



ZAMBIA ASSOCIATION OF CHAMBERS OF COMMERCE & INDUSTRY

A Booklet on HOW TO ACCESS FINANCE IN ZAMBIA



With support from DANIDA

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WHO ARE WE

ZACCI is the national Chamber of Commerce and Industry representing District Chambers, Affiliate associations and Corporate, including some public sector agencies that are supporting the growth of private sector. It is the voice of the private sector that strives to create a conducive business environment for economic growth.

MISSION STATEMENT

Promotion and development of all productive economic activities including trade, commerce and industry; speaking authority on behalf of the business community and acting as a link between the private sector large and small and government, organizations having similar objectives to those of ZACCI.

OBJECTIVES

- ⊕ To advocate for the economy to be market oriented and in private hands
- ⊕ To advocate for the lowering of costs of production
- ⊕ To advocate for a growth oriented tax system leading to double digit growth rate.
- ⊕ To contribute towards a strong domestic business and domestic business associations.
- ⊕ To work towards achieving a stable exchange rate, single digit inflation and low interest rates.
- ⊕ To provide improved services to members.
- ⊕ To practice and propagate high business ethics and standards.
- ⊕ To contribute towards a high quality Private Public Partnership and Dialogue.

ZACCI MEMBERSHIP & REPRESENTATION

Member to ZACCI is made up of:

1. District/Provincial Chambers of Commerce and Industry

These are: Lusaka, Kabwe, Ndola, Kitwe, Mufulira, Kapiri Mposhi, Chingola, Kafue, Eastern Province, Northern and North Western Province.

2. Sector Chambers and Associations

These are: Zambia Chamber of Small and Medium Business Associations (ZCSMBA), Zambia Clearing and Forwarding Agents Association (ZCFAA), Zambia Association of Manufacturers (ZAM), National Council for Construction (NCC), Insurance Brokers Association of Zambia (IBAZ), Zambia Export Growers Association (ZEGA) and Zambia Insurance Business College Trust (ZIBCT).

3. Corporate/Companies

Membership extends to large companies and corporate bodies which include bankers, stock exchange, oil marketing companies, manufacturers, agro processors, pension managers, mobile phone service providers, hoteliers and traders, etc.

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He has worked in the School of Business of the Copperbelt University as Lecturer and Head of Finance and Accounting Department from 1992 to 1999. He also served as the Country Director of International Executive Service Corps (IESC) a US based economic and business development organisation, in charge of the Copperbelt Linkages Program jointly implemented with the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) and managed the BizAIDS Program working with micro, small and medium businesses to mitigate the economic impact of health and related risks. He also served on the stock exchange second tier working committee for small and medium businesses and provides consultancy services in financial services and business reorganization. He is trained in Securities brokerage under the Lusaka Stock Exchange (LuSE) and Securities Exchange Commission (SEC).

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He is the founder of **PMK Investment Management Limited**, a company focussing on private sector development through provision of business advisory services to SMEs. In early 2003, he developed **PMKipnet** - an online independent investment promotion consultancy. He also serves as a registered dealer representative for **Equity Capital Resources Plc** a financial advisory and asset management Company.



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FOREWORD

In line with the ZACCI theme “SMME enhancement key to sustainable development”, of 2005/2006 Chamber years Annual General Meeting and GALA, we are pleased to publish this booklet in order to provide readily available guidance on HOW TO ACCESS FINANCE IN ZAMBIA. Finance is the key to actualization and/or implementation of business plans and strategies and hence the key to investment unlocking of potential wealth creating activities.

With this realization, ZACCI understands and knows that for Zambia to attain enhanced and sustainable economic growth and development, small and medium businesses have to grow and to do this they need access to inputs, including finance and access to markets.

Through this booklet, they will be updated from time to time and as need arises, ZACCI brings to all entrepreneurs and business houses a concise and, yet accurate guide on how to access the right financial package to fulfill their business needs and strategies.

Wamulume Kalabo
Chairperson, ZACCI
September 2007

DEFINITION OF TERMS

“Loan”- a short, medium or long term facility provided by institutions regulated by the Bank of Zambia. The facility is secured by specific assets of the borrower.

“Bond” - a long term debt security that carries a fixed or floating interest charge. It is secured against specific assets of the issuing institution. Bonds are usually issued by companies to finance capital expenditure.

