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The Challenges facing Medium and Large Enterprises (MLEs) in Financing Projects and Businesses on the Copperbelt.

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Abstract—

The study sought to review the challenges of medium and large enterprises face in financing and expanding their businesses. Funding is a critical component to growth, without this, firms fail to succeed. The report also considered the perceptions, position and reviews from financial institutions with regard to business growth prospects on the Copperbelt. We further studied on alternative means of raising capital and operating in the business environment, in which mere borrowing is expensive. A critical look at how medium enterprises are coping in difficult economic times. It was important to have gender balance in business, so we looked at a percentage of women enterprises compared to men. How many were making it from the medium enterprises category? We further analyzed the fund timing verses schedule of business/project implementation relative to competitive forces.

Keywords—*Funding,Borrowing; Economic growth; Financing; SMEs, gender, women in business*

1. INTRODUCTION AND BACKGROUND

The Copperbelt as the name suggests, is a mining province and most industries developed are in affiliation to this industry. The mining has for more than 50 years been the mainstay of the province. It is difficult to separate mining from other industries and firms which developed to support the mining sector. Most have a supportive role in form of Subsidiaries, Suppliers and Contracting firms. Most have benefitted from operations of the mining industries. The business environment on the Copperbelt Consists:

- Transportation
- Insurance
- Banking
- Manufacturing
- Trading
- Real Estates
- Communications

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- Agriculture and in each of these sectors, there emerging entrepreneurs supplying and trading in goods and services.

All these players in the economy put together, provide a competitive business environment.

The industry has also brought competition among growing companies and SMEs who have strong desire to grow. This desire for growth comes with a strong need for capital injection to support business objectives. The contribution of the mining sector to the Zambia economy and fiscal aspect has been more than 50% from time of independence to date. The emphasis has also been placed on the economy to drift from dependence on the mining sector to other undeveloped potentials such as Agriculture, Tourism and Energy sectors. Some firms on the Copperbelt, which originally were formed to service the mines, adopted other growth strategies far from the mining sector to remain sustainable and ensure continuity. The growth strategies can only be actualized by having adequate resources and competences. This is where refinancing a business or venturing into new growth projects come in. But acquiring finance in the shortest possible time requires a lot of effort and business intelligence. We need to define the parameters that categorize the Medium and Large enterprises as defined by the Ministry of Commerce, Trade and Industry[1] based on:

- Turnover per annum.
- Total fixed Investments
- Legal status
- Number of employees. Below is the table:

	Capital ZMK	Turnover Per year	No.of Employees
Medium	150,000.00 to 300,000.00	300,000.00 to 500,000.00	10-50
Large Firms	Over K1,000,000.00	Excess K2,000,000.00	100 – 500+

Source: Ministry of Commerce, Trade & Industries 2008

2. General Problem Statement

Refinancing a business or project idea comes with challenges such as:

- **Sources:** where are we getting funding from?
- **Timing:** does this align to our implementation schedule?
- **Terms & Conditions:** do the lending terms and conditions still make our business profitable, in the face of competition?

These are some of the questions and concerns most firms have to consider when seeking funding. As firms on the Copperbelt strive to remain a going concern, the competitive forces at play urge them to up the game. In so doing,

[1] MCT&I -Small & Medium Enterprise Development Policy (2008), Page 15, 16.

some have limited capital requirements and ended up with incomplete project ventures. Others have sought refinancing but timing in access to funds becomes a disadvantage. Moving around the Copperbelt, there are some structures that stand incomplete, a reminder of inadequate financing or insufficient of funds. The business idea behind, are brilliant but still unrealized due to lack of funding. Example below is the Office complex in Ndola Town centre:

Field Data Source 2018: Baxget Office Complex, Financed but incomplete.

The stalling of such projects means unrealized economic potential that could have contributed to the growth in various areas of economic sector, one being employment. On the other hand, there are some businesses that start well but complete late to offer full beneficial operations ahead of competition. In this era of information technology speed is cardinal to success. Any delay means loss of revenue and increase in debt or cost. So how can projects and businesses reduce the time lost, and what are the sources of delay?

Can delay be attributed to poor management or lack of expertise? Or there are limited sources of finance to manage the business appetite for funding? The underlying factors will have to be understood and a solution recommended.

Various experiences from the business community will be important to validate the study further.

2.1 PURPOSE OF THE STUDY

The main purpose of the study is to review empirical evidence of challenges hindering growth in the medium and large private enterprises. This is in relative to the refinancing business ideas and projects. Review and expose sentiments and perception of financial institutions regarding business refinancing. Review gender parity among private sector players.

2.1.1 Specific Research Objectives

- To document the Challenges facing medium and large Enterprises (MLEs) in Financing Projects.
- Identify the gaps existing in project financing and the development of infrastructure on the Copperbelt.
- To show the sentiments and perceptions of financial firms with regard to refinancing participation.
- To determine the factors leading to poor funding of projects and businesses.
- Determine measures that could be taken to reduce failure or delay in acquiring finance.

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2.1.2 Research Questions

There are a number of questions that require answers, and these will be answered after conducting the study. Some of the key questions include:

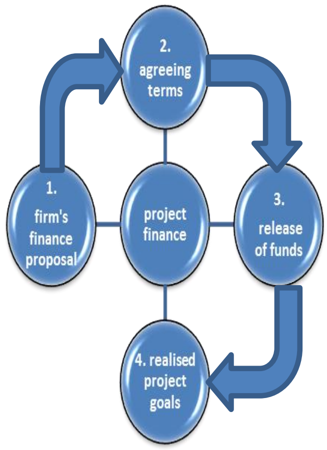
- What are the perceptions of available financial institutions on the business climate and potential to grow?
- Why is there poor funding on growing medium firms?
- Are there enough capable institutions in Zambia to provide the service, so much that there is little or no competition in the industry?
- How gender balanced is the business environment in financial accessibility?
- Are there gaps if any, and can the gaps be bridged? How?
- What can be done to reduce delay, increase accessibility to funding among businesses?
- Is timing of funding synchronical to business schedule and opportunity?

3. Significance of the Study

The study will contribute to academic body of knowledge, as this study is for academic purposes in a live business environment. It is also expected to provide information suitable to businesses that want to venture into business of financing and general enterprises. The work will also identify strategies and business practices especially among medium firms.

