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*Bank of Zambia's autonomy amidst political turnovers in Zambia**

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Abstract

This working paper analyses the role of Zambia's central bank, the Bank of Zambia (BOZ), in delivering on its mandate, following banking reforms in the early 1990s. Despite occasional political pressures arising out of the competitive clientelist democracy, especially with regards to banking supervision and appointments of governors, BOZ has been able to deliver on its mandate and is regarded as a 'pocket of effectiveness'. Its relatively independent position has been attributed to the conscious efforts of its top echelon to entrench BOZ's autonomous position and work towards legislative independence in 2016. Besides changes in the legislative framework, BOZ's countervailing powers were strengthened by the acknowledgement on the part of political leaders that the central bank acts as an important 'signaller' to international financial markets; a strong tradition of self-assessment; and an emphasis on public accountability. Historically, the BOZ governor plays an important role in defending BOZ's mandate vis-à-vis the Executive, with the ability to stress the necessity for BOZ to abide by international and regional central banking standards. BOZ's autonomy was briefly under threat in 2011. This transition coincided with a major political and ideological shift, which saw Patriotic Front (PF)'s short-lived attempt to confront conventional central banking policies. In this paper, BOZ's effectiveness is measured in terms of price and financial stability and organisational and leadership capacities, traced in the context of Zambia's changing political settlements.

Keywords: pocket of effectiveness, Zambia, central banking independence, political settlement, central bank governor

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1. Introduction

Zambia's central bank, the Bank of Zambia (BOZ), is widely regarded as one of the most professional economic institutions in the country, generally successful in fulfilling its primary mandate of maintaining price and financial system stability.[2] It is generally hailed as having a highly educated and well paid workforce, and adhering to a strict discipline in terms of work ethic and performance, particularly when compared to other government institutions.[3] During the 1990s, it transformed from an institution that served to support a state-led, command economy under a one-party political dispensation to a 'modern' central bank, in line with international standards and Zambia's liberalised economy, under the guidance of the International Monetary Fund (IMF).

In this paper, we explain how BOZ has managed to remain independent and effective in fulfilling its mandate, despite the pressures arising from a competitive democracy. This goes against the understanding that a competitive clientelist democracy undermines the coherency and consistency of bureaucratic decision-making (Khan 2010), and points to the fact that there are other factors at play that sustain BOZ's professionalism. The prospects for an institution to emerge as a PoE are shaped by organisational factors, namely: the scope and clarity of its mandate; the strength and political linkages of its leadership; and its internal culture and cohesiveness (Grindle 2012; Roll 2014). Transnational actors[4] and regional epistemic communities are other identified players in supporting PoEs. An underlying proposition is that PoEs are more likely to emerge in relation to core state functions (Hickey 2019, 39). BOZ's steadiness is especially striking when compared to other economic institutions, like the Ministry of Finance and Zambia Revenue Authority, whose functioning was undermined (Hinfelaar and Sichone 2019).

As we will set out, BOZ's performance relies significantly on the legal autonomy/independence which insulates the institutions from intervention. It is also protected by the mere fact that BOZ fulfils an important position as a 'signaller' to the international capital markets (Barton, 2016), especially in the persona and capabilities of the governor. A governor can be especially impactful when having the ability to be a technopol; that is, someone with 'the

[2] Based on expert interviews carried out from 2017 to 2018. We utilise Michael Roll's (2014) definition of bureaucratic effectiveness, namely: 1. Relative effectiveness. 2. Capacity to deliver nationally. 3. Delivery in line with human rights and laws, in the sense of not using illegal means or violating human rights particularly in relation to law enforcement. 4. Persists for at least five years.
[3] Based on findings from an expert survey held in 2017-2018.
[4] Multilateral and bilateral cooperating partners, private (commercial) corporations and creditors.

capacity of possessing both the technical and political resources required to drive forward certain policy and organisational agendas' (Hickey, 2019). BOZ's functioning is further reinforced by the need to adhere to international banking standards set by IMF and Basel I and II,[5] as well as by regional bodies like the Southern African Development Community (SADC) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEMFI).

Judging from the expert surveys and the objective indicators on financial and price stability, we find that from 2001 to 2019, BOZ is effective in fulfilling its primary mandate. While BOZ's mandate on price and financial stability was largely maintained from 2001 to 2019, its price stability and banking regulation mandate was at its weakest between 1995 and 2000, when Zambia experienced high inflation and the largest number of banking regulation slippages, which led to a large number of bank closures and the firing of the BOZ governor. From 2011, BOZ has come under increased political and ideological pressure, but unlike the other economic institutions, BOZ has been able to pursue its policies.

The paper is based on 20 interviews, including with the current governor, former and current BOZ senior officials, a former economic advisor at State House, a corporate lawyer, Ministry of Finance policy advisors, officials from economic thinktanks, financial consultants, economists from University of Zambia, and a former ambassador, coupled with participant observation by one of the authors who over the past decade has frequently interacted with BOZ.[6] Other sources of information and data include BOZ's various publications (annual reports, BOZ Reader), unpublished BOZ data, which BOZ generously shared with the authors, as well as scholarly publications by others.

After providing setting out the indicators of Bank of Zambia's performance in terms of price and financial stability in Section 2, we turn our attention to BOZ's historical and organisational setting in Section 3. In Section 4, we narrate the distinct episodes of BOZ's performance traced within the political settlement context. This in turn assists us to provide an analysis of the role of political settlement, leadership, organisational capacities and external conditions in Section 5. We then conclude in Section 6.

[5] Basel I is a set of international banking regulations put forth by the Basel Committee on Bank Supervision. It sets out the minimum capital requirements of financial institutions with the aim of minimizing credit risk. Basel II added credit risks of assets held by financial institutions.

[6] All informants wished to remain anonymous, given the sensitive political environment at the time of writing this paper.

2. Bank of Zambia’s performance

One of the aims of the post-1991 economic reforms was to secure the independence of the Bank of Zambia by means of structure and legislation. The 1965 Bank Act gave policy-making powers to the minister of finance, thereby constraining the governor, who was regarded as a technocrat professional head of the institution. This changed with the 1996 Bank Act, which, in the words of former BOZ Governor Jacob Mwanza, ‘provided more autonomy on matters of monetary policy, financial stability and macroeconomic policy (Mwanza, quoted in Bank of Zambia 2014: 93).

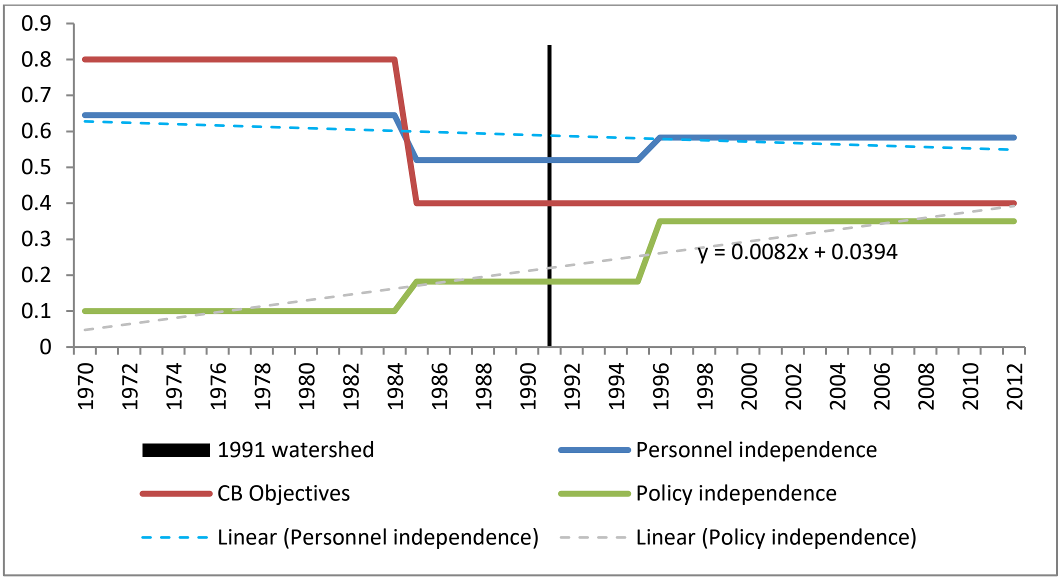
Entrenching this autonomy was a mission strongly pursued by the higher echelons in BOZ, which consisted of a close-knit group of economists who had a long-term connection with the University of Zambia, the Ministry of Finance and BOZ itself. It resulted in further operational independence in the Constitution (Amended) of 2016. Paradoxically, the increased independence came into play during a time of bureaucratic decline and political cadre-ism in all the other economic institutions. The fact that BOZ’s independence was gained without opposition came as a surprise to BOZ officials as well.[7,8]

BOZ’s self-described mandate is to achieve and maintain price and financial system stability in order to foster ‘sustainable economic development’.[9] In order for BOZ to fulfil this, it performs the following functions: ensures appropriate monetary policy formulation and implementation; acts as the fiscal agent of the government; licenses, regulates and supervises banks and financial service institutions registered under the Act to ensure a safe and sound financial system; and manages the banking, currency and payment systems operations of the Bank of Zambia to ensure the provision of efficient and effective service to commercial banks, government and other users. By fulfilling the above functions, BOZ acts as a disciplining force on government and commercial banks. Inevitably, this role inevitably creates tensions, as we will describe in more detail below.

In this section we utilise a series of objective performance indicators on BOZ autonomy and specific measures of financial and price stability to establish periods of high and low performance. In the next section, we then couple these insights with key informant interviews, to narrate BOZ performance under each governor, analysed within the relevant economic and political context.

[7] Interview, BOZ senior official, 24 December 2018.
[8] Since then, some attempts have been made to amend the Constitution, some of which touching on the power of BOZ.
[9] BOZ website.