“Commercial Paper” short term debt security instruments that are issued by corporate entities. They have a term to maturity of less than one year and are issued to bridge operational cash-flow. They are usually secured against specific company assets.

“Debenture” - a debt security that can either be issued for a short or long term period. It is not secured against any assets, but against future cash-flow from operating activities.

“Common stock or ordinary shares” - securities representing the ownership of the company. This is sometimes called equity in the business.

“Preference shares”- securities which entitles the holder with the first priority over the other shares of the company. It carries a right to preference in the repayment of dividends at a fixed rate when declared and a right to preference in the repayment of capital if the company is winding up.

“Collateral”- Specific asset (such as land or building) pledged as a secondary (and subordinate) security by a borrower or guarantor. The principal security is usually the borrower's personal guarantee, or the cash flow of a business.

“Floating rate”- Any interest rate that changes on a periodic basis. The change is usually tied to movement of an outside indicator, such as the prime interest rate.

“Fixed rate” - Any interest rate that does not change during the entire term of the loan. It is the **opposite of floating rate**.

“Guarantee” - A guarantee is a promise on some performance aspect of a product or service. In case of a loan the guarantee is provided so that where a borrower fails to repay the loan amount then the guarantee is enforced as a way to recover the funds.

“Base rate” – The rate commercial banks charge to their customers.

“Short term”- this is referred to a period that is within 1-2 years of the facility or loan being provided.

“Long term” – This will apply for a facility that is at least 3 years in tenure.

INTRODUCTION AND BACKGROUND

The Zambian finance sector has evolved significantly in the last two decades. In the early 1990s, the financial sector reforms were undertaken in Zambia. These reforms were aimed at facilitating the growth of the sector. By the mid 1990s there was an upsurge of financial institutions which were privately owned. The liberalization of the Zambian economy further encouraged more financial institutions being set up. As of to date, the financial sector of the Zambian economy comprises the following institutions: commercial banks, development banks, leasing companies, Pension and insurance companies, securities companies, financial brokerage firms and micro finance institutions. In addition, other sources of finance are bilateral and multilateral institutions. These institutions provide the various financing options to businesses that vary according to the lending terms and conditions of the institution.

Accessing finance in Zambia and indeed every where else in the world is a challenge. Previously, accessibility to finances was deterred to a large extent by the levels of Government borrowing and high interest rates. In effect, this caused crowding out on the financial market as the financial institutions had no incentive to lend to the private sector for growth but only focused on investing in Government Securities. However, the trend on the financial market has taken a different turn. There has been a sizeable reduction in interest rates and reduced Government borrowing prompting the players on the market to be more innovative in their service and product delivery.

BUSINESS FINANCE

Each of the above mentioned financial institutions has its own conditions towards the provision of finance to businesses. The process of accessing finance begins with the principals of the business. Before approaching a financier, it is imperative that one develops a business idea i.e. the product or service one will offer in the marketplace. The idea can be anything that makes economic sense and will result into a profitable venture; a person might want to set up a haulage firm, a grocery store, restaurant etc. The idea should be well developed with the benefits outweighing the disadvantages. This should involve a thorough market research on that particular line of business. In the process of conceiving the business idea, it is important to seek for means and ways of doing your business differently from your competitors. Research on what is happening in your industry, including economic trends, outlook, growth patterns and forecasts. Based on your findings, you should then conduct a SWOT (Strength Weakness Opportunity Threats) analysis of your business:

| | |
|---|--|
| Strength What can we do better than our competitors? | Weaknesses What is challenging for us to make improvements? |
| Opportunities How can we increase the potential of our business? | Threats How can we manage associated risks? |

Within the conception of the business idea, there should be provisions for attracting critical stakeholders to your business; these being the financiers and clients. With regards to the financiers, the idea should be attractive enough to be sustainable over a long period or in accounting terms provide a going concern of the business operation. On the other hand, it should be attractive enough to facilitate for continuous purchases from clients, resulting in customer satisfaction and retention.