3.1 Conceptual Framework

The request for financing should follow a systematic approach from application to review of terms and condition, signing the contract and then release of funding to firms. The process should be unbroken to reduce delay and waste of time in basic qualifications, all things being equal. This is expected to be a relationship based on business win-win situation. The scenario below illustrates a pathway and flow of information leading to funding:



- *Fig.1 Conceptual funding flow.*

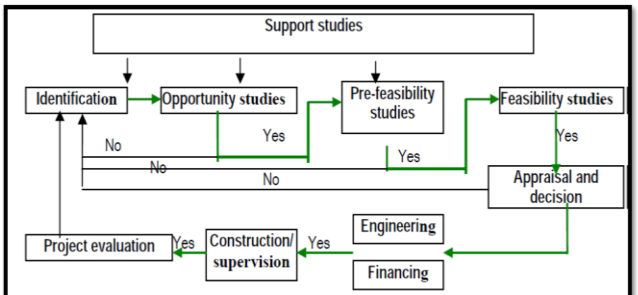
Both parties should leave the negotiating table satisfied with the timing, rates and general terms. However, the current scenario tends to be more advantageous to financial institutions than borrowers.

3.2 Scope & Limitation of the Study

The study will cover the business financing and refinancing on which lenders have recourse or can lay a claim to their money. This will not cover the government grants and expenditure on social services. The main focus is the private business enterprises (PBE) and how they finance their businesses, as well as challenges experienced in the process. This does not cover Not-for-profit Organizations and the intervention programmes, because their focus is on community involvement.

4.0 Literature Review - Global Perspectives

It is Impossible to start a project or grow in business without looking at finances and resources needed to complete the project. Project finance is a means of providing resources and funds necessary to complete a project. For the project of a construction and investment nature as the case in point, they are often complex and have extensive planning and control in order to succeed. The United Nations Industrial Development Organization (UNIDO)[2] offers a comprehensive project development cycle for investment projects preparation and appraisal. It is stated that the development project is cyclical and can best be portrayed by a flow chart as below:



Source: UNIDO (2005). *Investment project preparation and appraisal.*

An investment for large project starts from an idea identification of an opportunity; which has to be supported by some form of research to test its sustainability. The type of research has to be feasibility study. Simona Vasilache (2009) et al[3], states that this study consists of two stages namely;

- ***Pre-feasibility study*****:** this is more detailed than the opportunity study. It helps to filter the decisions made before committing more money into the project study.
- ***Feasibility study*****:** the full document of the research is referred to this. It is a complete document based on the research carried out in the following pattern:
  - ***Executive Summary:*** this describes in short the project under analysis and the scope of the study.
  - ***Market Analysis:*** the PEST, SWT and OPESTLE analysis are carried out.
  - ***Technical Analysis:*** the viability of the project in terms of technology, raw materials, location, manpower and organization.
  - ***Economic analysis:*** the benefit of the project to the community as a whole.

All these analyses, are to substantiate the profitability and viability of the business idea leading to financing and committing other resources. When the project is given a go-

[2]United Nations Industrial Development Organization – UNIDO (2005). Investment projects Appraisal. preparation and appraisal,

[3] Credit analysis policies in construction project Finance, Simona Vasilache et al (2009), p82-83

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ahead, time now is a critical factor in accessing funding. Funds and other resources have to be in place to actualize the business idea. Business ideas die on paper when funding is not forthcoming. Other projects start but end up stalling.

4.1 Advantages of project financing

Project finance is often the preferred choice when a developer or sponsor is seeking to achieve a number of objectives. Michael E. Pikiel Jr(2015)[4], in his article states the following common benefits of the parties to a project finance transaction.

4.1.1 Nonrecourse or Limited Liability Debt

In a typical project finance structure, the project finance lenders have no recourse or limited recourse to the project sponsor, which is to say that a project sponsor has no liability (or limited liability) to the lenders for breach or default, and the lenders' sole or primary recourse is to the pledged collateral. Accordingly, a project sponsor's financial risk is limited to the amount of its capital contribution to the borrower. This feature helps a project achieve financial independence and protects a project sponsor's assets from the troubles of any particular project, thereby significantly minimizing a sponsor's risk when compared to corporate finance techniques.

[4]Michael E. Pikiel Jr (2015 Advantages and disadvantages project Finance; https://www.law360.com/articles/664532/advantages-and-disadvantages-of-project-finance 04/7/2018.

2.2.2 Ability to Avoid Restrictive Covenants in Other Financing Documents

In a project financing, the project is separate and distinct from the project sponsor's other operations, businesses or projects. As a result, the restrictive covenants in other loan or credit agreements do not reach across all of a project sponsor's projects. This allows a project sponsor to leverage the debt on its individual projects.

Traditionally, cash-flow borrowers and project sponsors in their non-project-based financings are often subject to restrictive financial covenants in their existing corporate loan or credit agreements. Such covenants can include debt coverage ratios, provisions that cross-default all debt as a result of a failure to pay a single debt in other transactions. In a project financing, the lenders' collateral is limited to the assets of the project, such as the project company's contracts, licenses or mineral rights. No other assets of the project sponsor need to be pledged to secure the debt.

Michael E. Pikiel Jr further highlighted some of the disadvantages project financing as follows:

2.2.3 Complexity

Project finance transactions are complex, resulting in some degree of execution risk for all parties involved. In addition, the transactions involve a number of participants and the

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interests of the participants in the project do not always perfectly align. For the project to be successful there must be a proper and economical allocation of risk, which is often difficult to achieve, particularly when interests are not always aligned. Risk allocation issues can also often create tension between the parties; resolving these issues can slow a project.

Furthermore, ***financing structures are often project-specific and not easy to replicate, as is the case with corporate finance techniques***. This also means that the upfront transaction costs involved in a project financing tend to be significant, thereby precluding the use of project financing techniques for smaller projects, which are less able to absorb substantial upfront costs.

4.1.2 Higher Interest Rates and Fees.

The interest rates charged by project finance lenders typically tend to be higher than interest rates charged on traditional corporate finance transactions because the transaction structure is more complex (with a higher degree of risk being borne by the lenders) and document-intensive. The higher degree of risk for lenders also translates into higher fees and transaction costs than for other types of financings, and it's the project sponsors that are typically responsible for such fees and costs. The risk inherent in project financings and the complexity of the projects result in an extensive and expensive due diligence process (the cost of which is often borne by the project sponsors) conducted by the lenders' lawyers, technical adviser, insurance consultant and other consultants. The risk and complexity of project financing often also result in the need for increased insurance coverage and higher fees or additional charges being imposed by lenders and other project participants (and paid for by the project sponsors) because the lenders and other project participants assume additional risk.