Figure 1: Selected BOZ independence indicators



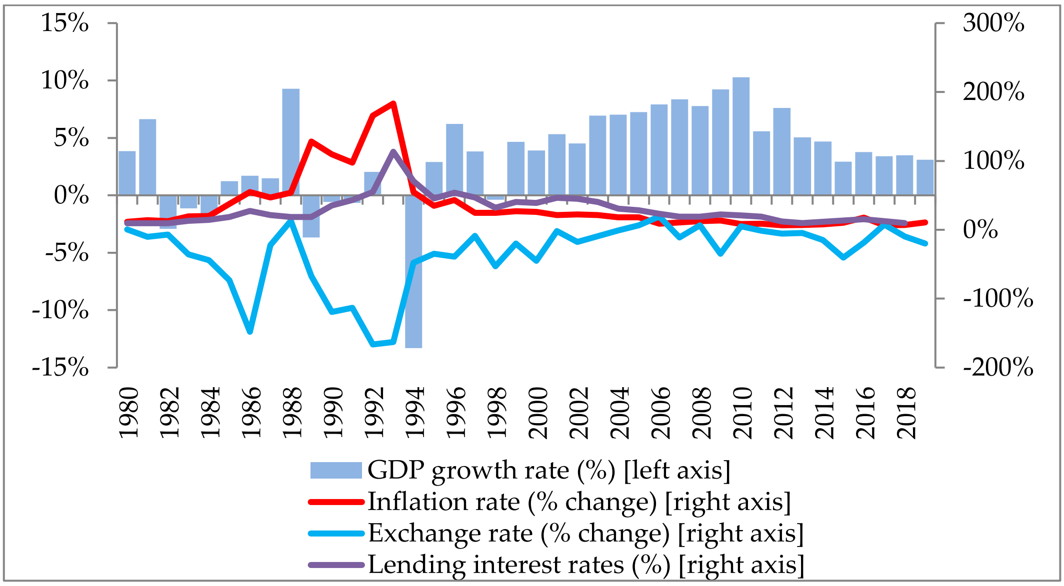
Source: constructed from Garriga (2016) data (accessed Oct 2019).

In general terms, we observe improved levels of autonomy soon after the post-1991 reforms ensued. Out of three indicators of central bank independence adapted from Garriga (2016), [10] BOZ's policy-making and implementation autonomy (Policy independence in Figure 1) and, to a lesser extent, the autonomy of the central bank's key personnel, including the governor (Personnel independence) saw marked one-off improvements in 1995-1996 and nothing thereafter; whereas independence in selecting the appropriate primary monetary policy (CB objectives) did not see any change (Figure 1). The post-1991 improvements are corroborate by several authors – Bigsten and Kayizzi-Mugerwa (2000); Rakner (2003), McPherson (2004a), McPherson (2004b), Bolnick (2004), Muhanga et al (2014), Chipimo (2014) and Mwape (2014) – who variously argue that the economic, social and political reforms of the early to mid-1990s included far-reaching public sector institutional and administrative reforms that were slow to start but took hold around 1994-1995. In particular, the early attempts at monetary policy and institutional reforms were not very successful until after 1993, when structured institutional reforms were introduced at BOZ.

Starting with BOZ's monetary policy functions, one of the indicators for capturing performance is annual inflation.

[10] Garriga (2016) constructs a comprehensive dataset on de jure central bank independence (CBI) for 1970-2012. The dataset identifies statutory reforms affecting CBI, their direction, and key attributes necessary to build the works of others, notably the Cukierman, Webb and Neyapty (CWN) index. The resulting CBI index reflects the level of central bank independence in 182 countries, Zambia included, between 1970 and 2012. Garriga (2016) codes the existence of reforms in 6,764 observations and computes the CWN index for 5,866 observations. As seen in Garriga (2016), the CBI variable is a useful input into studies on determinants and influences of monetary policy, liberalisation or diffusion, as well as in the study of political institutions, democratisation or responses to crises.

Figure 2: Inflation rate, exchange rate, interest rates and growth in Zambia, 1980-2019



Source: Constructed from World Bank WDI database (accessed Oct 2019).[11]

Based on the persistent application of conservative monetary (and fiscal) policies, the inflation rate, which had risen to a peak of 183 percent in 1993 gradually declined to 26 percent by 2000 (Figure 2). It is noteworthy that the inflation instability which had emerged in the late 1980s escalated post-liberalisation in the early-to-mid 1990s, partially because of the de-control of consumer prices as the then Prices and Income Commission was abolished under the structural adjustment policy. It would only fall to stable single-digit figures for the first time in 2010, when Zambia recorded a rate of 8.5 percent. The very high commercial lending interest rates and exchange rate volatility of the 1990s had also significantly dissipated by 2000, setting up a stable macroeconomic environment that allowed the establishment of sustained real GDP growth from 1999 onward.

As a minor digression, an interesting point of note is that Zambia's GDP growth in the 2000s was not as significantly associated with the global rebound in copper prices and the HIPC and MDRI debt relief of the mid-2000s, as most commentators have claimed. Zambia's period of sustained positive real GDP growth started in 1999, when the country recorded a growth rate of 4.7 percent. Over 1999-2004, the average growth rate was an impressive 5.4 percent per year and was at 7.0 percent in 2004 (Figure 2). In contrast, in 1999, when positive growth was re-established, copper prices on the London Metal Exchange were $1,573/tonne. They averaged $1,862/tonne per year over 1999-2004, compared $2,352/tonne per year during 1989-1998, implying markedly subdued global prices during the six-year GDP growth spurt. Essentially, robust GDP growth was established while the global copper industry was still in

[11] This was constructed from World Bank World Development Indicators (WDI) data (accessed October 2019). The BOZ data start around 1996, and do not go into the 1980s and early 1990s, so we miss the opportunity of showing the high price (inflation) and exchange rate instabilities in the later 1980s and early 1990s.

recession, with declining prices. Similarly, HIPC and MDRI debt relief were only secured in 2005 and 2006, respectively, so that the actual debt relief benefits in terms of fiscal and balance of payment space were only realised from 2006 onward and did not drive the GDP growth rebound of 1999.

Nonetheless, on the monetary and financial side, as central bank autonomy and then financial stability started to set in in the mid-1990s and early 2000s, respectively, signs of improved performance in relation to price stability eventually started to register, but took a considerably prolonged period to completely take hold.

Improvements in building and maintaining financial stability, particularly sound commercial bank performance, took rather longer to achieve and only came in in the late 1990s. The growing banking industry in the early years of reform in Zambia was led by Meridien BIAO,[12] a local bank established in 1984, which rapidly grew after liberalisation to become the third largest commercial bank by 1994, as measured by deposits and loans and advances (McPherson, 2004b). The events that would ultimately culminate in the closure of Meridien, particularly the *EuroMoney* article publication in September 1994, which questioned the viability of Meridien's corporate strategy and cast doubt on the bank's solvency, placed considerable strain on Zambia's financial system and significantly eroded confidence in BOZ's capacity to effectively supervise the commercial banks (McPherson, 2004b; Mwape, 2014). According to McPherson (2004b: 205): 'The subsequent failure of these [five local] smaller banks can be attributed (in part) to the knock-on effects of the MB [Meriden Bank] difficulties.' An upward trend in overall financial stability only established itself after the turn of the century around 2002, with financial stability improving by 6.7 percentage points per year on average on the financial development (FD) index[13] during 2000-2009 and by 5.1 percent per year during 2010-2017 compared to annual average declines (-2.7 percent and -3.0 percent, respectively) during 1980-1989 and 1990-1999 (Figure 3).

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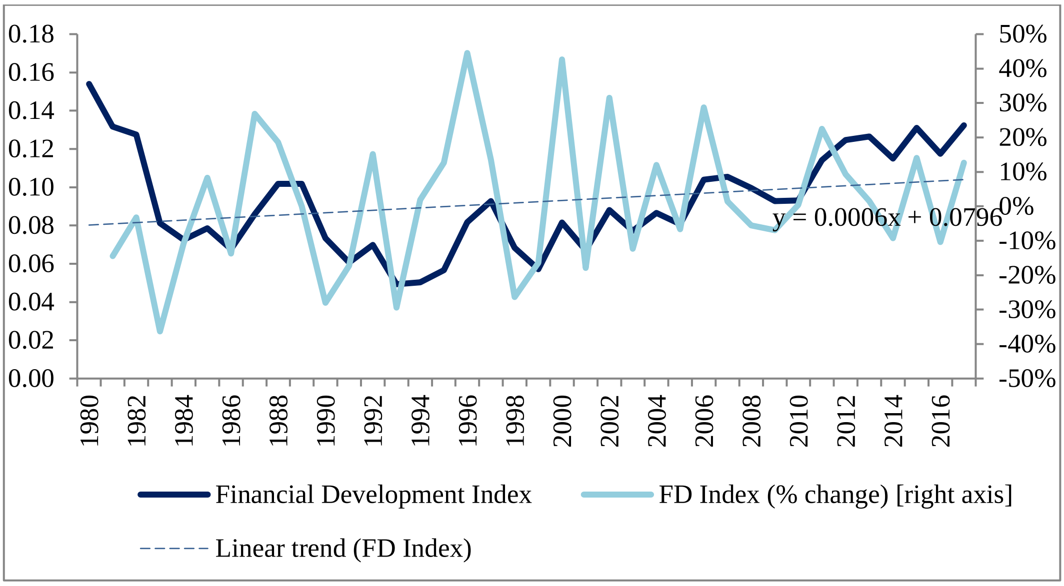
[12] The parent company for the African subsidiaries was Meridien BIAO, whose headquarters were in Luxembourg before being moved to Zambia in January 1995. The Zambian subsidiary was called Meridien BIAO Zambia (MBZ). MBZ is discussed here as a local bank because Meridien had its origins in Zambia.

[13] The FD index is constructed using a standard three-step approach found in the literature on reducing multidimensional data into one summary index. It aggregates three financial institution (FI) variables (financial institution depth; financial institution access; and financial institution efficiency) into one composite sub-index, the FI and three financial markets (FM) variables (financial markets depth; financial markets Access; and financial markets efficiency) into another composite sub-index, the FM. The FI and FM are then statistically combined into the composite FD index, which directly or positively measures the extent of financial development on a scale from 0-1 (Svirydzenka, 2016).