When you are satisfied with your business concept, you should form a vehicle through which the business idea will be executed. This stage will involve the registration of a company. It is critical to register your business as it is a prerequisite to accessing a business loan and or finance from any

financial institutions and or other investors. In Zambia, there are four types of business enterprises that can be registered. These being:-

- Business name
- Partnership
- Limited company (by Shares or Guarantee)
- Public Limited Company²

It is advisable to register a company under the Companies Act when requesting for a business loan and or finance. The level of capitalization for the company is a critical factor in determining the amount of finance that can be obtained. The minimum share capital required to incorporate a company under the Companies Act is ZMK 5,000,000. When seeking for a loan over and above your minimum share capital, it advisable to adjust the capital to a higher value, at least up to 20% of the funds being sought. This will provide the financier with a source of confidence as this shows that as the owner you are also taking a level of risk in the business.

BUSINESS PLANNING FOR ACCESSING FINANCE

Access to finance is an important resource for any business, because without it, your business cannot function. Where you get your finance and how you allocate it will have a major impact on the future success and growth of your business. The starting point for the success and growth of your business involves the process of business planning. This is basically the process of moving ideas from your head to paper in an organised, clear and convincing manner.

Planning is your route to success in business. You need to write a business plan³ if you are:

- Starting or buying a business
- Financing or refinancing your business

A business can generate large sums of money and lose it in a short period because if one area of a business fails, it can drag the positive parts down with it. The Plan helps you to find hidden flaws and makes you think carefully about each phase of your business. It is important that you write your own business plan because you will gain in-depth knowledge about your business which will make it easy to answer the financier's questions.

The business plan should contain precise details of the owners, management, level of investment by the owners and the capital base. Matters of governance should be well articulated i.e. Management and the Board of Directors. A business can be professionally run if the owners appoint other people to manage it. By so doing, matters regarding potential conflicts of interest are avoided.

The financiers will be interested in knowing the purpose for which the funds are required. It is therefore important to stick to the plan of utilization of the resources sought. In certain instances, financiers will make the payment directly to the suppliers of your business. Remember to provide the financier with your proposed tenure of the facility and how the funds requested will be repaid.

The final phase of the business plan is the business's financial statements. These will include the cash flow statement, income statement and the balance sheet. The projections should at least be for three years. When developing the financial statements, you should make realistic assumptions. Don't be afraid to address risks and weaknesses as long as you explain how they will be handled. Financiers know there are risks in every business. They like to see business owners who recognize and solve them.

²Refer to *How to Register a Business- A booklet produced by ZACCI in 2007*

³Refer to *The MSME Business Toolkit adapted from ASCII produced by ZACCI in 2007*

If your business is already in existence, show reasonable links between the past, actual and future financial projections.

Financiers shall require that you provide the following statements at different stages of the business;

Start up: - At least three years projections

Growth: - Financial records for the last trading periods (At least 3 years) and projections,

Expansion: - Financial records from the last trading periods (At least 3 years) and projections based on growth trends.

Common financial problems to watch out for-

Limited Capital

Capital is money required to commence business operations.

Little or no record keeping

You must keep a record of all your transactions on a daily basis.

Failure to seek outside help

Consult an accountant and business advisor to avoid a financial crisis. Your advisor's input is valuable but don't be totally dependent on them. You should have a basic understanding of your company's finances.

Poor Management

A business needs a good financial manager.

Reluctance to invest in the business

Why should the financier support your business if you won't invest any of your money? You must put about 20% of your own money into the company.

Personally guarantee the loan repayment

If the business fails for any reason, the owners must repay the loan. Financiers need to be assured of your total commitment.

Calculating the capital requirements for your business will be a part of the research you need to do for your business plan. Calculating your financial needs is a very important aspect of your business planning process. Without money, never mind how good your idea is, your business will never get off the ground. If you don't plan for enough funding, you run into the real danger of running out of money just as you are getting started. A checklist for the business plan can found in the MSME business toolkit for additional information.

TYPES OF FINANCE

There are three options of financing available for businesses. Each type of finance applies at any stage of the business i.e. Start up, Growing and Expanding/ or acquiring a business. However, the key to accessing finance for business is based on the OPM principle. Which is Other People's Money. Raising finance will almost be always others people's money and as such you will need to know what it takes to pursue a process of accessing finance.

Own Resources

In the first instance, an entrepreneur can use own resources to finance a business. Usually own resources will take the form of savings. In as much as personal savings can be a cheap source, it has limitations. The owner will always feel indebted by the business. Consequently, corporate governance requirements and business ethics will tend to be over ridden by personal interests in the running of the

business.