4.1.3 Increased Insurance Coverage

Due to the nonrecourse or limited-recourse nature of a project financing, the insurance program is very important. To the extent risks can be mitigated or covered off by insurance at commercially reasonable prices and upon commercially reasonable terms and conditions, insurance is required by the lenders. ***In developing countries, concerns over political risk may result in political risk insurance becoming a requirement***. As expected, the cost of additional insurance coverage typically is the responsibility of the project-company.

4.2 Types of Finance on the Global Market

The International Project Finance Association (IPFA)[5] defines Project Finance as;

[5]IPFA is an independent, not-for-profit, professional members association dedicated to promoting and representing the interests of both public and private sector organisation's involved in project finance and Public Private Partnerships (PPPs) worldwide.

'The financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project'.

By the term limited recourse, it means that, financing institutions can only make a claim on the funds after the project has finished and started economical operations. The interest in this study is skewed towards limited recourse financing. This way, the project honours all the obligations. By this definition, the financing of the project is done using several options which include;

- **4.2.1 Loan (Debt) Finance:** loan financing is a type of financial arrangement that is purely based on debt, and on this type financiers seek recourse usually at the start of the project beneficial operation.

This was the type of finance preferred by Ndola Lime Company, for the recapitalisation project. The choice for this type of finance was premised on the:

- Availability of long lifespan of the mine reserves (49 Years)
- Growing demand for products in the southern region.
- Ability of the company to utilise assets as security for the loan.

- **4.2.2 Equity:** is the form of finance where a firm agrees with the financier to equal shares in the venture. This is done by agreements that allow the financing part has share in the project and the profits realized from the operations of the firm are shared accordingly as agreed. So there is no recovery of funds put in the project, but sharing of profits according to agreed percentages.

- **4.2.3 Joint Venture:** - it is usually done through creation of a Special Purpose Vehicle (SPVs)*, a SPV is a creation of an entity for a special purpose or reason, mainly to fulfil or realize specific objectives. Usually it is between two firms in a joint venture set up, which limit the liability of the SPV not to extend to the parent companies, in case of SPV bankruptcy, there no claim or solicitation from the parent firms, which may have their own issues to deal with. This type of finance in particular has to do with big projects and businesses and may not apply to the small and medium enterprises. The financial requirements of the latter group are less compared with the large enterprises.

4.3 Other forms of Project financing

4.3.1 Mezzanine Finance: According to Investopedia.com (15.08.2017)[6], this type of finance is hybrid type of finance involving debt and equity. Mezzanine financing gives the lender the rights to convert to an ownership or equity interest in the company in case of default, after venture capital companies and other senior lenders are paid. Mezzanine financing, usually completed with little due diligence on the part of the lender and little or no collateral on the part of the borrower, is

[6] http://www.investopedia.com/terms/m/mezzaninefinancing.asp 15.08.2017

treated like equity on a company's balance sheet.

This maybe one of the quickest ways to attain finance, but could be the costly because of the high risk involved. The reason is as stated that there is little or no due diligence on the debtor to assess the viability and ability to pay loans.

The typical interest rate for mezzanine financing is 12 to 20%, making it a high-risk, potentially high-return debt form. Mezzanine financing typically replaces part of the capital that equity investors would otherwise have to provide a company.

4.4 Zambian financing Perspectives

The financing of medium and large enterprises is needed in order to grow the economy on the Copperbelt. To lift Zambia to the middle income status, it is crucial to grow the private sector participation in country. Comparing Zambia to developed economies, the financing environment does not have a variety of options to choose from, other than Loan (Debt) finance and equity. This provides a gap in the business environment to be considered. We need to assess the possibility of developing other forms of funding. Medium financing can also find means of finance from Micro lending firms offering loan finance.

4.5 Personal Critic

Review of the financial global perspectives show that a lot of options are not available on the Zambian financial markets. However, the researcher is optimistic the business environment can evolve and adopt newer financing available on the global scale. So the review shows that two main finance options are prominent that is; Debt and equity finance. These are the commonest types of debt there is on the Copperbelt. The critical aspect of timing funding should be of mutual benefit to both lender and borrower, in order to offer equal benefits. Asynchronous timing works in the interest of financing firms only. Borrowing firms get funds late in desperation to survive, end up losing business somehow. Another example for large firms is the Recapitalization project below:

Field Data Source 2018: Recap. Project from 2007– 2016: Archive

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According to sources, this project was approved in 2007 but funding was made available in 2010. Timing of this project affected many business opportunities worthy discussing.

5 RESEARCH METHODOLOGY

5.1 Research Design

The study took place in Ndola, on the Copperbelt Province. The Copperbelt has been the mining capital of Zambia. Examples used are 'The Recapitalisation of Lime Plant Project' by Ndola Lime and 'Baxget Office Complex' building. This also assessed the adequacy and capability of institutions to provide funding to capital projects. Further study was to look into the SMEs financial options available and how accessible the finance is. Experiences were drawn from various SMEs to understand the challenges and opportunities encountered.

5.2 Research Design

The study focused on the business financing for which financial institutions have a claim or recourse to the borrower. This does not include grants, and project financing practiced by not-for profit Organizations.

It was also explanatory in that the study examined the cause/effect relationships among variables such as risk aversity, capabilities, conditions and timeliness in the provision of finance.

This was based on the surveys on the key players being the business community and financial institution. The Medium and Large firms were dependent on financial firms for funding and business growth support. Large volume of data was collected to draw suitable conclusions. The study used two examples from the business environment to validate the study. Closed questions (Yes or No) were used, and open questions in part to draw respondents feeling to the subject.

5.3 Sample Size:

The sample size included respondents from firms from the following groups:

Source of Respondents	Qty
Example: Large Firms–NLC Recap. Project	15
Microfinance institutions	10
Banks	10
Medium Firms-Online Questionnaires	20
TOTAL	**55**

5.4 Sampling Technique and Instrument for Data Collection:

The sampling technique used involved two types of techniques namely;

- Convenience sampling
- Purposive sampling

5.5 Instrument used for Data Collection:

Data collection Instruments used were:

1. Online Questionnaire for a developed database of firms.
2. Printed Questionnaires for Banks, Microfinance and Large firm used.
3. Telephone: A follow up on respondents to be made.

5.6 Data Analysis Techniques

The Researcher used:

1. **Excel** – for data input.
2. **STATA** – for data analysis and review.

5.7 Ethical Considerations

The researcher observed business etiquette and ethically acceptable research norms. There was no cohesion of respondents, underhand methods to obtain data. Formal channels was observed.