Figure 3: Financial stability in Zambia, 1980-2016



Source: https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B.

Resulting from the above, we come to the following periodisation:

➔1991-2001 *Weak performance*, high inflation and bank closures, in times of economic decline and high levels of corruption, but also the building of a strong economic team that became the foundation of BOZ.
➔2001-2011 *Strong performance*, both on price and financial stability, in times of economic growth and technocratic consensus on economic policies. Improvements in public relations and accountability mechanisms.
➔2011-2019 *Mixed performance.* Relatively weak BOZ leadership from 2011 to 2015 and pressures on BOZ policies (effects seen in 2015-2016), followed by strong leadership. But, overall, price and financial stability were maintained.

For more details on the periodisation and its indicators, see Annexes 2 and 3.

We now consider the historical development of the Bank of Zambia and how it connects to Zambia's evolving political settlements.

3. The Bank of Zambia in historical and organisational perspective

Central banking in Zambia started with the establishment of the Bank of Northern Rhodesia in 1938. The banking system had a southward bias, commercial banks were foreign-owned and had their head offices in [then] Salisbury and Johannesburg (Bank of Zambia, 2014: 6). During the time of Federation, 1953-1963, the Bank of Northern Rhodesia was a branch of the federal currency system, but became autonomous with the break-up of the Federation. Their lending practices were geared towards providing export finance to the foreign-owned mining companies and seasonal finance to commercial farmers. The Bank was heavily dominated by expatriate staff. After Independence in 1964, a Zambianisation process of human resources was put in place, as well as a banking policy that was aimed at serving the national interests. The

Bank of Zambia Act amendments (1964-1969) included provisions for granting loans and advances to government, supervision of banks, granting advances to banks against publicly issued treasury bills, and granting advances against promissory notes of commercial banks (ibid: 8). Financial policies consisted of three main strands: nationalisation of foreign financial institutions (in practice, this did not happen); establishment of government-owned bank (ZANACO) and development finance institutions (Development Bank of Zambia); and administrative controls over interest rates and, to a limited extent, loan allocation (Brownbridge, 1996: 3). The Act empowered BOZ as the sole authority of issuing legal tender currency and gave it powers to maintain internal and external valuing of currency (Chitempa, 2001: 58). The developmental function of BOZ was extended with the BOZ Act No. 24 of 1985, which provided for a credit guarantee scheme that obliged BOZ to establish a fund to serve as protection for financial institutions against losses incurred by them for advancing funds or granting loans to small-scale enterprises. Organisations that benefited from the credit guarantee scheme were: Small Industries Development Organisation (SIDO), Village Industry Services (VIS); and Small Enterprises Promotion (SEP). The scheme took into account that banks were reluctant to extend credit to entrepreneurs that could not provide adequate collateral (BOZ 2014: 61).

During the UNIP era, the level of wages and qualifications at BOZ was relatively low:

> 'The Bank was like a government department. When I joined [in the mid-1980s] there were only a minority of graduates. The conditions were better in government than BOZ at the time, so people moved from BOZ to the ministries. Qualifications at BOZ, many had high school or diplomas …The main programme for training was Institute for Bankers (diploma), but most did not go there.'[14]

One notable outcome of the structural adjustment programme initiated in the 1990s was a sharp reduction in the number of civil servants within government. At BOZ, the reforms not only led to a sharp reduction of numbers of staff members (from 1,400 in 1994 to 770 later that year (Bank of Zambia, 2014: 79)), it also contained a shift from the numerical dominance and power of BOZ clerical and human resource staff to the economists.

From 1991, Zambia's political settlement shifted dramatically. Politically, it transitioned from a one-party state to a competitive clientelist type of democracy. Economically, it marked a shift from a state-led economy to a neo-liberal economic order, in which economic institutions like BOZ had a newly defined role. Ideationally, the adherence to a World Bank-IMF led structural adjustment programme (SAP) led to the privatisation of the then state-owned manufacturing and mining companies and a host of other state assets. The national, government-owned ZANACO sold 49 percent of its shares to Rabobank (a Dutch cooperative bank) and a few other Zambian (agricultural) stakeholders. BOZ's role was now premised on the expectation that a liberal economy

[14] Interview, former BOZ senior official, 14 January 2019.

would open new opportunities for entrepreneurs to access finance. BOZ adapted well and turned into a resilient institution, whose organisational aspects we will now turn to.

3.1 BOZ organisation, professionalism and leadership

The Bank of Zambia is headed by a governor. The governor is also the chairperson of the BOZ board of directors, which services BOZ's overarching corporate governance structure. The board is established under the Constitution of Zambia (Amendment) Act, seeking to uphold good corporate governance – in particular, the accountability, transparency and integrity of BOZ's governance processes and Bank procedures. In line with the Constitution, the board is vested with all the powers of BOZ and is responsible for policy formulation. It has eight board members, including the governor/chairperson, six non-executive directors (not officials/non-employees of BOZ) who are appointed by the minister of finance from among persons with professional or academic experience in business or financial matters, and the secretary to the Treasury, an ex-officio member.[15]

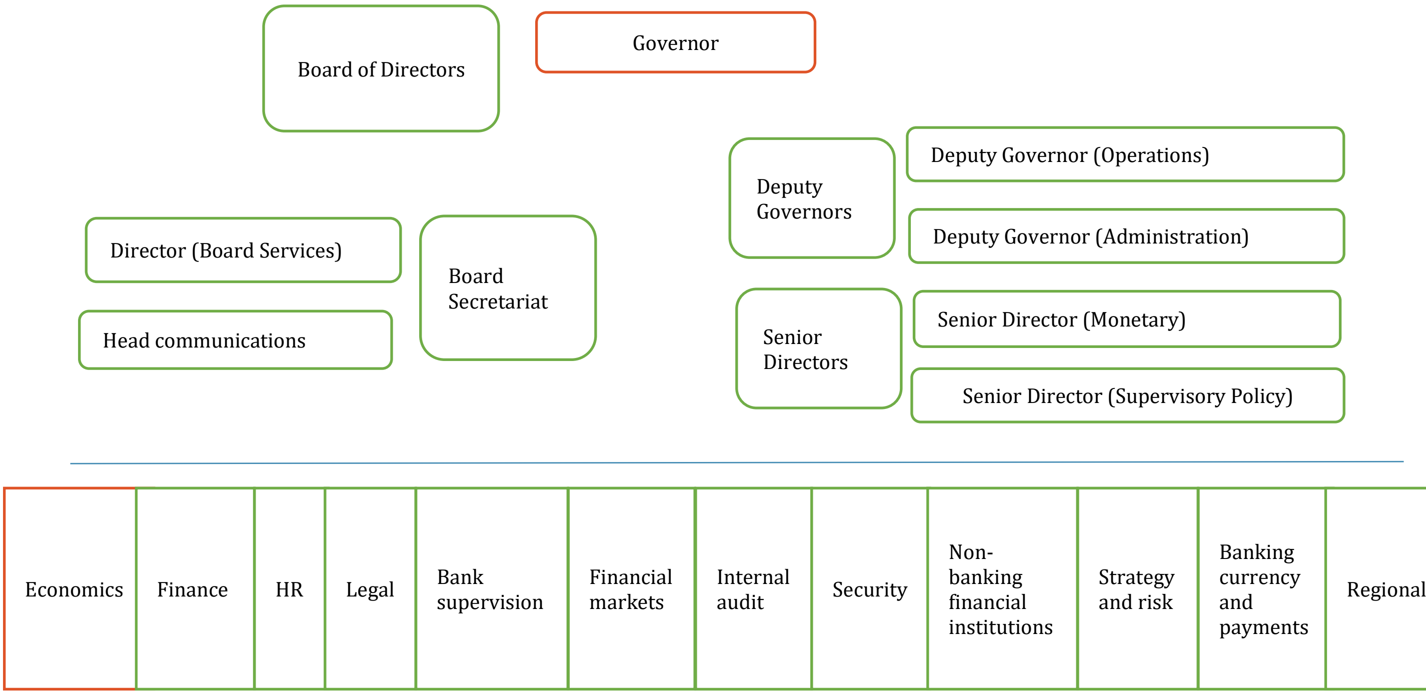
The board is the overall authority, in which all the powers of the bank are vested, but the ultimate reporting authority is the National Assembly, through the minister of finance as the 'mouthpiece.'[16] The BOZ Act (1996) gives BOZ a great amount of autonomy from the Ministry of Finance (MoF) in policy formulation, e.g. under Functions of the Bank: '4. (1) The Bank shall formulate and implement monetary and supervisory policies that will ensure the maintenance of price and financial systems stability so as to promote balanced macro-economic development'; while on Powers of the Minister: '5. The Minister may convey to the Governor such general or particular Government policies as may affect the conduct of the affairs of the Bank and the Bank shall implement or give effect to such policies'.

To facilitate consultations and enhance transparency in monetary policy communication, the BOZ board delegated the approval of the Bank's Monetary Policy Statements to the Monetary Policy Advisory Committee (MPC), also chaired by the BOZ governor. From a corporate governance perspective, the centrality of the governorship in BOZ – with the governor serving as chairperson of the board, chairperson of the MCP and head/CEO of the institution – creates a potential principal-agent dilemma in terms of possible conflicts in priorities of the governor as the main authorised agent of the board and governor as the head or chairperson of the principal board. As highlighted later, in terms of results on BOZ's effectiveness in fulfilling its main mandate, the principal-agent problem has not significantly come to bear for the organisation. However, the corporate governance risk of conflicting interests remains inherent, nonetheless. The current structure of BOZ is shown in Figure 4.

[15] https://www.boz.zm/about/board-of-directors.htm

[16] BOZ Act says: '9. (1) The Bank shall, in consultation with [not under the direction of] the Minister, within six months after the commencement of this Act, and at every six months interval thereafter publish in the Government Gazette a policy statement…' and '(2) The Minister shall within the first sitting of the National Assembly next after the receipt of the report referred to under this section lay it before the National Assembly'.