Savings are intended to meet the immediate personal financial needs. An investment into a business should be viewed with a long term perspective to yield the desired future outcomes. Therefore, if savings are to be used to finance a business, the same should be provided to the business in the form of a loan with the view of claiming the money at the point when the business becomes profitable and sustainable.

Debt Finance

Business finance acquired through debt will come in the form of a Commercial loan and Debt securities which includes bonds, commercial paper and debentures. Access to formal debt finance is facilitated through registered financial institutions licensed by the Bank of Zambia, the Securities and Exchange Commission (SEC) of Zambia and the Pensions and Insurance Authority (PIA).

Equity Finance

Ownership in a company is evidenced by equity. This applies to all companies registered under the Companies Act of 1994. Inevitably, investors who pay in the capital are called the company's shareholders. A limited company's shares are privately placed (offer and sale) to specific institutions or individuals where as the shares of a public limited company are open to the general public. By virtue of trading the company's shares, business finance is raised. The raising of finance through equity comes in the form of Common stock or ordinary shares and Preference shares.

The finances acquired can be used for two purposes in business;

Investment capital: This is finance to provide the business with capital to get the operations going. This can be done at start up, growth or expansion stage subject to the business model and direction.

Working capital: This is finance provided to meet current financial needs of the business.

When evaluating the working capital requirements for your business, permanent and variable capital requirements must be taken into account. Permanent capital requirements are the minimum capital required to run a business without getting into financial problems. This is variable capital requirements, which are necessary working expenses, but expenses that the business can do without from time to time.

COST OF FINANCE

In looking for finance, the cost of money, which is an interest rate, should be a factor at any stage of the business. The interest that is paid on finances accessed by a business varies depending on the type of institution. This process impacts the final pricing of the product or service, in that a business will take this cost of acquiring finance and reflect it in its final products.

| Type of Institution | Rate determination | Margin/Other fees | Expected Annual Rate | Tenure/Period of loan |
|--|--|--|----------------------------------|---|
| Commercial Bank | Base Rate between 15% - 20 % | Between 2% - 5% | Range of 17% to 25% | Short term to cater for working capital needs |
| Leasing Finance Companies | Base Rate between 15% to 20% | Upfront fees between 1% to 2 % Management Fees of 2 % to 5% | Range between 18% and 27% | Short term, caters for working capital needs and investment in assets |
| Micro Lending or Micro Finance | Monthly charges between 5.5% to 12% | Included in the rates | Range between 66% to 144% | Short term |
| Securities Market (Bond Issues) ⁵ | Determined by the Borrower subject to Approval by SEC. Usually based on Treasury Bill rate as bench mark | Determined by the borrower between a range of 300 to 500 bases point subject to risk factors | TB Plus the margin or fixed rate | Long term |

WHERE TO ACCESS THE FINANCE

There are eight sources where one can access finance in Zambia and these include: -

- Commercial Banks,
- Development Banks,
- Leasing Companies,
- Pension and Insurance Companies,
- Securities companies, Lusaka Stock Exchange
- Micro Finance Institutions and
- Bilateral / Multilateral / Donor Funding Institutions.

There are basic terms and conditions that are taken into account by these sources to assess the suitability of a business to access finance and these are determined in four broad headings of:-

- Security: this entails the asset that will be provided as collateral for the facility.
- Tenure: this looks at the length of time that the loan will be provided
- Facility: this encompasses the type of finance i.e. overdraft; loan or other type of instruments that include Bonds, Commercial Papers or Shares
- Maximum funds provided: the limit of funds that can be provided

Commercial banks

These are deposit taking and lending institutions regulated by the Bank of Zambia. Commercial banks collect and pay out money on behalf of their clients. Bank based financing operates on a short to medium term approach which is usually five (5) years maximum lending period. Banks provide loans and overdraft facilities to their clients. Overdraft facilities are usually provided for working capital requirements. Banks will provide loans for growth and expansion. However, there are specific circumstances under which they will be able to provide for start ups ventures. The circumstances arising shall be through a due diligence assessment. The bank should be TOTALLY convinced of the business' sustainability through profit generation, underscoring the importance of developing and producing a well articulated business proposal.

⁴This is given as a guide and specific rates can be obtained from the financial institutions and is not meant to be exhaustive.

⁵Refer to The Bond issues for fixed rates for Farmer House is at 8.64%, Arcades Development is at 10% and Copperbelt Forestry Company is at 7% fixed. This shows that the borrower can determine the rate on the issue taking into account the risk factors and also the economic conditions prevailing at the time of issue. An issue can also be made using a floating rate.