5.8 Limitations of the Study

The limitations encountered were in the collection of data from some financial institutions. This was due to institutional bureaucracy that limited the access to information. However, one strategy used was to take advantage of Zambia International Trade Fair (ZITF 2017), at which all banks and some Microfinance institutions exhibited their products. There was more openness in responding to the questionnaires. Sometimes interviewed was met with unwilling respondents, but in spite of all the challenges answers came forth. Resources for online questionnaires required emails much more affordable, but follow-ups were necessary through phone calls, which demanded finances.

This study focused on firms that were for profit on which funders have a claim to their money after the investment period. It does not in any way include firm that were Not-for-profit, as these firms are usually supported adequately through grants and international Organisations, without recourse.

6.0 PRESENTATION OF RESEARCH FINDINGS

6.1 NON-Statistical Qualitative Representations

6.1.1 Medium Enterprises

From majority of respondents, there was a general perception as well as evidenced experiences with regard to the funding their businesses and project. The general mood was that Banks in Zambia are not so flexible in terms of lending to Small and Medium Enterprises. These respondents expressed concern that the timing of funding does not collate with the projects and business timeline, leading to the loss or failure of a business due to delays. Respondents gave adequate examples in instances were business was lost due to delays in acquiring finance. This was across various industries contacted. Each industry has its own competitive environment, and any delay or loss to a business opportunity attracts unwanted competition. These experiences were stated by at least 50-60% of SMEs and it was attributed to the delay in getting suitable help, even in the case of having fulfilled mandatory requirements. These delays or unwillingness resulted in either loss of business or reduced profitability to time lost.

The study aimed at getting feedback from a cross section of SMEs being listed as below:

- **Agribusiness**: this was found to be a growing sector in Zambia. There was concern expressed from all respondents, who pointed out that accessing finance from banks was difficult. This was attributed to the fact that, most traders and enterprises in this sector are viewed as high risk area. Even with sufficient assets such as housing and equipment do not guarantee access to finance. The dependability on the rain pattern and whether unpredictability is risks hard mitigating in business. This is why growth in this sector is lagging behind. One expressed reason for failure to access funds was:
  - Lack of consistent repayment plan
  - Unpredictability of yield due to varying weather factors and conditions.
  - High risk levels.

However, the growth of the micro financing institutions has provided a window of opportunities. These have come with various options to suit different business and individual needs.

- **Trading and Contracting**: it was interesting to discover that majority of Zambians have awakened to take up an entrepreneurship in setting up private enterprises trading in various commodities. The growth of this economy depends on emerging businesses. With this development, there was need for financial support from Banks when befitting. However, most emerging SMEs expressed difficulties in accessing funding to support their business. Areas of difficulty mentioned were:
- The conditions are stiff and offer no room for negotiations
- Requests for finance are put forward when there is a business opportunity, but loan negotiations protract to obscure the investment opportunity. This eventually made it difficult to access from banks.
- Decision making takes long in most banks.

The micro finance institutions have offered opportunities for alternative funding to the SMEs in these sectors such as:

- **Order (contract) financing:** where when a small and medium practitioner wins a tender or business, these institutions were able to assist in part or full when requested.

- **Invoice discounting:** when an invoice was submitted for the work done, and an enterprise was lacking in finances to start another order, these institutions were able to offer funds, premised on invoice receivables.

Some level of flexibility was described among micro finance firms. The competition growing among microfinance firms is providing suitable alternatives to finance. During the study period further information secondary information was collected, in support with of the assertion of flexibility. Focus financial services (05.09.17)[7], a Microfinance institution publication affirmed in a quoted statement that:

'*We are ready to support businesses grow, in the last nine months we disbursed ZMK17million through SME invoicing and from September this year (2017), we have secured USD10million for onward lending to SMEs and it is collateral free'.*

This provides a growing support for SMEs in Zambia and growing financial options for local businesses. This opens up a form of competition in the financing sector, thereby providing various options to SME businesses and individuals. These financial options are also available to individuals who want to venture in some productivity; especially those with steady income such as are employment.

The researcher further found a new growing trend among the various SMEs approached, which is:

Networking and Collaboration: this is a growing trend among emerging businesses. It offered a quicker way to provide finance and support for one another. This approach also made the enterprises involved more competitive as time of executing the business deal was reduced. Some areas were networking was noted include:

Supply chain networks / Agency.

Typically, these consisted of producers' licensing of products to SMEs to trade, supply and sell product to end users and the associated chain of suppliers.

They are often represented as hierarchical or pyramid-shaped with the producer of the finished product at the top and tiers of suppliers' underneath.

Several factors have contributed to increased interest in, and use of, business networks among the Small and Medium enterprises. Size of these business entities in terms of financial base was small and recognised the need for financial synergy to boost growth. This was noted in the supply chain, where SME's showed

[7]Focus financial services, Subsidiary of Focus Group, Times of Zambia: Business Section Page 9. Title: *FFS Set aside US10Million for SMEs.*

synergy to work on large supply projects. The advantage noticed also was that, tapping into each other's expertise is one-way SMEs can learn from one another.

This was due to difficulties experienced in accessing funding for their projects and businesses. It was noted that loans from banks to SMEs are expensive and inaccessible to most business, because of lack of collateral.

This was echoed by the Ministry of Finance and National Planning (10.08.2017)[8]; Minister of Finance Felix Mutati said "*the government is in the process of creating an Entrepreneurial Fund for the private sector to facilitate the creation of a scheme for issuance of long-term credit guarantees to Small and Medium Enterprises (SMEs) in Zambia on low-interest terms.* Mr. Mutati added that,*"the Entrepreneurial Fund which will be offered at affordable interest rates is aimed at enhancing the capacity of small-scale private sector players in order to facilitate their participation in accelerating the growth of the economy". "The underlying factors to success and failure of project financing are the prevailing economic indicators at a given time. Financial institutions response to financing needs depend on various economic factors and independent institutional decision making. However, there was need to appreciate the stance of financial firms in a given period".*

This was exactly expressed by most respondents that it was difficult to access finance from the Banks and certain financial institutions, which demand huge interest charges.