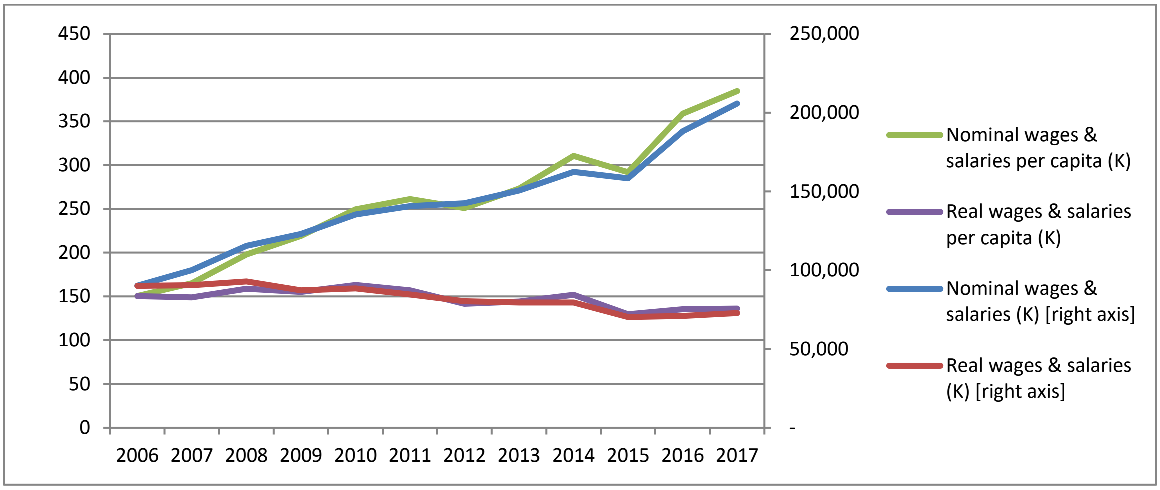
Figure 4: BOZ governance structure



Source: Bank of Zambia.

After the reforms of 1991 and particularly with the establishment of the BOZ Act of 1996, the wage levels at BOZ became highly favourable, as we can see from Figure 5. BOZ receives a statutory allocation from government and earns its income by investing foreign reserves in low-risk liquid assets on the international market. This not only gives BOZ a great degree of financial autonomy, but also the opportunity to give incentives to attract high-level human resources. BOZ further invests in its workforce by using programmes like capacity building, allowance for travel and meetings, bonuses, recognition, car loans, health services for the family, and workshops which attract allowances (i.e. 2016 agreement between BOZ and Zambia Financial Institution and Allied Workers). When BOZ became the highest paying public institution in the 2000s, the perks became topic of a heated debate in the media, parliament and Patriotic Front (PF)'s campaign, a point we address below.

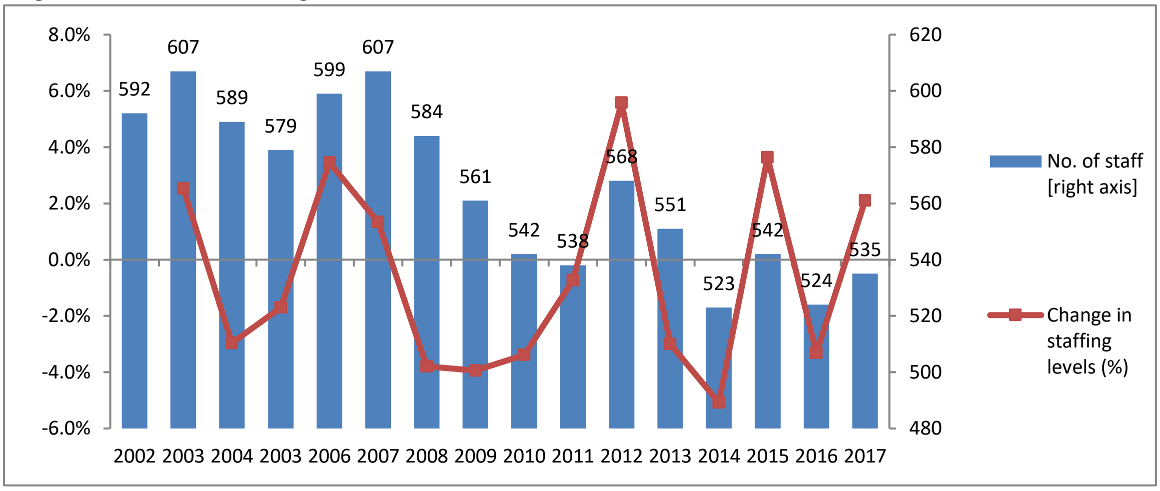
Figure 5: Total wages and salaries (K = Kwacha) 2006-2017



Source: BOZ annual reports 2006-2017(author's compilation).

Staffing levels at the institution remained relatively high compared to the average staffing level of 565 per year over the full period (2002-2017) (see Figure 6). In sharp contrast, the period 2009-2017 generally saw a consistent downsizing (negative changes in staffing levels), with evidence of intermittent upward pressures in the aftermath of elections (in 2012 and 2017, after the presidential and general elections in the respective previous years, and in 2015, which had a presidential by-election in January following the death of a sitting president, the late Michael Sata).

Figure 6: BOZ staffing levels 2004-2017



Source: BOZ annual reports 2004-2017(author's compilation).

Hiring at BOZ occurs through advertising in the public and private media and head-hunting. Potential employees are subjected to a rigorous assessment process that is seen to be reasonably transparent and fair.[17] However, there is nothing in the BOZ Act (1996) that prescribed the authorised staffing establishment. This possibly opens up BOZ to pressures of political favours and patronage, since political parties in power can put pressure on BOZ to increase the staffing establishment to accommodate new

[17] Interview with BOZ official, 25 March 2019.

hires as party favours. Another reason for understaffing and staff turnover is the high levels of secondment to other institutions (in particular, MoF), study leave and the lack of promotional opportunities for the young tier of BOZ staff.

Prior to the BOZ Act of 1996, the BOZ governorship was a pensionable job; thereafter it became a contract-based appointment of five years by the president, an appointment, which must be ratified by the National Assembly and which is renewable. The BOZ Act offers relatively more security of tenure in terms of the five-year renewable term of office. The BOZ governors typically come from various backgrounds, but in the history of the Bank, the majority were economists, as it is prescribed in the law that the governor must be 'a person with recognised professional qualifications and experience in financial and economic matters' (Bank of Zambia Act, cap.360, 1996, Section 10(1)). While in terms of the political settlement (PS) framework, one would expect more stability in terms of the length of BOZ governors' appointments in the context of a one-party era (long-term vision) as compared to competitive democracy (short-term vision because of competitive elections), in Zambia this was quite the opposite. The turnover was very high from 1964 to 1991 (Bank of Zambia 2014), with an average tenure per governor of 2.7 years, and slowed down thereafter. High turnover of governors under a dominant regime is rather surprising and can be attributed to a lack of legal protection of the governor, which only came into being in the 1996 Act, and Kaunda's habit of frequently rotating ministers and managing directors of state-owned enterprises.[18]

Table 1: BOZ governors (in reverse chronological order)

Name	In office
PF	
Denny Kalyalya	February 2015 to date
Michael M. Gondwe	December 2011 – January 2015
MMD	
Caleb Fundanga	March 2002 – September 2011
Jacob Mwanza	March 1995 – April 2002
Dominic Mulaisho	1992-1995
UNIP	
Jacques A Bussieres (UNIP/MMD)	1990-1992
Francis X Nkhoma	1987-1989
Leonard Chivuno	1986-1987
David A R Phiri	1984-1986
Bitwell R Kuwani	1981-1984
Luke Mwanashiku	1976-1981
Bitwell R Kuwani	1972-1976
Valentine S Musakanya	1970-1972
Justin B Zulu	1967-1970
H.C. Harret	1964-1967

Source: https://www.boz.zm/about/Governors.htm

[18] Both as a means of ethnic balancing, but also to prevent civil servants from growing a power base.

The average reign of BOZ governors improved after 1991, but was still partially determined by the executive power. After 1994 the required level of qualifications, including management experience, increased (for all CVs – see Bank of Zambia, 2014: 86-97). International experience with either regional or international banks became a prerequisite, as an important signal to the international financial world.

4. Bank of Zambia performance and autonomy over time: An overview

4.1 Instability in an era of radical economic reforms (1991-2001)

This early 1990s was characterised by the transformation of the Bank of Zambia from a government type of department to an autonomous and 'modern' central bank, in line with the new neo-liberal dispensation. This transition took place within the context of President Chiluba's reign (1991-2001). Movement for Multi-Party Democracy (MMD)'s initial broad ruling coalition of businesspeople, trade unionists, academics, etc. broke apart early on, leading to a fractious party. The initial strong political will to support economic reforms started to wane in the late 1990s, when MMD was confronted with a sharp decline in popularity and the rise of opposition parties.

In the 1990s, ahead of the multi-party elections, Kaunda negotiated with the Canadian government to provide a central banking expert to strengthen the underperforming BOZ. Jacques Bussieres, who became Zambia's governor in 1990 for a period of two years, was the former deputy governor of the Bank of Canada and had also worked as advisor in Bank of Canada's international affairs. He was considered an expert in reforms of central banks, both in developed and developing countries (Bank of Zambia, 2014: 89). In the words of a former BOZ director: '[Bussieres] tried to change the mentality to see what the primary role of a central bank was. To change BOZ from a pure administrative role to a new, more broad-based monetary policy-making and policy implementation role.'[19] He also helped shift the organisational focus in terms of human resources: 'he made people help to understand the role of the economists of the bank, who are the policy makers. That they are more important than the human resource person or accountant, who were previously powerful.'[20] Bussieres was succeeded by Dominic Mulaisho (1992-1995), who was a former special assistant (economic) to Kenneth Kaunda and managing director of ZIMCO (a mining parastatal), and then had a successful business career in the private sector. Mulaisho was a strong believer in liberal economic reforms. Mulaisho's reign was cut short, as he was fired by Chiluba after the collapse of Meridien Bank and an unexpected sharp currency decline in 1995.