Some of the commercial banks operating in Zambia and Headquarters contact details are given below:

| | | | |
|--|-------------|--------------------------|------------------------------|
| AFRICAN BANKING CORPORATION ZAMBIA LIMITED | ABC | P.O. BOX 39501, LUSAKA | +260 211-234541 |
| BANK OF CHINA (ZAMBIA) LIMITED | BOC | P.O. BOX 34550, LUSAKA | +260 211-238711 |
| BARCLAYS BANK ZAMBIA PLC | BBZ | P.O. BOX 31936, LUSAKA | +260 211-228858-66 |
| CAVMONT CAPITAL BANK LIMITED | Cavmont | P.P. BOX 32222, LUSAKA | +260 211-224280/6/7 |
| CITIBANK ZAMBIA LIMITED | Citibank | P.O. BOX 30037, LUSAKA | +260 211-229025 |
| FINANCE BANK ZAMBIA LIMITED | FBZ | P.O. BOX 36762, LUSAKA | +260 211-223587/221808 |
| FIRST ALLIANCE BANK ZAMBIA LIMITED | FAB | P.O. BOX 36326, LUSAKA | +260 211-229303-6/ 228440 |
| INDO-ZAMBIA BANK LIMITED | Indo-Zambia | P.O. BOX 35411, LUSAKA | +260 211-224653/225080 |
| INTERMARKET BANKING CORPORATION LIMITED | Intermarket | PRIVATE BAG E 805 LUSAKA | +260 211-223558 |
| INVESTRUST BANK PLC | Investrust | P.O. BOX 32344, LUSAKA | +260 211-238733/5 |
| STANBIC BANK ZAMBIA LIMITED | Stanbic | P.O. BOX 32111, LUSAKA | +260 211-229285/6 |
| STANDARD CHARTERED BANK PLC | Stanchart | P.O. BOX 32238, LUSAKA | +260 211-229242-60 |
| ZAMBIA NATIONAL COMMERCIAL BANK PLC | ZNCB | P.O. BOX 33611, LUSAKA | +260 211-228979/82 |

Examples of types of loans, terms and conditions being offered by selected banks are given in **Appendix 1**.

Development banks

Development banks provide long term finance for businesses and on case by case basis to support fixed asset acquisition and working capital needs. In Zambia, there is only one development bank, the Development Bank of Zambia (DBZ), which is providing the following products:

- ✦ Project Finance
- ✦ Trade Finance
- ✦ Leasing Finance
- ✦ Bonds & Guarantees
- ✦ Business Advisory Services
- ✦ Working Capital Loans
- ✦ Equity Financing

Contact details are:

The Managing Director
 Development Bank of Zambia,
 Development House
 Katondo Road,
 P.O. Box 33955
 LUSAKA.
 Phone : +260-211-228576-87, 228589-92
 E-mail : projects@dbz.co.zm
 Fax : +260-211-222821 2270006/ 228588
 Website : www.dbz.co.zm

Other regional development banks, which focus on Zambia are Africa Development Bank (AfDB) and Development Bank of South Africa.

Leasing companies

Leasing companies are commercial ventures that are established under the Companies Act. Their principle activity is the provision of asset based finance. They provide finance for such items as machinery and equipment i.e. tipper trucks, excavators, irrigation equipment etc.

There are two types of leases available for businesses:

Finance lease: - A **finance lease** effectively allows a firm to finance the purchase of an asset, even if, strictly speaking, the firm never acquires the asset. Typically, a finance lease will give the lessee control over an asset for a large proportion of the asset's useful life, providing them the benefits (and risks) of ownership.

Operating lease: - An **operating lease** is a lease whose term is short compared to the useful life of the asset or piece of equipment being leased. An operating lease is commonly used to acquire equipment on a relatively short-term basis.

Examples of types of leasing products, terms and conditions being offered by selected leasing companies are given in **Appendix 2**.

Pension and Insurance companies

These do not participate directly in the provision of financial services; they work through intermediary organisations in providing finances. They operate using an investment guideline code in that they will not provide finances for ventures that are considered risky. These companies will consider their financial outlays as an investment in their books.