Discourse Review of Example- NLC on Financing Large Enterprises

The responses considered were derived from the case under study i.e. NLC Recapitalisation Project being a Greenfield project requiring excess of funding of more than US$60million. Responses from management and other stakeholders affiliated to this project indicated a lack of financial will from banks to participate in the developmental projects of this magnitude. Lack of financial will was attributed to low confidence and unknown risk factors to deliver. Some of the key notable narratives collected from responses include the following:

'**Despite potential effort and company ability to pay demonstrated, Banks remained closed up'**: this was a response from the former project Manager, who was tasked with the responsibility to sell the project to potential financiers. It showed a lack of feedback from the banks. It was further elaborated that, at the turn of 2008/2009, the global financial crisis was also a major contributor for the start of the project. But this cannot be the only cause,

[8]http://www.manic.co.zm/banks-costly-lenders-smes-according-bank-zambia/ 10.08.2017

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because the company managed to perform better had strong balance sheet.

'A lot of time was lost in the processes of trying to secure finance': this response was further amplified by the effects of the delay being the time lost on schedule to start the works. The average period indicated by stakeholders in terms of delay is four years from the time of advertising to funders. This meant the project had to be rescheduled and it also meant reworking on the cost estimates that were earlier done. The reason for this was the prices for the commodities such as steel, labour, and other materials went upwards.

'Delay in the process of acquiring finance enabled competition to come': it was clear from these sentiments that the protracted financial negotiations with various banks had aroused interest in the sector. Others competitors got wind of it and capitalised on the delay. The economic and profitability of the business was noticed by other industry player and took a similar approach to set up business.

6.1.2 VIEWS FROM FINANCIAL INSTITUTIONS REGARDING BUSINESS / PROJECT FINANCE.

It was noted that there were two categories of banks and micro finance firms providing responses with regard to capacity to finance medium and large firms:

a) The Indigenous Zambian Banks

- Zambia National Commercial Banks
- Finance Bank (currently part of Atlas Mara)
- Investrust Bank
- Indo-Zambia Bank
- National Savings and Credit Bank (NATSAVE)
- Zambia National Building Society
- Pan African Building Society
- Cavmont Bank

b) International Banks

- Barclays Bank
- Standard Chartered Bank
- Access Bank
- Stanbic Bank
- First National Bank
- Bank ABC (Atlas Mara)
- United Bank of Africa

(c) Micro Finance Firms

- Bayport
- Madison Finance
- Finca International
- Blue Financial Services

These institutions provided responses that indicated the following responses:

6.1.3 Discourse Review from Financial Institutions

The responses obtained from the financial institutions on the capacity to finance large enterprises. These indicated the willingness to support the businesses. Most indigenous firms indicated that:

(a) No Funds Waiting for Large projects

This response meant that as funds are available, there reinvested in other areas to generate more income. The higher risk levels in large investment projects like the Recapitalisation of Lime Plant make it difficult to commit a lot of funds. These could make the financial institution strapped to meet other obligations. Institutions were more comfortable dealing with what they know best- being Personal, Business and SME loans. Unpredictable Nature of outcomes makes it difficult to invest in.

(b) Most borrowers had inadequate List of mandatory documents

The financial institutions were asked to provide some instances were finance had been denied, they responded by stating the lack of preparation on the part of SMEs and larger companies, to fulfil the conditions necessary to get funding. This mad the banks to fail as they couldn't mitigate the risks. Large projects require detailed due diligence that takes a long time and depending on the outcome, the study may not inspire confidence to lenders.

(c) Banks are ready to offer finance

The banks were keen to provide finance, but believed this was dictated by prevailing economic conditions and nature of business. They believed that clients and firms should have a project or business that is not only convincing but arousing confidence and interest.

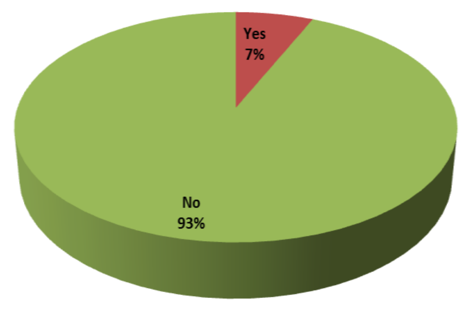
6.2 QUANTITATIVE PRESENTATION AND REVIEW

6.2.1 Capital Projects – Example of Ndola Lime Recapitalisation Perception on Financial Institutions.

The example used for large enterprises showed the views and perceptions of management and project leadership expressed during the data gathering period. It highlighted mixed feelings. However, the respondents showed opinions on the responses of the banks towards financial needs of their project. The perceptions were regarding the capacity of local banks and their capacity to get involved into funding capital projects.

Graph No.01: shows the perception of the management and projects leadership regarding the views based on experiences:

Graph.01: NLC Perception on Capacity of Local Banks

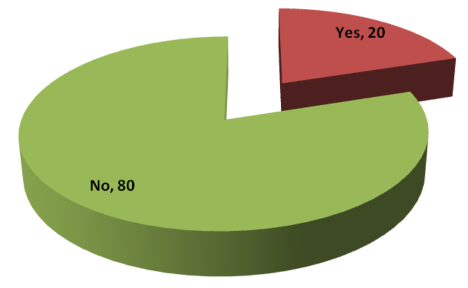


The management showed 93% negativity in the desire and capacity of local banks to participate in financing major capital projects. However, 7% felt that their local banks were capable, depending on the nature of finance sought. This perception indicates that based on the difficulty experienced in financing the recapitalization, the confidence levels waned in accessing the funds locally.

- **Timing of disbursement.**

Timing of financing was not in line with scope and schedule. The secondary data showed that there was a lot of time lost between financial requests to disbursements. The management indicated that the space had impact worth considering. There was also a review of how the companies viewed the institutional options and competition among financial companies regarding financing the large firms.

Graph .02 Options & Competition for Capital Projects

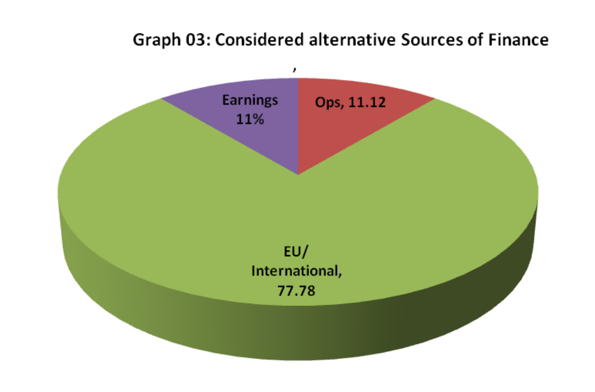


Source: Field research data: 2017

Majority (80%) of the project stakeholders felt that there was need to more options with capacity of the financial sector in order to be all inclusive, from SMEs to large capital projects. The respondents indicated that the competition among available players was overshadowed by the risk tolerance in financing large projects. It was further viewed that even international banks resident in Zambia were no different, indicating that these institutions lack local decision-making prerogative regarding capital projects. They are dependent on the decisions from outside, but provide a good arrangement mechanism for accessing international finance.