Jacob Mwanza was appointed as the acting governor. At the time of his appointment, Mwanza was serving as the IMF senior advisor at the Ministry of Finance in Lusaka and was comfortable to delegate and implement the changes that were required.[21] Upon hearing of his imminent departure following a job offer in the region, Chiluba was asked to give Mwanza a contract that provided more security of tenure, which in turn

[19] Interview, former senior BOZ official, 24 January 2019.
[20] Interview, former BOZ senior official, 14 January 2019.
[21] Interviews, current and former BOZ officials.

established a precedent for Mwanza's successors.[22] Mwanza was very instrumental in reforms across BOZ and MoF. Mwanza took his position at BOZ at a time that demanded a rapid development of professional skills:

> 'The requirements of BFSA [The Banking and Financial Services Act, 1994] prompted the bank to step up recruitment of staff with requisite qualifications and provided professional training and attachments to reserve banks in the US, UK and Germany. With this development, the Bank had to improve its conditions of service in order to retain the trained staff' (Mwanza, quoted in BOZ 2014).

As the former vice-chancellor of the University of Zambia (UNZA), Mwanza attracted a group of talented UNZA economists, who to a large extent influenced the course of BOZ and MoF to date. These included Situmbeko Musokotwane (appointed under Bussieres), Caleb Fundanga and Danny Kalyalya.

4.1.1 Price stability

At the start of the banking reforms in 1991, BOZ was financing a large fiscal deficit, which led to consumer price inflation rate of 93 percent. Even though the fiscal deficit was reduced in the following year, inflation accelerated to 193 percent by the end of 1992 (Brownbridge 1996: 15). The MoF, through BOZ, used monetary aggregate targets[23] to keep inflation in check. While this framework continued to play a role in BOZ's monetary policies, it shifted its policy towards inflation targeting. Inflation targeting is a central banking policy that revolves around meeting preset, publicly displayed targets for the annual rate of inflation. In terms of price stability, Zambia managed to get inflation under control during the 1990s (below 50 percent that is), but food prices (57 percent of CPI index) remained volatile. Throughout the early 1990s, BOZ worked closely with MoF officials, in an attempt to control the situation. The working relation between BOZ and MoF was never formalised and largely depended on the relation between the governor and the respective minister of finance.[24] Looking at some of the limited impact of the reforms on price stability, some economists have argued that economic liberalisation was premature and too extreme in its execution, and that it should have been delayed until the fiscal deficit and monetary growth had been brought under control (Brownbridge 1996: 16). Based on the persistent application of conservative monetary (and fiscal) policies, the inflation rate, which had risen to a peak of 183 percent in 1993 gradually declined to 26 percent by 2000 (see Figure 2).

4.1.2 Financial stability

Political pressures played a more significant role when it came to BOZ's mandate regarding financial stability, i.e. banking supervision. While BOZ created the Financial System Supervision Department (FSSD) in 1974, it did not undertake any off-site

[22] Interview, governor, 6 December 2019.
[23] Money aggregates are broad categories that measure the money supply in an economy.
[24] Interview, governor, 6 December 2019.

analysis until 1992 (Mwape, 1997: 5). FSSD's activities mainly focused on checking compliance with foreign exchange controls, which had been the main concern of the pre-1991 economy.

This changed with the the enactment of the Banking and Financial Services Act, 1994 (BFSA), which gave BOZ legal powers to license, regulate and supervise commercial banks. The liberalisation of Zambia's economy by MMD, which made it easier to obtain a banking licence, led to a sharp increase in the number of banks, in a somewhat unregulated environment. And many, especially those with weaker control systems and limited liquidity, soon collapsed (see Table 3) amidst economic instability and relatively weak regulator supervision at the time in Zambia. Consequently, public trust in the private banking system was dealt a blow, as depositors, especially small-time depositors, suffered great losses. The mistrust of local banks led to a further dominance of foreign banks in Zambia, which remains a contentious issue with politicians.

Table 3: Failure of local banks, 1990-2000

Name of bank	*Opening/closure*
Meridien Bank	1984-1995
African Commercial Bank	Closed 1995
Commerce Bank	Closed 1995
Credit Africa Bank	1994-1997
Manifold Bank	1994-1997
Prudence Bank	1994-1997
First Merchant Bank	1994-1998
Chase Trust Bank	1995-1997
Union Bank Zambia Limited	Closed 2000

Source: Maimbo (2000: 2), with modifications.

These bank failures brought into question the ability of BOZ to diagnose the financial condition of banks or act promptly in effecting remedial measures for failing institutions (Maimbo, 2000: 1). BOZ subsequently encouraged banks to set up an interbank market, which enabled banks to seek market-based solutions to their liquidity problems (Jacob Mwanza, quoted in Bank of Zambia 2014: 93-94). With the support of the United Nations Development Programme (UNDP), BOZ also undertook a number of capacity-building activities to improve the efficiency of the financial system (Maimbo, 2000: 8). Besides training, BOZ also responded to these failures by prolifically issuing new banking regulations. Statutory instruments were issued for capital adequacy, insider loans, large loans, fixed assets, interest disclosure, classification and provisioning of loans. In addition to these legislative developments, the department continued to improve off-site supervisory and monitoring techniques. While BOZ struggled with the rapid development of the banking industry post-1991, MMD rapidly descended into corrupt practices, which led to political interference with BOZ's banking regulations. The saga around the Meridien BIAO Bank, Zambia's third largest commercial bank by

1994, became a political issue, with then Minister of Finance, Ronald Penza, playing a central role. While Meridien Bank was initially propped up, despite BOZ noting financial irregularities in February 2015, including insider lending and doctoring of financial data, after a major run on its deposits (World Bank 2004: 11), it was put under receivership. The consequences were far reaching and irreparably damaged MMD's reputation, both to business and donor communities:

> 'Apart from the economic repercussions and the set-back to the economic reform programme caused by the government bail-out, the political aspects of the government's handling of the 'Meridien Bank Saga' was possibly more damaging … Suspicion of "political logic" having guided the Meridien decision was expressed by most members of the business community' (Rakner 2003: 117).

The Economic Association of Zambia, who at the time of the bank closures stated that the Bank of Zambia needed to make independent decisions according to the dictates of the Banking and Financial Services Act, suggesting that the central bank was not adequately independent of the government in making its supervisory decisions (quoted in Maimbo, 2000). This was echoed by the Bankers' Association chairman and Barclays Bank managing director. Overall, we can see that BOZ's autonomy was not sufficiently safeguarded during the 1990s, which was mostly resolved in the second period under consideration.

4.2 Progress towards stability in an era of economic growth, 2001-2011

From 2002 to 2011, Caleb Fundanga governed BOZ. This was in an era in which strong professionals were heading Zambia's economic institutions. President Mwansawasa (2001-2008), President Chiluba's successor, looked for technocrats outside the confines of the ruling party, as he needed to rapidly (re)establish MMD's legitimacy after a very narrow and controversial win in 2001. Immediately after coming into office, Mwanawasa announced a so-called 'New Deal' government, which embarked on a high-profile anti-corruption campaign. The Minister of Finance Ng'andu Magande (2002-2008) and BOZ's Fundanga worked closely together to stabilise monetary headwinds by establishing a favourable financial system and a responsive monetary policy stance. Following economic growth from the early 2000s, and a boom in copper prices and debt relief from the mid-2000s onward, Zambia's economy stabilised in terms of fiscal deficit, inflation, economic growth and financial reserves. While Mwanawasa's economic team did not counter the dominant IMF orthodoxy, they agreed that the economic reforms in Zambia had been too hasty and had to be moderated (Magande 2018, and interviews). In terms of price and financial stability, this period was regarded as an improvement on the unstable environment of the 1990s. This is attributed to the prevailing economic circumstances, but also to the coherent leadership in State House and the close cooperation of the economic institutions.

Fundanga trained in Germany and the UK, he had a long career in academia (University of Zambia), then permanent secretary in MoF and head of economic affairs of Cabinet Office under UNIP, before embarking on an international career at AfDB. Under his leadership, BOZ became more outward-looking and accountable to the public, by publishing its annual reports and yearly research bulletin. BOZ also initiated the publication of newspaper adverts that contained a comparison of commercial bank rates.

In terms of internal functionality, according to a seasoned insider, Fundanga came with a strong determination to improve performance:

> 'He quickly wanted to see that everyone had a vision and a strategic plan for next five years and you had to show you made progress. Goal-driven era. He pushed everyone …. Performance appraisals, promotions became dependent on them. Qualifications, competence improved, outputs were appreciated. Research became important. His vision was very clear of what he wanted to achieve.'[25]

The then Minister of Finance, Magande, noted that Fundanga understood the complementary nature of Bank of Zambia office and the Ministry of Finance and that of fiscal and monetary policies in national development (Magande 2018: 300):

> 'I was uncomfortable with independent operations of the central bank, as the fiscal and monetary activities were still closely interrelated but inadequately coordinated. Zambia was still grappling with a hurriedly announced market economy after so many years of centrally planned socialist command economy. Government operations were inclined towards sector policy instruments, with no long-term planning' (ibid.).

Good relations with donors and IFIs also contributed to BOZ's effectiveness.[26] IMF and World Bank contributed to the development of the Financial Sector Assessment Programme (FSAP) and the first Financial Sector Development Plan (FSDP) in the early 2000s.

Eventually, the technocratic consensus was undercut by the political dynamics. MMD's fiscal prudency, and the failure to build a more inclusive economy, led to the rise of the Patriotic Front (PF), notably in urban areas. Discontent was aimed at BOZ as well, regarding high interest rates, (foreign) banking ownership and the high renumeration of the BOZ governor, all of which proved fertile topics for PF to build their support base. The technocratic alliance was also affected by the death of President Mwanawasa in 2008, which led to a power struggle within MMD. Magande, who stood against Rupiah Banda as presidential candidate, lost the battle and was fired as minister of finance.