Securities companies

Under the SEC Act of 1993 a company licensed by the SEC can provide financial advisory services as a broker/dealer. Such companies can source for money on behalf of their clients. These companies facilitate the issuance of the debt securities on behalf of their clients. Securities firms can also facilitate the issuance of shares on behalf of a client through quotation or listing on the Lusaka Stock Exchange (LuSE).

Steps to be followed in using the Lusaka Stock Exchange

First Step

Register the company as a Plc

Authorized share capital of ZMK 2 billion

Apply for a quotation on the LuSE, this allows the business to register the shares with the Securities and Exchange Commission.

Second Step

Increase shareholding to 300 shareholders for listing

Apply for listing to LuSE

Allow for free flow of shares

The Capital market presents an economical source of accessing finance for business. The financial instruments on the market provide the borrowers with a flexible repayment system that allows for business growth over the life of the facility.

Micro Finance Institutions (MFI)

Micro Finance Institutions are regulated by the Micro Finance Institution Act of 2006. These institutions provide financial services like small loans, savings, insurance and transfer payments to low income households and individuals.

MFIs provide business loans for start up and growing ventures. Paramount to the provision of an MFI loan is the requirement of the borrower to be a salaried employee. The majority of their clients use salaries to start a business operation.

Accessing MFI loans is quite costly. Their interest rates are very high, ranging from 5% to 12% per month i.e. 60% to 144% per annum.

Consulting firms

Consulting firms can take on the role of financial broker. As such, they will undertake to prepare the basic documentation on behalf of the clients vis-à-vis business plans, information memoranda for presentation to a financier.

Multilateral/donor funding institutions

The various donor funding institutions have particular priority sectors of the economy to financially support. It is important to seek financial aid from an institution that will match your business purpose. Appendix 3 shows the bilateral and multilateral organizations that target to provide finance to businesses in Zambia. For instance the Overseas Private Investment Corporation (OPIC) of the United States of America targets the Agribusiness sector.

ESSENTIALS OF POST FINANCING

A successful financial requisition demands efficient accountability and management systems to be put into effect. Instituting a financial policy is an essential part of the company's financial management. It forms the basis and guidelines for accountability, transparency and security i.e. it mitigates any level of mismanagement, corruption or theft through which the company could lose money.

There should be clear allocation of financial duties to facilitate controls. The allocated duties must be adhered to by responsible office holders. No one person should have mandate over all matters pertaining to the disbursement of the funds. The business should identify two or three individuals who will at all times be the signatories to the company's bank accounts.

Below is a suggested five (5) step procedure that should be adopted by businesses in carrying out day-to-day financial transactions;

1. The transaction must take place i.e. when agreements are entered into or money is exchanged,
2. The transaction must be recorded in writing as proof that it has taken place i.e. drawing up invoices and/or receipts,
3. The transaction must then be recorded in the appropriate accounting book i.e. the journal,
4. At the end of the month, summary must be made of all transactions and written in a monthly statement,
5. Referring to the monthly statements, a summary of all transactions for the year must be written in an annual statement.

The above five (5) steps shall facilitate the generation and provision of financial reports to all whom the business is accountable. The information produced will determine viability and profitability of the business. It will also serve as a measure of performance for the business, a key success area.

EXAMPLES OF ACCESSING FINANCE:

Overdraft

Mwila Enterprises has been operating as a supplier to the mining companies for the last three years and having successfully fulfilled previous orders they have been given to supply a large quantity of protective wear for the new mine operation in Mufulira and will require to finance the order. The company wants to finance the order through an overdraft given that the terms of payment on this order is 30 days. Mwila Enterprises will need to approach a bank with the following information:

1. The order from the Mining company
2. Financial Statements
3. Certificate of Incorporation
4. Form listing the directors of the company
5. The amount being sought for the overdraft
6. The repayment process
7. The security to be tendered for the facility

The bank will review the bank statement of Mwila Enterprises to assess the performance of the account and the ability to actually manage and repay the overdraft. This is usually a typical order financed facility and the repayment will cover the facility. The overdraft is for a short term period and usually for 12 month renewable subject to the satisfactory performance of the borrower.

Loan

Dorki Protective Shoes Manufacturers require a loan to finance the purchase of sole making plant for their shoe making plant. The company has been importing its soles from a neighbouring country and would like to increase its output without depending on imports and also meet the rising demand for protective shoes among its traditional clients in the security service and industrial companies. The new legislation that stipulates the minimum standard for protective wear demands that factories provide at least two pairs of shoes on an annual basis to their employees for factory. This minimum standard has necessitated the increase in demand for shoes.