Other Considered Financial Options

Having received little support from financial institutions, it was necessary for the company and the Project management office to consider other alternative sources of finance. The management and the project team reviewed that other options considered were in the following level of importance:



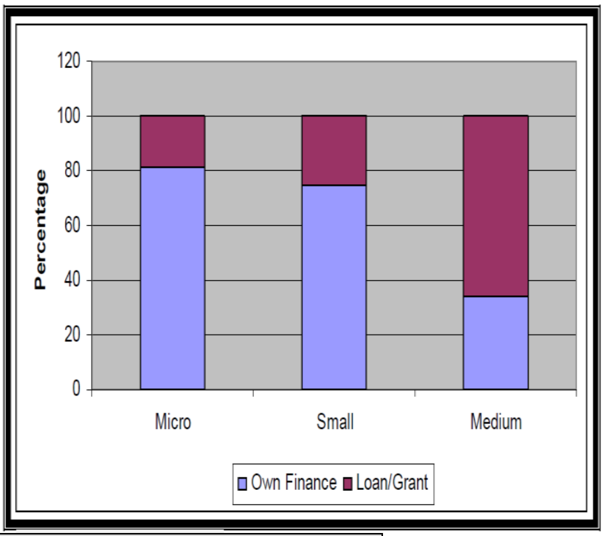
Source: Field research data: 2017

The first two options (earning and Operations income) were quickly found unsustainable. However, the operations infrastructure was to be used as collateral and committed to support funding.

The record showed that eventually financing was not obtained from Zambian Institutions. It was discovered through secondary data collection that; the financing was obtained through a joint financing arrangement between the ZCCM-IH and Standard Bank of South Africa (ABSA). This was the only source of finance acquired in 2010. This was a pure loan based on the requirements of the company. Ndola lime being a subsidiary of ZCCM-IH was greatly supported to acquire this finance from an international source and a local non-financial firm. This showed a strong likeliness that capital projects cannot be financed locally due to the magnitude of financial load being huge. The 77.78% showed more assurance to source funding from outside the country, the remaining 22% was a consideration to look within the company, but this was found unsustainable.

6.2.2 Medium Enterprises

The responses and experiences obtained from the SMEs on their business interactions with financial institutions were tested through the quantitative analysis and showed a consistency in the level of cooperation between the two. The study showed that the level of finance is too low as these growing businesses started. Graph 4.0 below shows the level of access to finance depending on the capacity of SMEs.



Graph 4.0 Financial Access Review

This demonstrated that the size of business determined accessibility to funding. Most of these businesses were financed by the owners and were limited in the growth capacity. The Micro level is basically individuals with a business idea, without a formal registration of a business on paper. The Small and Medium formalised their businesses and had established operating premises. One of the major determinants also was the difference in income

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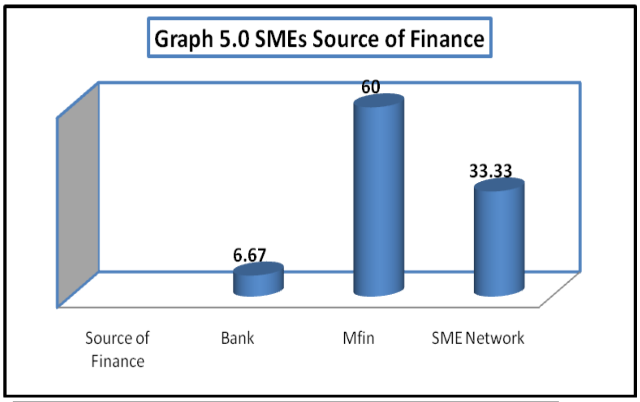
levels, which is a major consideration when it comes to funding.

Further analysis was done to determine the sources of finance based on the available financing sources. It was found that the SMEs had varying preferences that depended on existing relationships developed. Others preferred Banks, especially those that had more stable financial base and income per month. The second lot preferred the Microfinance institutions for their flexible terms and conditions. Figure 5.0 shows the sources and their impact on SMEs.



Source: Field research data: 2017

Following the discourse review, there was greater emphasis made by respondents regarding the impact of Microfinance institutions and the benefit of SME collaborations among themselves. This was also brought out strongly in the numerical review of the data. 60% of SMEs had engaged Microfinance firms to support them financially. 33.3% had realised the need to collaboration and networking to create a pool resources for projects of greater value. The6.67% had access to finding from Banks. This shows a greater shift from normal, because banks have been a natural source of finance.

The most prevailing borrowing conditions among the Banks for Medium and large enterprise as obtained from Investrust Bank[9]were

1. Letter of application stating purpose, amount, period.
2. Nature of business (Profile)
3. Ownership structure
4. Directors' statement of Assets and liabilities
5. Photocopies of title deeds for pledged properties
6. Latest of valuation reports, at least two years old.
7. Management profile (age, Qualification, Experience & Nationality
8. Certificate of Incorporation /registration
9. Audited or certified financial statements for the previous three years.
10. Cash flow projects over the period of the facility supported by major assumptions.
11. Articles of association for limited companies
12. Management Accounts
13. Board resolutions.

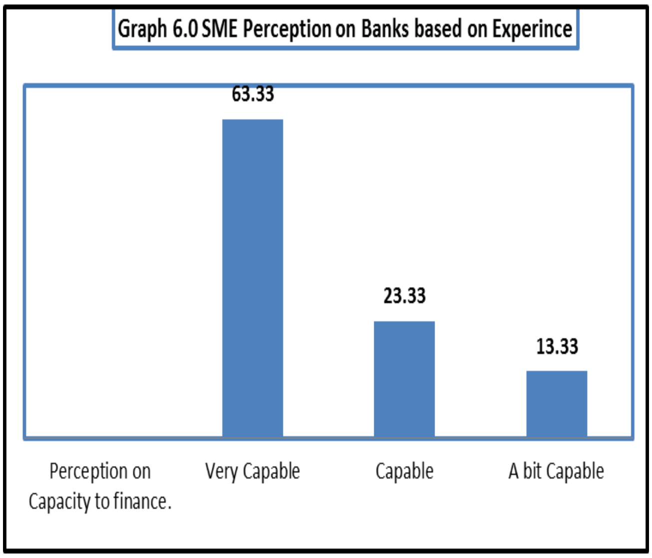
The last of the requirement is a big factor that has negative bearing business timing.