[25] Interview, former senior BOZ official, 14 January 2019.
[26] Interview, former State House advisor, 18 November 2018.

Fundanga remained firmly in place, while Musokotwane became the minister of finance.

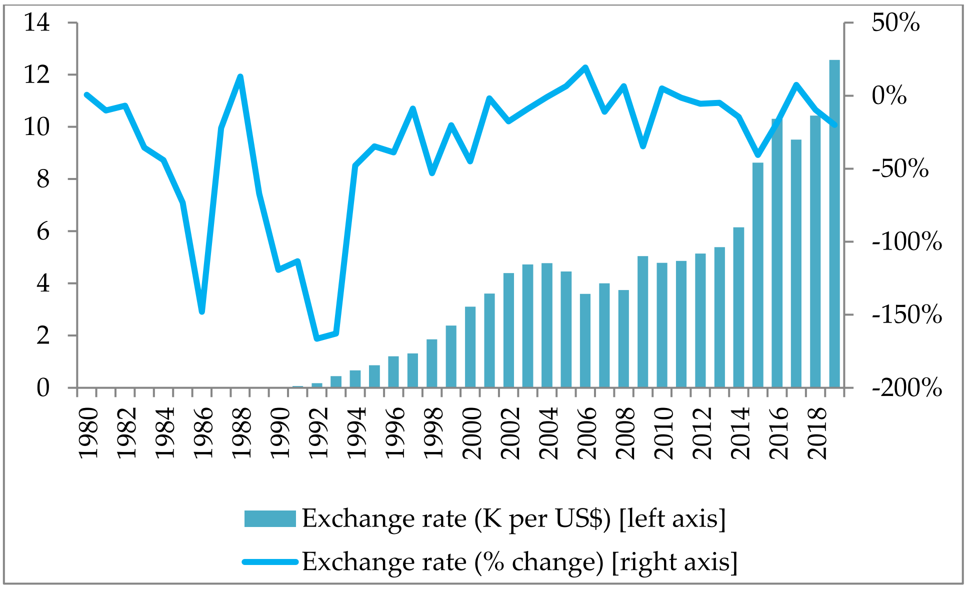
4.2.1 Price stability

This era was characterised by an improvement of BOZ's capacity to deal with price stability (see Figure 2).[27] BOZ benchmarks were influenced by Tito Mboweni, the then governor of Reserve Bank of SA and chairman of SADC committee of governors of the central banks. Mboweni was tasked with implementing measures towards the targets of the SADC Macroeconomic Convergence, which included a single-digit inflation rate and 5 percent budget deficit by 2008 (Magande 2018: 300). Crucially, BOZ managed to get the buy-in of government on the need to control inflation and was linked to HIPC, the debt relief programme:

> 'A HIPC account was created to dedicate the debt relief savings to developmental and poverty reduction programmes; this account was held by BOZ. BOZ had an MOU to negotiate with GRZ governing how GRZ could access this money, by way of bridge loans and Treasury bills. BOZ ensured that access to this money was linked to inflation. That is partially how GRZ bought into the notion of fiscal-side levers for inflation control. During that time, BOZ was an important ally of GRZ.'[28]

All elements combined (good leadership, overall consensus on economic policies, positive economic developments, clear policies) saw BOZ being able to control inflation from 2003 onwards, except during the international financial crisis in 2008.

Figure 7: Exchange rate kwacha-US dollar, 1980-2019



[27] When Fundanga left BOZ in 2011, the Central Banking website ran with the headline 'New president fires low-inflation champion Fundanga': https://www.centralbanking.com/central-banking/news/2113302/zambian-Governor-fired (accessed 1 September 2020).
[28] Interview, governor, 6 December 2019.

While inflation was brought under control, the sharp appreciation of the Zambian kwacha during the period of 2005-2008, as shown in Figure 2 above was seen as a negative development, one which should have been controlled by BOZ.

Politicians actually took pride in the 'strong kwacha', as it was seen to be 'politically good' (Scott 2019: 178). A strong kwacha, to this day, symbolises a strong leader. In reality, the strengthening of the kwacha caused major damage to non-traditional export business (tobacco, horticulture, vegetables, tourism), which was just starting to develop and was intended to contribute to the diversification of the Zambian economy, which was still heavily dependent on copper export. BOZ might not have foreseen the appreciation following HIPC, but retrospectively, some put this episode down to a dogmatic adherence to IMF policies: 'concerned to hit the monetary targets they had agreed with the IMF, the authorities did not accommodate this powerful demand shift, but rather decided to stick to the now "too tight" monetary targets' (Muhanga et al. in Collier 2014: 116).

4.2 2 Financial stability

This period saw an overall improvement of financial stability, as can be seen in Annex 1, which lists the number of bank mergers/acquisitions and failures since 2001. The sharp reduction of bank closures can be attributed to improved early warning and mitigation systems (provided by IFIs and implemented by BOZ), a new and more technocratic regime under Mwanawasa, which did not interfere in BOZ policies and readily sought advice from BOZ; but it can also be attributed to the steady growth of the economy from the mid-2000s and the anti-corruption drive.

The economic crisis of 2008 showed the resilience of the banks. BOZ had put in place strategies to the mitigate the effects of the crisis, which included; improving information flow; sale of foreign exchange; issuance of directives; collaborations with regulators; enhance vigilance and interactions with the domestic financial system to ensure adherence to its supervisory guidelines; and a good information flow between commercial banks (Fundanga, 2009). It can also be argued that Zambia's banking system was not integrated into the global banking system and consequently was not as exposed (Ndulo, 2009). Still, there was a sharp contrast of the handling of the banking volatility in early 1990s, when the financial sector was weak and witnessed many bank failures, as economists noted that BOZ regulatory oversight clearly had been tightened (Ndulo et al. 2009: 5).

Financial instability on the banking supervision side only reemerged as an issue after 2008, when we saw political interference first in the closure and sale of Finance Bank, a local bank, under President Rupiah Banda (2008-2011) and then in the reversal of the same sale under President Sata (2011-2014). Finance Bank Zambia Limited was established in 1986 and licensed by BOZ to conduct banking business in Zambia. Since inception in the 1980s, Mathani used patrimony to run the bank, by creating strong links with respective presidents in power, thereby obtaining government contracts, like the Zambia Revenue Authority (ZRA)'s customs department, thereby establishing bank branches at each border control post.[29] In 2010, BOZ took possession of Finance Bank, citing that a breach of the Financial Regulations Act, following an inspection by BOZ in 2009. A statement by the then BOZ Governor, Caleb Fundanga, stated that that there were unsound practices surrounding insider loans and the bank's credit risk management had 'significant deficiencies and therefore posed a major risk to the bank's financial condition through increased loan losses and their consequent negative impact on the bank's earnings and regulatory capital position'[30] Finance Bank was consequently dispossessed in December 2010 and immediately sold to FirstRand Bank, in South Africa. The reversal of this sale took place less than a year later, immediately Sata came to power, on the basis that the closure and sale were illegal.[31] This case shows that, at times, political interference hinders BOZ's mandate when it comes to financial stability.

4.3 Stability amidst political pressures and economic decline, 2011-2019

PF had agitated for Zambia's economic gains to be more inclusive and campaigned successfully with the slogan 'more money in your pocket'. After winning the election in 2011, President Sata appointed a UNIP old-hand as minister of finance, Alexander Chikwanda,[32] and replaced BOZ governor Caleb Fundanga.[33] True to its political promises when it came to banking, PF immediately imposed an administrative cap as a direct control on high interest rates. In addition, two Statutory Instruments were introduced, in an attempt to put controls on the exchange rate and the dollarisation of the economy. All these measures were reversed after causing severe unrest in the market, as well as a push back from the IMF (Hinfelaar and Sichone, 2019).

President Sata appointed Michael Gondwe as the governor of BOZ. Gondwe was president and CEO of the Eastern and Southern African Trade and Development Bank (PTA Bank), a lawyer by profession and had previously been the legal counsel for ZIMCO (Zambia's mining parastatal during the UNIP days). According to insiders, Gondwe struggled to stand his ground in the face of a dominant minister of finance who had the full backing of the president:

> 'Come 2011, the Minister of Finance would state that this is our mandate and goal and BOZ had to fit in and fall in line. We want to develop, borrow money, BOZ had to fit in instead of BOZ coming with their 'clever' economic theories. But if we would have a strong Governor, he would have pushed the Minister.'[34]

Gondwe's appointment not only led to internal divisions, but also to a weakened professional stance, i.e. the word 'deficit' in BOZ public statements was removed in

[29] Interview, former economic advisor, State House, 28 November 2018.
[30] Fundanga in BOZ statement, 18 December 2010.
[31] https://www.lusakatimes.com/2011/10/03/mahtani-finance-bank/
[32] Chikwanda previously served as minister of finance during the UNIP days, during the era of nationalisation and debt acquirement
[33] Fundanga's departure as governor was based on a negotiation, as his contract had not expired as yet.
[34] Interview, former senior official BOZ, 14 January 2019.

fear of antagonising the increasingly authoritarian regime. The lack of strong professional leadership and internal discord was largely rectified when Gondwe was replaced by Denny Kalyalya in 2015.

Kalyalya was appointed after the presidential by-election in January 2015 following Sata's death in 2014. President Lungu also replaced Minister of Finance Chikwanda with Felix Mutati, a former minister of commerce and trade. Both appointments came as a surprise, given PF's track record on rewarding loyalty, and both candidates were political outsiders. A possible explanation is that Zambia, as one of the highest issuers of Eurobonds in sub-Saharan Africa at the time, needed a reputable minister of finance and central bank governor to maintain access to international finance. A credible BOZ also helps to maintain a good credit rating.[35] Kalyalya, who previously held senior positions in BOZ and the World Bank, had good political management skills to operate in adverse political conditions.[36] He also faced a high turnover of counterparts in the Ministry of Finance, with three ministers in four years.

