



BANK of ZAMBIA

REMARKS BY THE GOVERNOR OF THE BANK OF ZAMBIA

CALEB M FUNDANGA

**AT THE OFFICIAL LAUNCH OF THE TRANSPARENT PRICING
INITIATIVE IN ZAMBIA**

6 June 2011

Southern Sun Ridgeway Hotel, Lusaka

- **The Vice President, Global Programs Microfinance Transparency, Ms Alexandra Fiorillo;**
 - **The President of the Association of Microfinance Institutions of Zambia (AMIZ), Dr. George Mulombo;**
 - **Executive Secretary of Association of Microfinance institutions of Zambia, Mr Webby Mate;**
 - **Chief Executives and Representatives of Microfinance Institutions;**
 - **Colleagues from Bank of Zambia;**
 - **Distinguished Invited Guests;**
 - **Members of the Press;**
 - **Ladies and Gentlemen**
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I would like to thank MicroFinance Transparency and the Association of Microfinance Institutions of Zambia for inviting me to officiate at this important workshop on **Transparent Pricing**. I also wish to welcome our visitors from outside the country. I hope you will enjoy the wonderful Zambian weather.

Madam Vice President, the importance of microfinance to an economy cannot be over-emphasised. The provision of financial services to the majority of people and the small and medium enterprises who have traditionally been excluded from the formal banking sector is a key element to poverty reduction and economic development.

Mr President, as you are aware, in Zambia, the recent FinScope Survey confirmed that levels of access to financial services continue to be low with only 37.3% of Zambia's adult population reported to have access to a financial services. The survey however showed that the number of people accessing microfinance was on the increase. The role that microfinance institutions play in financial inclusion is therefore very crucial.

Over the years, the microfinance institutions in Zambia have played a significant part in the provision of financial services, particularly for low-income households. Although access to finance remains low, microfinance institutions have had a somewhat positive impact on the economic activity of low income households, in both urban and rural areas. I am hopeful that the microfinance sector will continue to bridge the financing gap especially to the unserved population.

However, the Bank of Zambia continues to receive a number of customer complaints on the high cost of micro loans in the country. It has been observed that the interest rates charged by some institutions exceeded 300% per annum in some cases. Furthermore, in most instances the effective rate of interest and other charges are not disclosed to the customers resulting in them paying much more than what was initially publicised to them. This has raised ethical questions regarding transparency and the role of microfinance institutions in poverty alleviation and economic development in Zambia.

In addition, although, the interest rates of microfinance loans may vary significantly relative to the duration and size of the loan, it is incumbent upon all microfinance institutions to provide clear information on the cost of the loans and options available. It is also important for institutions to sensitise customers on what products may best suit their incomes and to educate them to borrow prudently. It is therefore, imperative that all institutions provide the price of their loans in terms of the Annual Percentage Rate rather than a monthly percentage. In this way, transparency is enhanced and consumers would have a clear picture of precisely how much they need to borrow relative to their income levels. This would result in responsible lending and a more competitive and transparent microfinance industry.

It is in this regard that the initiative on transparent pricing for the microfinance sector in Zambia could not have come at a more opportune time. I am informed that the Transparent Pricing initiative will offer training on transparent pricing and collect and publish data on the prices of microloans offered in Zambia. This initiative will complement the Bank of Zambia's effort of enhancing transparency through the quarterly publication of financial charges, fees and commissions for accounts and other general services and transactions applied by financial service providers.

In addition, the workshop has come at a time when the Bank of Zambia is conducting a study on "How Microfinance Institutions Determine Lending Interest Rates in Zambia". The deliberations from this workshop will be of great benefit to the Bank and will provide valuable insights into the factors affecting interest rates in Zambia.

Distinguished Ladies and Gentlemen, one of the reasons advanced by microfinance institutions to explain the high interest rates charged for their services in the past has been the high risk of default and lack of credit information on the borrowers. However, with the credit reference bureau now operational, to which I believe most of these institutions subscribe and access credit information on their borrowers, it is expected that the levels of delinquencies that the sector used to suffer through the non-repayment of loans by customers would decline.

I therefore, implore all microfinance institutions to comply with the Bank of Zambia Directive of December 2008 regarding the use of the credit reference system and

submission of credit data. I must emphasise that regulatory action will be taken against defaulting institutions.

As I conclude, allow me to further urge microfinance and other financial institutions to continue revising their interest rates and charges in tandem with the movements in key macroeconomic indicators such as inflation. I am conscious to the fact that all microfinance institutions are in business and are therefore expected to make profits. However, making super profits at the expense of the poor and vulnerable is regressive to economic development. There is a need to make financial services more affordable to the majority of our people as well as small enterprises in order to expand their operations, employ more people, and thereby provide an impetus to significantly reduce poverty levels in the country.

Let me, once again, extend my gratitude to MicroFinance Transparency and the Association of Microfinance Institutions of Zambia for inviting me to officiate at this launch of the Transparent Pricing Initiative in Zambia.

It is now my honour and privilege to declare the workshop on Transparent Pricing officially opened.

I thank you for your attention.