[9]Investrust Bank, a Subsidiary Bank of the ZCCM-IH, incorporated Commercial Bank.

Interest Calculations and fees.

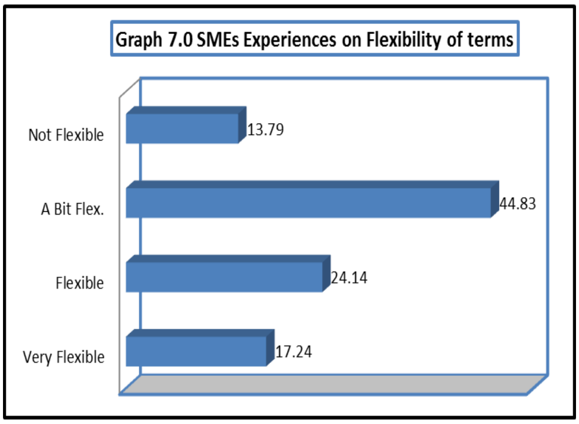
- Interest rate as at 15 Sept 2017 is 40% (12% BOZ policy Rate +BOZ factor + (+2% Mark up)
- Arrangements fee 2.5% on total amount
- Documentation fees 1-6% of amount requested.
- Minimum Facility is ZMK10,000.00

These requirements should be met adequately before access to funding. For most SMEs providing convincing documentation is far from being easy. This provides little confidence to the banks. Therefore, it is also prudent to review the perception of Medium enterprises on financial institution suitability to provide alternative finance for businesses.



The outcome proved that there was a lot of positive expectation from Medium enterprises. Despite the low-level finance arising from banks, the perception remained high with 63%, among the SMEs regarding the ability of the banks to provide adequate funding to their businesses. The main challenge remains that most fail to breakthrough to access funding due to lack of capacity and weak balance sheets.

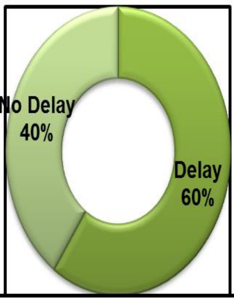
The acknowledgement of capacity was pronounced however, what makes most not access funding despite the confidence in their capacity? The answer may lie into responses obtained from the question of flexibility of lending terms to the growing businesses as follows:



The Responses experienced a lot of inflexibility in the lending terms from Banks making it difficult to get funding. Largest proportion of 45% showed that banks were a bit flexible to SMEs, combining this with 14% who experienced total lack of flexibility we had a total of 59% of inflexibility experienced against 41% of flexibility. In general terms, there was no flexibility to lending terms and this arose from lack of confident in ability to pay. This does not mean the Banks are not altogether unable, but that they need all conditions fulfilled. The level of risk must be mitigated adequately.

This seemed to be a major deterrent for many Medium enterprises from seeing finance. Another factor already being considered across the businesses is the delays and responses showed as follows:

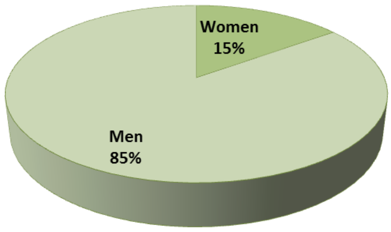
Graph 8.0 Experience in Delayed finance



Most of the delay was noted in processing the loans were a protracted process as financial institutions were more concerned with the recovery of their Investments. This leaves the Medium and Large enterprises with fewer choices to turn to.

The number of women in formal medium enterprise was also measured, and it showed that there was a huge gap. The business was male dominated and this showed a female participation of only 15% compared to men with 85%, as shown below:

Women Vs Men in Medium Enterprises



7.0 FINANCIAL INSTITUTIONS ANALYSIS

The Banks and Microfinance asked to offered responses on the capacities to offer finance for investments and infrastructure. Feedback was based on the capacity of financial institution available on the Copperbelt province. It was noted that most banks expressed capacity to finance the large projects. This was a in contrast to many views by the Recapitalisation, which were based on their personal experience with the Banks. Graph 9.0 shows a total of 88% ability by the Banks' capacity. While the Microfinance showed 11%, and are more likely not to participate in complex financing arrangements. It should be noted, some Microfinance institutions had started taking up depository banking services e.g. Bayport, which showed an increased revenue base arising from interest charges, cash inflow for other investment opportunities. This had helped the capacity to take on some big businesses.

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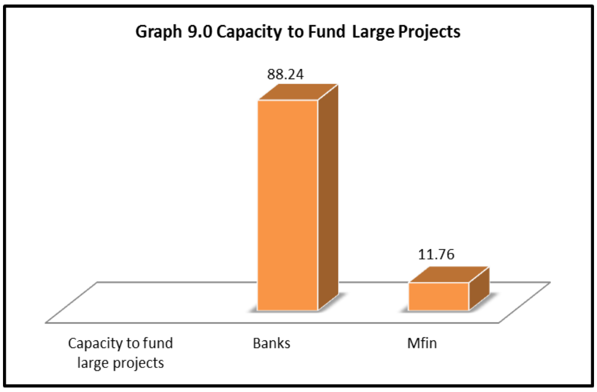
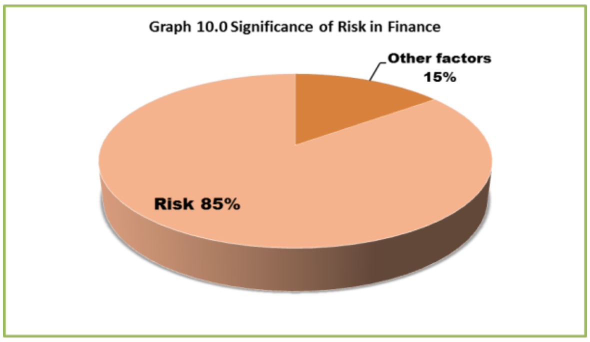


With a greater response from internationally domiciled institutions, this was a positive response. However, the same feedback was not translated into specific figures in terms of money. Some Micro finance institution have grown stronger and showed they could take on large financings of projects.

Other than showing capacity, there was a question asked why most Banks mainly take on personal financing to individuals with security such as employment; acceptable assets etc. and they do not seem keen to take up large projects whose recovery is premised on beneficial operation of the projects. Depending largely on the project projected cash flows and benefits.

