



BRIEF ON THE 2025 PUBLIC BODIES EXTERNAL BORROWING PLAN

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1. INTRODUCTION

The 2025 Public Bodies External Borrowing Plan (EBP) was prepared to facilitate the external borrowing of two public bodies, namely Zambia National Building Society (ZNBS) and Zambia Industrial Commercial Bank (ZICB).

The EBP was presented to the National Assembly in accordance with Section 23 of the Public Debt Management Act, 2022 (PDMA), which requires all external loans by public bodies to be approved by the National Assembly, along with the Annual Borrowing Plan (ABP). Following its submission, the EBP was referred to the Planning and Budgeting Committee for detailed scrutiny, in line with Order 175 of the National Assembly Standing Orders, 2024.

The 2025 EBP is the first of its kind since the enactment of the PDMA. As one of the reforms aimed at enhancing debt sustainability, the approval of the EBP is an essential control designed to ensure that public bodies have the capacity to service debts without relying on the Treasury.

This brief has been prepared for the Planning and Budgeting Committee as part of the Parliamentary Budget Office's mandate to provide technical support to Members of Parliament.

2. ANALYSIS OF THE BORROWING PLAN

This section gives details on the objectives of the borrowing, the mandates of the two institutions, alignment with the Eighth National Development Plan (8NDP), and anticipated impact.

2.1 Objective of the Borrowing

ZNBS plans to borrow United States Dollar (USD) 35 million to provide affordable housing loans to Zambians, addressing the housing demand by influencing mortgage rates and expanding homeownership. Meanwhile, ZICB aims to borrow USD 30 million to support Small and Medium Enterprises (SMEs) and small-scale farmers. Table 1 below summarises the terms of the two loans.

Table 1: Terms of Proposed External Financing

Institution	Amount	Purpose	Loan Tenor	Grace Period	Interest Rate	Security
Zambia National Building Society (ZNBS)	USD 35 million	Affordable mortgage financing for Zambians	Up to 15 years	Up to 5 years	Fixed, up to 21.5% on Kwacha equivalent	ZNBS balance sheet
Zambia Industrial Commercial Bank (ZICB)	USD 30 million	Financing for SMEs and small-scale farmers	Up to 7 years	Up to 2 years	Not more than 8% on USD	ZICB balance sheet

Source: 2025 Public Bodies External Borrowing Plan

Despite the loans being characterised by grace periods of up to 2 years (ZICB) and 5 years (ZNBS), they are not accompanied by a grant or a grant element of at least 35 percent, essentially fitting the description of non-concessional borrowing.

2.2 Mandate of the Zambia National Building Society

ZNBS was established by the Government of the Republic of Zambia on 24th December 1970, under the Building Societies Act of 1968. The Society was formed with the mandate to mobilise financial resources for investment in mortgages, with the aim of increasing the country's housing stock. In addition to property financing, ZNBS also provides banking services nationwide. The Society also leases office space to individuals and companies, primarily in properties along the line of rail. The Society is 100 percent owned by the Ministry of Finance and National Planning¹. It is regulated by the Building Societies Act, Cap 412, and the Banking and Financial Services Act, 2017.

2.3 Mandate of the Zambia Industrial Commercial Bank Limited

ZICB was incorporated on 31st August 2017 and opened to the public on 1st August, 2018. The Bank was created with the vision to contribute to Zambia's economic development, focusing on the industrialisation and commercialisation of local business enterprises. The Bank is 100 percent locally owned, with key shareholders including the National Pension Scheme Authority (NAPSA) through its investment company, NAPSA Investment Holding Limited (NAPSA-IH), which owns 64.27 percent; the Industrial Development Corporation Limited (IDC), holding 30.21 percent; and the Workers' Compensation Fund Control Board, holding 4.74 percent². Other minority shareholders hold a combined 0.77 percent. The Bank is regulated by the Banking and Financial Services Act, 2017.

2.4 Alignment with the Eighth National Development Plan

The linkage of the borrowing to the 8NDP is discussed below.

i. Economic Transformation and Job Creation

The 8NDP prioritises economic transformation and job creation, particularly through the support of SMEs and private sector growth. In line with this, ZICB's proposed borrowing supports the 8NDP's goal of promoting enterprise development and job creation by making more affordable capital available for SMEs, enabling them to expand their operations and generate employment opportunities.