4.3.1 Price stability

In order to improve the effectiveness of monetary policy, in 2012 BOZ introduced a new monetary policy framework, in which the BOZ policy rate became the main leading indicator in signalling the central bank's monetary policy stance. This was meant to tighten the transmission capability of policy rate changes to commercial bank credit demand. Effectively, the policy rate became the base lending rate (Muhanga et al. 2014: 126). The policy rate is decided by the BOZ monetary policy committee (MPC), which meets quarterly (and more often when needed). Changes to the policy rate are guided by a comprehensive assessment of a set of financial and economic indicators that inform short- and medium-term risks to price stability.[37] Price stability was largely maintained.

Pressure on price stability was undermined when excessive expenditure and mounting debts around the time of highly competitive presidential by-election in 2015 and general election in 2016 resulted in the kwacha losing 20 percent against the US dollar. Given Zambia's heavy reliance on imports, domestic prices started to rise at a high rate (Chelwa 2018). Annual inflation rate reached 14 percent in October 2015 from 7 percent in January and by year's end it was just above 20 percent (see Figure 2). Kalyalya used three measures to halt the runaway inflation: addressing the shortage of US dollars on the market by drawing on BOZ's reserves; and by increasing the frequency of monitoring of foreign currency order flows to remove speculation from the market; and hiking the BOZ policy rate to reduce excess liquidity in the domestic economy. Inflation returned to single digits in 2017 and the policy rate was gradually eased. The interventions outlined above were certainly not without their costs. Foreign

[35] Interview, governor, 6 December 2019.
[36] Interview, former BOZ senior official, 14 January 2019.
[37] https://www.boz.zm/monitory-policy-framework.htm#:~:text=The%20Monetary%20Policy%20Committee%20(MPC,decide%20on%20the%20Policy%20Rate.&text=The%20Policy%20Rate%20corridor%20defines,target%20set%20by%20the%20Government.

exchange reserves are not free and the hikes in the policy rate that were required drastically affected the ability of businesses, particularly SMEs, to obtain credit.

But, as Chelwa noted, within the context of 'erosion of public institutions':

> 'there was a general sense of armageddon in the dark days of late 2015 and early 2016 and the heroic efforts by Dr Kalyalya and his team brought the country back from the brink. Knowing that the origination of the crisis was in the Ministry of Finance, Dr Kalyalya has openly castigated government on their reckless and uncoordinated borrowing and spending policies, showing unusual independence of thought by a public servant in Zambia' (Chelwa 2018).

The working relation with MOF remained strained and was characterised by lack of sharing data, which was a necessity for BOZ to make informed policies. Secondment of BOZ staff to the MoF became one of the strategies to obtain information and influence MoF policies. In turn, MoF benefited from BOZ's status. When Pamu, the former BOZ director of financial markets (2009-2018) was appointed permanent secretary (PS) of MoF, it was stated by business media that:

> 'Dr Pamu' s appointment was strategic, in that it would reinforce the type of prudent policy-making and discipline seen at the Central Bank, at the Ministry of Finance. It also brings back credibility to budget planning and expenditure monitoring, which our analysts believe has been lacking at the Ministry...' [38]

More recently, in July 2019, Minister of Finance, Margaret Mwanakatwe, was replaced by BOZ Deputy Governor, Bwalya Ng'andu, a move that brought MoF and BOZ closer together.

4.3.2 Financial stability

Sata's regime started with an inquiry into the privatisation of the ZANACO bank, amidst an ideological shift towards call for re-nationalisation of some of the privatised business entities. The main contention was the amount for which the bank shares were sold. Then Minister of Justice, Sebastian Zulu, was directed to appoint a team of officials from the Ministry of Justice and experts from the private sector to investigate what transpired during the sale and how the resources were used (Lusaka Times 2011). The report was never published and ZANACO remained intact. In part, this was due to the lobbying of the Dutch government at State House on behalf of the Dutch Rabobank Group, who held 49 percent of the shares.[39] . A few instances of banking regulation financial instabilities have emerged as well, with some less-than-transparent bank forfeitures, closures and ownership transfers (see Annex 1 for a complete list). But, overall, the banking sector and the regulator (BOZ) has matured significantly, so that even if politically motivated meddling was possible, it was harder to pull it off. However,

[38] https://www.pressreader.com/zambia/zambian-business-times/20180305/281998968152997
[39] Interview, former ambassador, 15 December 2012.

over the period under review, IMF noted that Zambia has fallen increasingly behind in terms of international regulatory and accounting standards and good practices (IMF 2017). They comment that 'this state of affairs is holding back market development, stronger regulatory oversight and imposing compliance costs and additional risks on the sector', but see that from early 2017, 'significant progress was being made in amending key pieces of financial sector legislation'. This exemplifies the point of BOZ's relative success in legislative reforms in the period under review, amidst severe political challenges.

5. Bank of Zambia: Pocket of effectiveness? Analysis and key findings

From the foregoing observations and findings, we consider a number of analytical discussion points, which offer further insights into the evolution and influence of political settlement and the main sources of BOZ's effectiveness in fulfilling its mandate generally irrespective of political settlement.

5.1 Political settlement type and dynamics, national and transnational

Banking regulations are always more vulnerable to political clientelism, whether in dominant, competitive or vulnerable authoritarian settings. Following Kelsall's political settlement definition (2018), the post-1991 era in Zambia can be understood as having broad-based social foundations, whereby politicians rely on clientelism and populism. The populist platform was effectively utilised by PF in opposition to the MMD's technocratic and conventional economist leanings. Yet, the political turnover in 2011, accompanied by an ideological shift and a new governor, did not fundamentally alter BOZ's functioning. BOZ managed to protect itself from undue influences by, among other things: securing control over internal appointments and transfers; legally securing the governor and deputy governors' tenures of office; and protecting the selection criteria of governors with the understanding that the persona of the governor determined the extent of BOZ independence and influence on national matters. However, the political environment, at odds with their IMF- and Basel I/II-influenced policies, has diminished BOZ function vis à vis banking regulation, monetary policies, interest rates and debt burden. Compared with the MMD era, international and regional influences, such as IMF, SADC and MEMFI, have greatly reduced, and with them the external disciplining forces on government. While discontent reigns high within BOZ, it rarely publicly pushes back against government policies, opting for an approach that prevents a political fallout.

5.2 Organisational mandate, legal infrastructure and culture

Internally, a salient driver of the effectiveness of BOZ in both maintaining independence and fulfilling its mandates – particularly price (inflation and exchange rate) stability and financial (including banking) stability – is the legal framework that was established with the current BOZ Act (1996). The Act not only defined and elaborated the primary, secondary and tertiary mandates of the central bank, but also established stability for the tenures of office for the BOZ governor and the bank's two deputy governors. It also prescribed the right qualifications and experience of the governor, and strengthened appointments by providing for presidential appointments to be ratified by the National Assembly.

However, weaknesses and risks remain in the law, in that the removal of the governor is still the sole preserve of the president. Moreover, the legal infrastructure may come under more threat of being weakened, should the proposed provisions on the mandate and functions of the central bank go through in the ongoing constitutional amendment process under Bill 10 (Chelwa, 2019). The weaknesses and looming threats notwithstanding, BOZ has established an internal mechanism of mentoring and passing on internal ideology and institutional memory from one governor to another, but supporting the general emergence of suitable candidates as governors from within the bank. Since former Governor Mwanza (1995-2002), the successor governors – except Governor Gondwe (2011-2015) – emerged as successful candidates who had had a long history of service in the bank in various portfolios. This was important for continuity and consistency in the bank's philosophical stance and pursuit of policy and strategic objectives.

Another important internal tradition or culture of the central bank was the establishment and active utilisation of robust surveys, databases and other data systems through which the bank conducts regular objective financial sector assessments of various kinds. As described above, highly credible objective empirical perspectives in setting policy positions, implementing policies and tracking progress, subjective internal and external pressures, such as political interferences, were partially mitigated.

5.3 Leadership and ideological Influence

The above legal framework and extensive use of evidence in policy making, policy implementation and performance monitoring have also been instrumental in fostering BOZ's leadership as an apex public institution. BOZ staff are often transferred or seconded to key policy-making ministries and government agencies. In 2019, the current minister of finance was taken from his position as BOZ deputy governor operations; the permanent secretary budget and economic affairs at the Ministry of Finance was taken from his post as director financial markets at BOZ; the immediate past director of investment and debt management at the Ministry of Finance was a BOZ staffer on secondment to the ministry; and the current acting director of the Zambia Statistical Agency (formerly Central Statistical Office) is formerly from BOZ. This institutional collaboration and culture of extending human resource competences beyond the BOZ walls is instrumental for sharing ideology, knowledge and knowhow, thus also indirectly insulating the bank from undue political and other pressures, through the placement of its 'ambassadors' or 'champions' in key strategic policy-making and information-gathering institutions.

In addition to staff placement, BOZ has created a long tradition of putting itself out there through regular engagements with various stakeholders. It co-opts a number of public and private sector entities and individuals to its monetary policy formulation mechanism, the monetary policy committee. It also frequently engages industry players, particularly the banks and non-bank financial institutions, in various policy discussions and debate events. It invites academic and research institutions and thinktanks to contribute to its publications, such as the BOZ Reader journal and the ZamBanker magazine. It actively engages the general public, including through the media, through active sponsorship and/or participation in public awareness campaigns like Financial Inclusion Week or Saving and Investment Week.

Of course, these different forms of collaborative relationships can change markedly with time. For instance, in the 1990s and 2000s, BOZ enjoyed strong collaboration with MoF, as the two institutions formally engaged in three-times weekly joint debt reconciliation exercises to monitor and manage the extent and quality of domestic and external debt contraction. However, from around 2011 onward, the intensive collaboration around debt management has diminished significantly, with MOF opting to walk the debt management path alone and sharing very little information and data. Nonetheless, the above-mentioned forms of collaborative engagement with BOZ's various stakeholders have been important determinants of effectiveness.