DPSM will then need to take the following information in order to apply for a loan:

1. A Business Plan showing the potential demand for the product and market share.
2. Financial Statements
3. Certificate of Incorporation
4. Form listing the directors of the company
5. The amount being sought for the Loan
6. The repayment process and cash flow projections
7. The security to be tendered for the facility

The financial institution will then evaluate the projections and also assess previous financial statements to determine the ability of DPSM to repay the loan over the stated period.

Securities Market

The issuance of securities through the securities market requires that a company institutes a corporate governance structure that establishes and separates a board of directors from management. Securities market is an alternative source of accessing finance for a start up, growing business and or expansion plan.

The securities that can be issued will include Ordinary Shares; Preference Shares and Bonds. Ordinary shares provide a part ownership in the business for the holder of such shares. Whereas preference shares have a specified rate attached that should be payable to the holder. It is a form of a hybrid between a debt instrument and ordinary share. The bond is a debt instrument that gives the holder a fixed return stated in the offer document.

Measures have since been put in place to use the Securities Market as a means to raise finances for small and medium business through the restructuring process that will allow for tier to cater for SMEs. Since this process requires specialized advisory services most SMEs will need to engage an adviser to help them through the steps of using the securities market. The adviser must be a regulated organization by the Securities and Exchange Commission, a list of these registered dealers can be obtained from the following website www.sec.gov.zm.

Appendix 1 – COMMERCIAL BANKS

Examples of types of loans, terms and conditions being offered by selected commercial banks

1. Barclays Bank Zambia Plc

- a) Financial products: 2
- b) Names: Business lending loan and Overdrafts.
- c) Interest: Bank Base rate +margin of up to 6% depending on amount
- d) Arrangement: Provided for in the margin.
- e) Accessibility: 2 days
- f) Reasons for unsuccessful: Inadequate information provided as to the viability of the project
- g) Support offered towards business: Operational and Expanding
- h) Financial Requests: Constant,
- i) Post finance: The bank has a business club where clients are educated on how to operate their businesses profitably through seminars. The bank has business advisors who give free advice on how the bank endeavours to help business development.
- j) Security: An unsecured loan does not require a client to put down any assets as a form of security. It requires that a client is on payroll which is used as guarantee. A guarantee can equally be obtained for another bank. A secured loan does require security.
- k) Preconditions: Maintain an account with Barclays Bank or with other banks. The client should prove its business profitability so as to facilitate repayment.
- L) Minimum: K 10,000,000
- Maximum: None.

2. Finance Bank

- a) Financial products: 2
 - b) Names: Term loans & Overdrafts.
 - c) Interest: Bank Base rate + margin of up to 15% depending on amount requested. It can go below the base rate for bigger projects.
 - d) Arrangement: 2.5% Arrangement fee on amounts sought, 0.5% for larger amounts i.e. K 100,000,000,000.
 - e) Accessibility: 7 days
 - f) Reasons for unsuccessful: Inadequate information provided as to the viability of the project
 - g) Support towards business: Operational; Expanding.
 - h) Financial Requests: High, Low interest rates triggered by the declining inflation rates..
 - i) Post finance: Site visitations to clients business premises to monitor the utilization of the funds provided.
 - j) Security: Finance Bank will only lend up to 50% of the value of the security provided.
 - k) Preconditions: The client should hold an account with Finance Bank or other financial institutions for over six months. Start ups are considered if they hold accounts with the bank. Advances can be provided to clients saving with other banks on condition that the account is moved to Finance Bank.
 - L) Minimum: No Minimum
 - Maximum: No Maximum
-

3. First Alliance Bank (Zambia) Limited

- a) Financial products: At least 3
- b) Names: Term loans, Overdrafts, Invoice discounting, advisory services and guarantees.
- c) Interest: Bank Base rate + margin depending on risk
- d) Arrangement: Arrangement fee, documentation and commitment fee.
- e) Accessibility: 14 days
- f) Reasons for unsuccessful: Inadequate information provided as to the viability of the project
- g) Support towards business: Operational and Expanding
- h) Financial Requests: High, Liberalized market and demand for loanable funds.
- i) Post finance: The bank monitors and evaluates the business against which the bank has funded.
- j) Security: Collateral will depend on the loan request. It is usually 1.5 times of the loan requested and has to be easily disposed off e.g. car, house, fixed deposit, treasury bills, letters of guarantee from other banks.
- k) Preconditions: The project has to be viable.
- L) Minimum: K 10,000,000
- Maximum: 10% of the bank's minimum regulatory capital at any given time.

