLEMEN.

Let me begin by thanking BancABC for inviting me to be the guest of honour at this very important event, where we will witness the signing of a credit line worth US \$5 million between BancABC and the Norwegian Investment Fund for Developing Countries (NORFUND). It is pleasing to know that the credit line to be signed this morning is specifically tailored to provide financial support to Small and Medium scale enterprises (SMEs). The development of the SME sector and its potential to contribute to aggregate productivity growth, economic growth and development have been stifled by the generally limited access to finance.

The credit line to be signed today is an important milestone in improving access to finance by the SMEs in the country. Equally as important as access to finance is the price of financing that is placed at the disposal of SMEs. The general trend in the market has been to charge SMEs with high interest rates relative to the large scale corporate sector because of the perceived high risk they are supposed to present.

Distinguished Invited Guests, my view is that this presumed high risk profile associated with SMEs can be effectively managed by banks if they make the necessary effort to understand the sector and build expertise in dealing with its unique characteristics. I trust that you will double up your effort in building the expertise necessary for your bank to be a major lender to the SME sector.

The issue of interest rates is of particular concern to us at the central bank. In response to the current situation, the Bank of Zambia recently took measures aimed at facilitating the reduction in commercial banks' lending rates with the view to increasing access to credit by private individuals and business entities. Some progress has been made in this area and we are monitoring the situation in the market to ensure that borrowers are enjoying a reduction in their effective lending rates. We do not want the reduction in the base lending rates to be cosmetic, but should be reflected in lower effective lending rates for measures taken so far to be meaningful. Furthermore, with the reduction in the corporate tax rate for banks recently announced by the Minister of Finance in his 2012 Budget, the expectation is for a further reduction in lending rates by commercial banks going forward.

Ladies and Gentlemen, This initiative is positive and both BancABC and NORFUND should be highly commended for it. As a financing institution, I am aware that NORFUND financing rates are favourable. I want to encourage BancABC to pass the benefit of getting money at

favourable NORFUND rates to the final borrowers so that the SME sector will experience the full benefit of this relationship. I wish to end by wishing BancABC the best and success in growing a successful SME lending portfolio.

I THANK YOU...