CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Managment, Extractives and Human Development.

TODAYS TOPIC

ASSESSMENT OF THE BANK OF ZAMBIA ZMW10 BILLION COVID-19 STIMULUS PACKAGE (PART 2)

Reflecting on the performance assessment of the Bank of Zambia zmw10 billion Covid-19 stimulus package – part 2

IN LAST week's opinion piece, I introduced the Bank of Zambia (BOZ) Targeted Medium Term Refinancing Facility (TMTRF) which was instituted to provide funds to targeted sectors which include Agriculture, Manufacturing, Energy, and Tourism. Last week, I highlighted the overarching finding from a study that was conducted by the Centre for Trade Policy and Development (CTPD) with support from Action Aid Zambia. Our study assessed the roll-out of this Facility and examined the effectiveness of the transmission mechanism of funds under the Facility. We sort to spotlight the factors that explain the rate of uptake of funds by the target beneficiaries. This week, I delve into specific findings and advance the key recommendations from this study.

Our results showed that out of the ZMW10 billion that was available under the TMTRF, about ZMW 9 billion worth of applications were received by BOZ over the period from April 2020 to March 2021. Of this amount, about ZMW 8 billion worth of applications were approved but only about ZMW 4 billion had been disbursed to the financial service providers (FSPs) for onward lending to the target beneficiaries by March 2021.

The disaggregation of the total approved amounts between priority and non-priority sectors was found to be almost even, with 56 percent going to priority sectors and 44 percent available for non-priority sectors. Despite a high approval rate of 88 percent, only 53 percent, translating into about ZMW 4 billion had been drawn down by the respective FSPs for onward lending to the target sectors.

In terms of the spread of funds within target sectors, most beneficiaries fell under the 'individuals and/or households' category. All the priority sectors, except agriculture, remained under-represented in terms of the proportion number of beneficiaries as they had a percent share of representation below average. The targeting and transmission of funds from FSPs to ultimate beneficiaries under the TMTRF did not do much to ensure a fair spread of beneficiaries in priority sectors.

Inherent structural issues such as lack of appetite to lend to SMEs on account of the general credit risk associated with lending to the sub-sector, and the heightened credit risk premised on the prevailing macroeconomic environment more generally, underpinned FSP's low appetite to draw more funds from the TMTRF. As a result, TMTRF funds were skewed more towards the refinancing of existing loans at the expense of generating new ones. FSPs' requests to draw down funds from total approved amounts were largely driven by demand for credit from their clients, implying that, if none of the priority sectors approached a particular FSP for a loan on this facility, the transmission essentially broke down.

Based on the perceptions of the FSPs interviewed, the TMTRF had helped to augment their liquidity levels amidst the Covid-19 pandemic. Most of the FSPs (71 percent) interviewed were 'very satisfied with the roll-out of the Facility. Reasons given for this included "the low interest on the TMTRF had helped reduce the cost of funds, thereby reducing interest payments for ultimate customers, and disbursement of funds took less than three days upon request."

At the time of the study, the Bank of Zambia had made some changes to the Terms and Conditions of the TMTRF in response to the underlying challenges. This included introduction of the offer validity period increased initial borrowing allowance and expansion of the list of eligible collateral.

To complement these and other measures put in place to improve the effectiveness of the TMTRF, our study made the following recommendations:

i) Consider increasing the tenor of the Facility for the Non-Bank Financial Service Providers, especially those that provide long-term funding.

ii) Consider relaxing some of the collateral requirements. Specifically, BOZ should consider relaxing the 'haircuts' applicable on some of the collateral classes such as those that involve performing loans with perfected security.

iii) While the rate of approval of applications is high, the turn-around time could be reduced to within a month or less for the larger part.

iv) Speed up the exploring of initiatives for credit risk sharing between BOZ and FSPs for funds under the TMTRF to incentivize FSP's lending appetite.

v) If the goal is inducing liquidity among FSPs, then the TMTRF achieves it with minimum adjustments to the current implementation framework. However, if the objective stretches beyond liquidity for FSPs to ensuring that funds reach priority sectors that have the potential to stimulate growth, then further interventions towards the integration of local players in priority sectors are needed. Deliberate efforts to stimulate demand for the funds by the 'right people through undertaking robust information dissemination programmes is a good starting point.

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