

Michael Gondwe: Encouraging local content and business linkages – role of the financial sector

Opening remarks by Dr Michael Gondwe, Governor of the Bank of Zambia, at the 2013 SME Local Content and Business Linkage Forum, Lusaka, 28 November 2013.

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- ***The Guest of Honour, Minister of Finance, Honourable Alexander B. Chikwanda, MP;***
- ***The World Bank Country Director, Ms Kundhavi Kadiresan;***
- ***Senior Government Officials and Development Partners present;***
- ***Heads and Representatives of Financial Institutions;***
- ***Business Industry and Associations represented;***
- ***Distinguished Invited Guests;***
- ***Members of the Press;***
- ***Ladies and Gentlemen.***

On behalf of the Bank of Zambia and indeed on my own behalf, I wish to extend a very warm welcome to you all to this very important Forum. Some of you may recall that in June last year, together with the World Bank, we organised a strategic forum for small and medium enterprises (SME) on the “***role of finance for unleashing the potential of local Zambian businesses***”.

The objective of that Forum was to facilitate strategic policy dialogue between the Government, Bank of Zambia, the financial sector and the private sector on issues central to facilitating access to finance by Zambian businesses including SMEs. As Bank of Zambia, we believe that it is important to sustain this dialogue to facilitate an inclusive strategy in the financial sector development.

Guest of Honour

Following on the success of the 2012 Forum, it was felt that the momentum gained from that forum should not be lost. This Forum is, therefore, a follow up event from the one held last year. The theme of this year’s event is “***Encouraging Local Content and Business Linkages: Role of the Financial Sector***”

Arising from last year’s event, nine major recommendations were made as follows:

- i. Set up of a credit guarantee facility;
- ii. Establish a credit line to be provided by a wholesale institution such as DBZ coupled with training for financial institutions;
- iii. Training for MSMEs/financial education to be an integral part of on-going efforts to support access to finance;
- iv. Establish a central collateral registry;
- v. Develop a national MSMEs financing policy;
- vi. Initiate legal reforms for speedy settlement of commercial transactions and resolution of disputes;
- vii. Develop incentives for financial institutions that service the needs of MSMEs;

- viii. Develop a legal framework for consumer protection and data protection; and
- ix. Monitoring and regulation of Money lenders.

I am happy to report that **seven** out of the nine proposals made have been progressed with the other two still under discussions.

The Government and World Bank are already in negotiations for a financing arrangement that may incorporate a form of guarantee scheme and financial education elements while DBZ has been recapitalized and has disbursed some funding through other financial institutions. A legal framework for consumer protection as well as possible incentives have already been taken account of through adequate provisions in the revised Banking and Financial Services Act which is under Government consideration for possible legislation in 2014.

Guest of Honour

We all agree that one of the major barriers to growth of the SME sector in Zambia is the shortage of financing despite its high potential to catalyze growth and employment creation.

It therefore makes business sense that the financial sector should start to look at the financing problems for SMEs in a holistic manner which takes into consideration other developmental constraints which may impede sustainable growth and render the financing ineffective.

In line with Government's desire to enhance local content through SMEs and use of locally-manufactured inputs in the Zambian mining industry, a study in the mining sector is being under taken by the Zambia Local Content Initiative (ZMLCI) facilitated by the World Bank and co-financed by DFID. The goal is to build sustainable collaboration between SMEs and the mining industry.

It is our hope that the above initiative will be extended to non-mining related SMEs such as those in agribusiness, tourism and retail.

Honourable Minister

You may wish to note the following topics that will be discussed during this forum:

- i. SME Financing and Business Linkages, IFC Experiences in Africa;
- ii. SME Financing and Experiences and Lessons Learned – AfDB;
- iii. Promoting Business Linkages in Zambia – DFID Zambia; and
- iv. SME Financing and Business Linkages in Zambia – Focus Financial Services.

Further, the programme will include panel discussions on policy recommendations and an interactive session.

The discussion panel will, among others, cover policy issues and outline some possible recommendations for action.

Chairperson

As I conclude, allow me to thank the presenters and panelists for accepting to facilitate our deliberations at this Forum. I urge all delegates to engage fully in these discussions so that we can collectively develop pragmatic solutions to the financing challenges facing Zambian businesses.

Thank you for listening.