¹[Zambia National Building Society \(znbs.co.zm\)](http://znbs.co.zm)

² 2023 ZICB Annual Report

ii. Affordable Housing

ZNBS's proposed borrowing aimed at supporting mortgage financing, will facilitate affordable housing for Zambians. This initiative aligns with the 8NDP's emphasis on improving livelihoods by increasing access to essential services such as housing.

iii. Financial Inclusion

The 8NDP places a strong focus on enhancing citizen participation in the economy and promoting financial inclusion. ZICB's support for SMEs and ZNBS's affordable mortgage financing directly contribute to these objectives by making financial resources more accessible to underserved groups such as SMEs, youth, and lower-income citizens.

2.5 Anticipated Impact of the Borrowing

The impact of the borrowing by the two institutions is detailed below.

a) SME Financing

According to the MSME Finance Survey Report, SMEs in Zambia face several challenges in accessing credit, primarily due to high interest rates, lack of collateral, and low-income levels³. Government borrowing has also, to some extent, crowded out private sector credit, further limiting access. ZICB's initiative aims to alleviate these constraints by offering loans at more affordable rates, helping SMEs expand and enhance productivity. Key impacts are set out hereunder.

Increased Access to Affordable Credit: ZICB's external borrowing, at interest rates not exceeding 8 percent on its United States Dollar loan, has the potential to lower borrowing costs for SMEs. It is indicated that the onward lending rate to SMEs is projected to be 28 percent. In the absence of this source of finance, ZICB's lending rate to SMEs would be approximately 35 percent.

Boosting SME Growth and Job Creation: SMEs play a critical role in Zambia's economy but often face capital constraints. By offering more affordable financing, ZICB will promote SME expansion, creating jobs, particularly for women and youth, in line with the 8NDP's job creation objectives.

Stimulating Enterprise Development: Reduced borrowing costs and improved access to credit are expected to drive business growth and innovation, enabling SMEs to overcome challenges such as limited working capital and slow growth.

³ Bank of Zambia 2022 MSME Finance Survey Report

b) Housing Market

Zambia faces a housing deficit exceeding 1.5 million units, projected to reach 3.3 million by 2030. With only 40 percent of the 73,000 annual housing units produced meeting minimum health and sanitation standards, the country falls far short of the 220,000 homes needed annually to address the backlog⁴. Additionally, high mortgage rates, often above 20 percent with the average interest rate at 24.5 percent (31st March, 2024), have made homeownership unattainable for many Zambians. ZNBS's plan to borrow USD 35 million aims to address these challenges as explained below.

Improving Housing Affordability: ZNBS's affordable mortgage financing will lower the cost of home financing, enabling more Zambians to access loans for home purchases or construction. Offering long-term loans at fixed rates could reduce the overall cost of housing finance.

Increasing Home Ownership: The gap between housing demand and supply is especially acute in urban areas. Rural areas equally face these challenges as evidenced by the shortage of decent housing for public service workers that were recruited in the education and health sectors. By promoting affordable mortgages, ZNBS could significantly increase home ownership among middle- and low-income earners, supporting the 8NDP's goal of improving living standards.

Driving Housing Construction and Employment: Increased mortgage lending is expected to spur growth in the construction sector, a major employer in Zambia. This will contribute to job creation and economic growth, particularly in urban areas where housing shortages are severe.

2.5.1 Possible Limitations

Despite the external borrowing being well intended, its positive impact may be limited by several factors, as summarised below.

Qualification to access credit – Well-structured financing arrangements, which ensure that the risk of non-payment is managed, are often met with resistance due to the belief that government-linked credit facilities should be accessible to everyone. Strict adherence to qualification criteria may result in these facilities being underutilised.

Geographical spread of ZNBS and ZICB – Access to the credit facilities made available through the borrowing requires both ZNBS and ZICB to have a reasonable presence across the country. While ZNBS has a presence in all ten provinces, in some areas, such as Luapula, Northern, Muchinga, North-Western, and Western Provinces, its presence is only at the provincial level. ZICB, despite the Purchase and Assumption Transaction with respect to Investrust Bank, has a branch network concentrated in Lusaka, Copperbelt, Southern, Central, Eastern, and potentially North-Western Provinces.

⁴ Habitat for Humanity Zambia Market Research Report

3. CREDIT RISK ASSESMENT

This section details the credit risk assessment of the two institutions.

1. Zambia National Building Society

ZNBS' credit risk assessment highlights a stable financial position with strong profitability, capital adequacy, and manageable leverage, as set out below.

a) Profitability and Asset Utilisation

The consistent rise in net income indicates improved profitability and strengthens ZNBS's capacity to service new debt obligations as shown in Table 2.