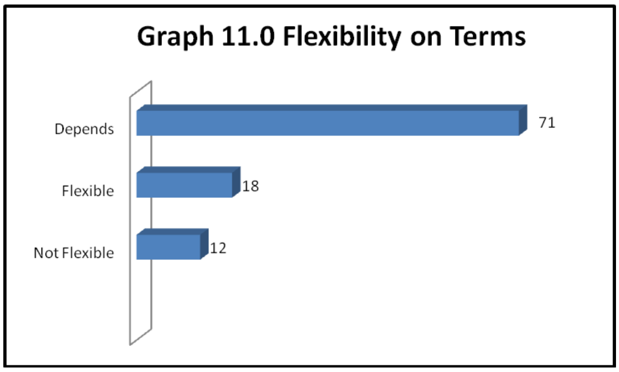
At the success of any project or business lies in its beneficial operations and the complexity of large projects such as the recapitalisation does give little assurance. To mitigate this level of uncertainty, banks were more comfortable to not only finance, but also carry out the large capital projects on behalf of the client and the hand over for beneficial operations, to reduce risk.

This was one option the NLC Recapitalisation project had, but the management of the company were only interested in finance. Graph 10.0 shows the 85% significance attached to risk in funding large project or businesses.



This level of risk tolerance makes it hard for the banks to offer flexible terms and conditions. However, most institutions did consider loan applications case by case since they come from various sectors of the economy. This also meant that the Microfinance institutions were more flexible than banks, in terms of lending to SMEs.

Assessing the flexibility of terms and conditions, it was shown in responses that some firms were willing to relax on terms based on the firm's capacity and nature of project and business. Graph 11.0 above showed how 71% of banks show flexibility in finance. Mostly applicants are considered on case by case basis. Looking at the recapitalization project, this was also treated the same way. That time the banks treated Ndola lime project based on its risk profile. The Baxget Building Complex too was considered based on its risk profile and ability to payback. The case deemed high risk due to it being a mining company, as the 2007-2008 economic meltdown affected copper prices and mining firms were on care and maintenance. So in other ways, prevailing economic conditions do dictate the financing.



7.0 DISCUSSING OF RESEARCH FINDINGS

7.1 Risk and Time Factors

The process of reducing risk seemed extremely strenuous and time consuming. This had adversely affected most opportunities. The study has therefore found that timing and risk are factors not easy to harmonise. The time agreement to fund is reached, the time lost is great opportunity and agreed mounts without considering lost time. Looking at the two examples, the funds were released late and this meant that;

- **Competition** was getting up ahead to the business opportunity, and started implementing e.g. for Recapitalizations Project the timing was scheduled as follows:

Milestone		Completion date
[1]	Project release	5th June 2007
[2]	Engineering (designs, drawings)	27th March 2008
[3]	Civil works Complete	2nd July 2008
[4]	Mechanical Installations complete	27th Nov. 2008
[5]	Electrical & Instrumentation	16th January 2009
[6]	Cold commissioning complete	27th February 2009
[7]	Hot commissioning	27th March 2009

Source: NLC Archives. Feasibility study report 2007

However, the delay in release of funding to risk assessment took the project to complete in 2016 with commissioning happening in 2017. A project taking ten years to complete has along the way invited many players in the industry as competitors. By the time the construction was completing, the competitors were also finishing their construction and moving into operations at lower cost and operating plants. The longer it takes reducing the financing risk, the more the publicized the business opportunity and competitors come in.

The second Baxget Project example, its timing of funding was also out of schedule, time past from request to financial release. It took two and half years to finance the building complex in the centre of town. Now it stands incomplete with funds finished while the banks are busy pursuing for their funds. In the end, it is evident that all the advantages go to the banks, because in the end they either repossess the business.

The risk factor again worked against the time to start this project. The main effect here was the cost in the commodities went up due to inflation. The money lost in value hence, the project stalled.

8 CONCLUSION AND RECOMMENDATIONS

Government has a major responsibility to provide a suitable and supportive business environment so that the SMEs can be fully supported. Government through the Ministry of Finance and National Planning has to continue planning on how to improve financial access to the SME. It was relief to note that, the Minister of Finance, Mr. Felix Mutati (2017) recognised this limitation and said;

"Access to finance for the SMEs was about to change, as the government was in the process of creating an entrepreneurial fund for the private sector to facilitate the scheme for the issuance of long-term credit guarantees to SMEs".

He further stated that,

'This was aimed at enhancing capacity on small scale private sector players in order to facilitate the participation in the acceleration of economic growth.'

This was a great stride in improving participation in the economic development of the country. More options to consider would be to seek a way to ameliorate the link between banks and SMEs through the Central Bank.

8.1 Government Facilitation

Government should partner with medium and large enterprises in growing capacities and encourage partnerships. Most Contracts in government are being executed by foreign based companies, i.e. the Chinese, who upon completion externalize their profits. That is the reason the researcher is calling for policies that balance the award of public tenders by 50% local and 50% Foreign. If capacity is enhanced locally, medium and large enterprises have potential to reduce unemployment unlike it is today. There is need to channel millions of dollars, through Contracts to local and indigenous firms in order to grow the middle class.

Zambia boasts 41million hectares of arable Land but on 4% is currently being utilised for productive means[10]. Endowed with copper, gemstones, water, uranium and many other resources, the benefits are yet to be seen at grass root. This can change with stronger, tangible partnership between government and the Private Business Enterprises (PBEs). Government has a huge responsibility to uplift capacities by providing business support.

The legal framework should be strengthened to foster equitable distribution of business opportunities, resources and land, among local business entities. The ugly trend of foreigners getting resources leaving local business static is avoidable robbery.

Most enterprises have cried about lack of capacity on local contractor, but the bottom line is, if not supported, the medium and local business will have no opportunity for growth. The research believes that creating synergies among medium enterprises will lead to greater growth.

8.2 Timing of Finance from Banks.

There was sufficient evidence that financial firms have no regard to the time of financial outlay o business borrowers. In the current economic set up, with a lot of business opportunities as fluid as technology, the Banks and other financial firms may not be suitable source for funding. This is especially to Medium and Large enterprises. Delays in negotiating, securitization and other formalities do not move synchronously with the business opportunities. The two examples in the study prove this point. Alternative means as observed among some business enterprises are suitable such:

- **Joint Venture:** where business opportunities exist, firms should partner by creating Special Purpose Vehicles (SPVs) and pull resources together for growth.
- **Equity:** by recognizing potential for growth, growing firms should package themselves professionally, and seek equity partnerships with others with financial muscle to grow.
- **Collaborations:** this was seen as a growing trend among medium enterprises and should be encouraged in the execution of large projects and orders. This is a faster way to grow and share opportunities. It further provides a competitive urge.

The medium enterprises are yearning for growth, and government should cope to the rescue.

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