5.4 Managing politics and policy mandate

From the accounts of senior BOZ staff, the bank has over time come to learn how to manage the politics and political pressures using the arsenal of frameworks, instruments and strategic alliances at its disposal. This includes readily establishing an understanding of the political persona of key decision-makers at any given time during monetary policy making. A good example is in terms of the significant levels of interaction between BOZ and State House during the Mwanawasa era, where BOZ initially got the impression that the political administration was trying to wrestle the monetary policy-making mandate away from the bank, but later came to the realisation that the intense interactions were State House's way of searching for information, understanding and solutions. With this realisation, BOZ was reportedly able to play a key advisory role to State House during the Mwanawasa era. Understanding the nexus between the changing political persona and the policy mandate of BOZ was key for ensuring the effectiveness of the bank in pursuit of its mandate.

6. Conclusion

In this paper, we sought to explain the main sources of BOZ's ability to remain effective in fulfilling its mandate amidst notable turnovers in Zambia's political settlement during 1991-2019. The paper focused on the interplay between BOZ's internal capacity and the broader domestic and international environments, seeking to determine the critical conditions under which the bank's organisational capacity were created and deployed to set it apart as a pocket of effectiveness. We have explored and established the key circumstances in which political settlement undermined or compromised the bank's effectiveness and observed some of the mechanisms that BOZ used to cope with or mitigate the adverse influences of political settlement.

We find that BOZ largely fulfilled the criteria as a pocket of effectiveness from the 2000s onward, particularly during the era of Caleb Fundanga as governor (2002-2011). This was in most part due to the favourable economic environment, strengthened by a technocratic consensus among all the economic institutions, and political support by State House, but also due to his strong leadership of BOZ, initiating structural changes that lasted beyond his two terms of governor.

After a very challenging episode over 1991-1999, the central bank's mandate on price stability improved markedly from 2000s onward, despite the fact that intermittent instabilities have emerged, emanating from fiscal-side weaknesses and slippages in recent times. On the other hand, BOZ's banking regulation mandate was at its weakest between 1995 and 2000s, when Zambia experienced the largest number of the banking regulation slippages, which led to a large number of bank closures and the firing of the BOZ governor. More recently, from 2010 onwards, a few instances of banking regulation financial instabilities have emerged.

We find that the central bank's effectiveness in maintaining autonomous design and implementation of its policy mandate was significantly influenced by the embellishment of a robust legal framework, the persona of the governor, internal traditions of self-assessment, and learning, transparency and accountability backed by proactive stakeholder engagement and institutional collaboration, and political savviness in understanding the political personas of various political settlement episodes, among other things. The legal framework, in particular, provides important lessons for bringing about pockets of effectiveness in other institutions in Zambia.

Post-script

On Saturday 22 August 2020, the governor of the Bank, Denny Kalyalya, was abruptly fired by President Lungu, without any reason given. The subsequent appointment of a possibly politically inclined and motivated individual as BOZ governor heightens the risk of undermining the independence, credibility and particularly, effectiveness of the central bank. The authors intend to do a reprisal of this paper after Zambia's August 2021 general elections, in terms of a case study of one specific clientelism manoeuvre of a political party in power and its impact, interim or long-lasting, on central bank independence and effectiveness.

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Annex 1: Failures/mergers and other key dynamics of banks since 2001

1.	New Capital Bank Zambia Ltd	Merged with [then] Cavmont Merchant Bank Limited to form Cavmont Bank Limited (January 2004).	Local	Merged: January 2004	Merger and acquisition
2.	Zambia National Commercial Bank PLC (ZANACO)	Chairperson: Charity C Lumpa MD: Henk Mulder Total assets: K9.54b (US$96m) (2017) Prior to 2007, the bank was 100% Govt. owned; in 2007, 49% of its shares were sold to the Rabobank Group, of the Netherlands. In 2008, the shares of ZANACO were listed on the Lusaka Stock Exchange (LUSE).	Foreign	Open	Rabobank takeover investigated by PF-Sata in 2011, report was never released. Lobby by Dutch government
3.	Finance Bank Zambia Limited	Closure of Finance Bank in 2010, sale to First Rand Bank, South Africa Reversal of sale and reopening 2011 In July 2016, Atlas Mara acquired 100% of FBZ Limited In December Altas Mara merged with FBZ with BancABC to form Atlas Mara Zambia Ltd.	Local	Closure and sale Re-opened Acquisition: July 2016	Acquisition and merger
4.	Zambia Industrial Commercial Bank Limited (ZICB)	Chair: Mr Charles H. Sichangwa CEO: Mr Ignatius Mwanza ZICB is a product of the restructuring of the former Intermarket Banking Corporation Zambia Limited, which the Bank of Zambia took possession of on 29 November 2016, on account of insolvency.	Local	Open	n/a
5.	Investrust Bank PLC	Chairman: Dr Jacob Mwanza MD: Simangolwa Shakalima Total assets: K1.28b (US$129.7m) (2016)	Local	Open	Internal takeover after losses and increase of BOZ minimal capital requirement (takeover with capital from ZCCM-IH/IDC, which is an SOE)
6.	Intermarket Banking Corporation Limited	In March 2010, Afriland First Bank Group (Yaoundé, Cameroon) acquired 80% of Intermarket Bank. Sabre Capital, the former	Foreign	Liquidated July 2019 and placed	Insolvency

		majority shareholders in Intermarket Bank retained 20% ownership. BOZ placed the bank under compulsory liquidation in March 2019 and placed it under ZICB receivership.		under ZICB	

Annex 2: Explaining BOZ performance on financial stability: 1991-2018

Time period/ perform-ance level	**Perform-ance indicators**	**Political settle-ment dynamic**	**Leader-ship and autonomy**	**Organis-ational factors**	**Ideas (politics. Develop-ment)**	**Trans-national factors**
1991-2001: weak perform-ance (era of capacity-building and 'learning-by-failing')	Financial stability improves but remains patchy. Six banks fail.	Domin-ant ruling coalition estab-lishes deal with senior techno-crats on econom-ic govern-ance.	1996 banking act autonomy and mandate over financial stability. Strong governors throughout, Mulaisho fired for bank closures.	Super-vision depart-ment under-staffed and under-developed .	Neo-liberal reforms, carried out in radical manner. Opening up of many local banks	**IMF and WB very influential including standards of super-vision. UNDP assisting with capacity building in financial super-vision.**
2001-2008: strong perform-ance	Financial stability improves consider-ably; no bank closures; ratios of solvency and liquidity above regulatory minimum.	Ruling coalition increas-ingly vulner-able from mid-2000s. Political interfer-ence with BoU grows from 2010.	Strong governor throughout.	Strong governor, improve-ment of super-vision. Late response to 'Dutch disease', which had a negative impact on private sector.	Technocratic regime, moderating liberal reforms. Strong opposition riding on urban poor.	**Basel standards start to become influential , as well as regional standards**
2008-2018: *Mixed perform-ance*	Reversal maintained .	Ruling coalition remains in vulner-able populist mode, but largely targets	Strong governor remains, political interference in Finance Bank closure and sale.	Strong leadership with the exception of Gondwe era (2011-2015).	Growing critique of neoliberal orthodoxy and decline of role of donors.	**Basel remains influential , but refusal by BOZ to introduce Basel III, weaken-ing of**

		fiscal rather than monetary discipline.	Political appoint-ment of governor (non-economist) in 2011 influences oversight. Discord between governor and BOZ directors (2011-2015). Appoint-ment of strong and indepen-dent governor in 2015.		Little effect on BOZ, which largely maintains orthodox policies. Little consensus with other economic institutions and State House.	**regional standards.**

Annex 3: Explaining BOZ performance on price stability, 1990-2018

Time period/ performance level	Performance indicators	Political settlement dynamic	Leadership and autonomy	Organisational factors	Ideas (politics. Development)	Transnational factors
1991-2000: weak performance	Inflation rate (annual average over 1991-2000): 68.1%	Competitive democracy.	MoF retains key policy role, legislation put in place to transfer to BOZ, reforms grant BOZ independence and strong mandate.	New culture, modernisation, clear vision.	Radical economic reforms, after resounding rejection of one-party state.	High influence of IMF and WB.
2001-2011: strong performance	Inflation rate (annual average 2001-2011): 14.9%.	Competitive democracy with consensus among technocrats on economic policies. Some tensions around expenditure	Strong governors from mid-1990s, pro-reform. From 2002, more emphasis on evidence-based policy making, strong research wing.	Research department targeted for capacity-building, benefits from strong leadership. Strong working relationship with MoF and State House.	Neoliberal ideology maintained but slightly moderated, especially challenged from mid-2000s with increased fiscal space.	IMF and WB very influential: technical assistance, resources, policy advice. But also regional bodies (SADC, MEMFI).

		(FISP) and fiscal policies (mining taxation.				
2011-2019 *Mixed performance* *Increasingly under pressure*	Inflation rate (annual averages 2011-2014): 7.1%. (2015-2019): 10.5%; with a spike to 14% in 2015-2016 and 10.5% in 2019 (so far), due to fiscal stresses, and electricity and food shortages, due to droughts.	Competitive democracy increasingly authoritarian. Bureaucracy politicised. Regime: vulnerable populist mode, no alignment BOZ, MoF and State House.	BOZ independence weakens under Gondwe (2011-2015), strong governorship from 2015 onward. Governor and team fight to maintain independence.	Increase of fiscal indiscipline and rising debts (Eurobond and concessional loans Chinese), less capacity in research function. Technocratic, evidence-based approach. Secondment to MoF, but no policy alignment.	Populist and ideological challenge to economic orthodoxy, increase of minimal capital requirement and cap on interest rates. Policy inconsistency, politicisation of bureaucracy, heightened influence of 'tenderpreneurs', which leads to high corruption.	IMF supports BOZ policies, but falls out with Zambian government. IMF becomes taboo word, amidst rising debt crisis and fiscal indiscipline.

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