Table 2: Profitability and Asset Utilisation

Metric	2021	2022	2023
Net Income (K'000)	116,313	185,869	199,477
Return on Assets (ROA)	5.1%	7.0%	6.9%
Return on Equity (ROE)	16.7%	21.7%	19.4%

Source: ZNBS Audited Financial Statements

Return on Assets (ROA) has remained steady over the past three years. This indicates that ZNBS is effectively generating earnings from its assets, which contributes positively to its financial stability and supports its ability to handle additional debt obligations.

Similarly, Return on Equity (ROE) has been positive, despite a marginal reduction from 21.7 percent in 2022 to 19.4 percent in 2023. This stable ROE reflects consistent shareholder value growth and demonstrates ZNBS's capacity to generate returns from equity.

b) Capital Adequacy

ZNBS exhibits a robust Capital Adequacy Ratio (CAR) consistently above the regulatory benchmark of 10 percent in the period 2021 to 2023 as shown in Table 3 below. As of the end of the 2023 financial year, CAR stood at 46 percent, although this represents a reduction from the 49 percent recorded in 2021. This high CAR enhances its capability to absorb market shocks.

Table 3: Capital Adequacy

Metric	2021	2022	2023	Regulatory Benchmark
Capital Adequacy Ratio (CAR)	49%	49%	46%	10%

Source: ZNBS Audited Financial Statements

c) Leverage and Financial Stability

ZNBS's Debt-to-Equity ratio has been decreasing over the last three years, moving from 2.3 in 2021 to 2.1 in 2022, and further down to 1.8 in 2023. This trend suggests a reduced dependency on debt financing, lowering its exposure to debt-servicing risks. However, the proposed borrowing is likely to increase this ratio, increasing ZNBS's dependency on debt financing as opposed to equity.

Table 4: Leverage and Financial Stability

Metric	2021	2022	2023
Debt to Equity Ratio	2.3	2.1	1.8

Source: ZNBS Audited Financial Statements

d) Non-Performing Loans

The Non-Performing Loans(NPL) ratio has consistently been below the regulatory threshold of 10 percent in the period 2021 to 2023 indicating a good quality loan book.

Metric	2021	2022	2023
Non-performing Loans	5.8%	4.9%	4.7%

Source: ZNBS Audited Financial Statements

2. Zambia Industrial Commercial Bank

ZICB has shown improved profitability with rising net income and better asset and equity utilisation, but low ROA and ROE suggest modest profitability, while the declining CAR, increasing debt-to-equity ratio, and a high NPL ratio raise concerns about growing leverage and the Bank's capacity to manage additional debt.

a) Profitability and Asset Utilisation

Net income has improved significantly, moving from a loss of K11.4 million in 2021 to a profit of K18.8 million in 2023. ROA and ROE have also improved, indicating that ZICB is increasingly utilising its assets and equity to generate profits. However, the relatively low ROA and ROE figures in 2023 (1 percent and 6 percent, respectively) suggest that profitability remains modest and has room for further improvement.

Table 5: Profitability and Asset Utilisation

Metric	2021	2022	2023
Net Income	(11,371)	12,993	18,762
Return on Assets (ROA)	0.2%	1.0%	1.0%
Return on Equity (ROE)	1.0%	4.0%	6.0%

Source: ZICB Audited Financial Statements

b) Capital Adequacy

ZICB's CAR has been declining from 81 percent in 2021 to 41 percent in 2023, although it remains significantly above the regulatory benchmark of 10 percent. While still strong, this trend suggests a reduction in the capital buffer available to absorb potential losses. The decline in CAR may be due to increased risk-weighted assets or insufficient capital growth, which requires monitoring, particularly in view of the further proposed borrowing.

Table 6: Capital Adequacy

Metric	2021	2022	2023
Capital Adequacy Ratio (CAR)	81%	76%	41%

Source: ZICB Audited Financial Statements

c) Leverage and Financial Stability

The Debt-to-Equity ratio has risen sharply from 2.2 in 2021 to 6.4 in 2023, indicating a significant increase in debt levels relative to equity. This trend reflects higher leverage and raises concerns about ZICB's ability to manage its growing debt obligations effectively. The Bank's increasing reliance on debt financing poses a higher risk, particularly if profitability does not grow at a faster rate.

Table 7: Leverage and Financial Stability

Metric	2021	2022	2023
Debt-to-Equity Ratio	2.2	5.1	6.4

Source: ZICB Audited Financial Statements

d) Non-performing Loans

Despite falling marginally below the regulatory threshold of 10 percent, ZICB has a high NPL ratio, indicating elevated default rates and weak credit risk management.

Table 8: Non-performing Loans

Metric	2021	2022	2023
Non-performing Loans	13%	7%	9%

Source: ZICB Audited Financial Statements

Other Potential Risks

There are other potential risks connected to the intended external borrowing specifically credit concentration and foreign exchange risks.

i. Credit Concentration Risk

As of end-December 2023, ZICB's credit risk concentration was highest towards investment securities, particularly Government securities at 51 percent, followed by loans and advances to

the manufacturing and wholesale sectors at 31 percent and 13 percent, respectively. Loans to individuals were the least concentrated at 6 percent. A high exposure to the manufacturing sector increases default risk, particularly during macroeconomic headwinds such as the current energy crisis.

Regarding ZNBS's exposure to credit concentration risk, as of end-December 2023, 42.6 percent of its credit was concentrated in banking loans and advances, whereas mortgages and Government securities amounted to 22.6 percent and 22.8 percent, respectively. Other asset types collectively made-up 12 percent of credit concentration. Despite significant credit concentration in mortgages, the Society obtains collateral for all mortgages, minimising exposure to credit concentration risk.

ii. Foreign Exchange Risk

The proposed external borrowing in foreign currency by ZICB and ZNBS will increase both institutions' exposure to foreign currency risk, underscoring the need to hedge both monetary assets and liabilities to limit foreign exchange losses.

4. CORPORATE GOVERNANCE

Effective governance is critical in mitigating risks associated with external borrowing. PBO analysis findings indicate that both ZICB and ZNBS have implemented several corporate governance reforms in line with the Banking and Financial Services – Corporate Governance Directives of 2016, subsequently amended in 2017. These include the following:

- i. appointment of a Board of Directors tasked with the approval and oversight of the strategic objectives;
- ii. composition of the Board that accounts for a balance of skills, knowledge, and relevant experience; and
- iii. establishment of board committees, namely the Audit Committee, Risk Management Committee, Loans Committee, and Nominations and Remunerations Committee.

Furthermore, the two institutions comply with the provisions of Section 265 of the Companies Act, 2017, which mandates the preparation of audited financial statements within three months following the end of the financial year.

Notwithstanding the above, it is crucial for ZICB and ZNBS to enhance oversight and internal controls around large external borrowing to avoid the mismanagement of funds and suboptimal investment decisions, thereby increasing the institutions' credit risk profiles.

5. POTENTIAL FISCAL AND MACROECONOMIC IMPLICATIONS

Set out hereunder are the potential fiscal and macroeconomic implications of the proposed external financing.

a) Pressure on Fiscal Space

Zambia's fiscal deficit, projected to be 6.7 percent of GDP by the end of 2024, remains a significant constraint on the Government's ability to fund public services and development projects. Although external borrowing by State-Owned Enterprises (SOEs) like ZICB and ZNBS is intended to be repaid without recourse to the Treasury, the loans can still assume contingent liability status by virtue of them having been contracted by SOEs, potentially reducing fiscal space for other priorities under the 8NDP.

b) Increased External Debt Servicing Obligations

Despite ZICB and ZNBS's intention to repay their loans, the external nature of the debt will add to Zambia's foreign currency obligations. Given Zambia's history of external debt challenges, including Eurobond repayments and reduced foreign exchange reserves, servicing these loans could place additional strain on reserves, especially if the Kwacha depreciates further.

c) Stimulating Economic Growth

If managed effectively, the borrowing by ZNBS and ZICB could positively impact Zambia's economic growth by improving access to affordable housing and SME financing. SMEs are key drivers of economic growth and job creation, while increased mortgage lending is expected to stimulate the construction sector, creating jobs, and increasing household wealth through homeownership. Additionally, these initiatives could boost productivity in sectors like manufacturing, agriculture, and construction, contributing to economic diversification beyond mining, especially copper exports.

6. CONCLUSION

The 2025 Public Bodies EBP presents an opportunity to stimulate economic growth through targeted financing for housing and SMEs. With ZNBS focusing on affordable mortgage financing and ZICB supporting SMEs and small-scale farmers, the plan aligns well with the aspirations of the 8NDP. However, the non-concessional nature of the loans and potential macroeconomic risks, such as the crystallization of contingent liabilities, require careful management.