4. Investrust Bank Plc

- a) Financial products: At least 3
- b) Names: Loans, Overdrafts, Leases and guarantees.
- c) Interest: Bank Base rate + Margin of 10%
- d) Arrangement: 5% Arrangement fee & documentation.
- e) Accessibility: 14 days
- f) Reasons for unsuccessful: Inadequate information provided on the project.
- g) Support towards business: Operational and Expanding
- h) Financial Requests: High, Provision of products at competitive charges.
- i) Post finance: The bank monitors the business.
- j) Security: Collateral is double the amount being sought.
- k) Preconditions: Hold an account with the Bank, a client should be looking for working capital or asset finance.
- L) Minimum: None
- Maximum: 25% of the Bank's minimum regulatory capital at any given time.

5. Intermarket Banking Corp (Zambia) Limited

- a) Financial products: Two
- b) Names: Commercial loans and personal loans to micro entrepreneurs
- c) Interest: 24%
- d) Arrangement: 3% of the loan value, 2% insurance for clean personal loans
- e) Accessibility: 5 days
- f) Reasons for unsuccessful: Inability to meet the banks criteria stated in the preconditions
- g) Support towards business: Operational and Expanding
- h) Financial Requests: High, Falling interest rates have made borrowing more affordable. There has been increased competition leading to more relaxed conditions to access finance.
- i) Post finance: Businesses are closely monitored to ensure funds are utilized for the intended purpose and profits generated. This is done by visits to business premises and requests for quarterly financial statements
- j) Security: Collateral will depend on the loan request. It is usually 1.5 times of the loan requested and has to be easily disposed of e.g. car, house, fixed deposit, treasury bills, letters of guarantee from other banks.
- k) Preconditions: Proof of registration with PACRO, projected income from business, knowledge/experience in the business, back up security.
- L) Maximum: No Maximum
Minimum: No upper limit but it is done on a case by case basis depending on the business risk.

6. Stanbic Bank Zambia Limited

- a) Financial products: More than 3
- b) Names: Loans, Leases, Trade finance, Group Schemes, Commercial loans (for property), electronic banking.
- c) Interest: Bank Base rate + Margin of 2% to 5%
- d) Arrangement: 1%
- e) Accessibility: Within 14 days for new clients; within 24 hours for existing clients with a good relationship with the bank.
- f) Reasons for unsuccessful: Lack of information about the business, Lack of solid financial information, inadequate management experience.
- g) Support towards business: Operational
Expanding
- h) Financial Requests: High, due to decrease in interest rates, favourable economic conditions, Agric, mining, Trade sectors are growing.
- i) Post finance: Act as consultants, monitoring management performance and ensuring funds are used for the purpose borrowed.
- j) Security: Collateral is discounted at 70% of loan value
- k) Preconditions: Budget/Cash Flow projections for the duration of the lease and assumptions, Latest management accounts, Audited accounts for the past three (3) financial years. Brief profiles of directors and key management staff.
- L) Maximum: No Maximum
Minimum: No Minimum
-

7. NATSAVE

- a) Financial Products: Two
- b) Names: Micro market loans & SME working capital support
- c) Interest: 38%
- d) Arrangement: Arrangement fee 6% upfront, Insurance fees 3%
- e) Accessibility: 48hours to 14 days depending on location and size of financing
- f) Reasons for unsuccessful: Lack of proper documentation and collateral requirements
- g) Support towards business: Micro small and medium scale enterprises
- h) Financial Requests: High; because of supporting MSME with less red tape than a traditional lender.
- i) Post finance: Post finance monitoring and evaluation is conducted remotely through sponsorship s to exhibitions where our clients are participants.
- j) Security: The bank prefers immovable properties of good market value
- k) Preconditions: Business track record, Account conduct, financial condition, Collateral/security
- L) Amounts provided: Up to ZMK 50 million.

Appendix 2 - LEASING COMPANIES

Examples of types of leasing products, terms and conditions being offered by selected leasing companies

1. IMS Financial Services

| | |
|------------------------------|--|
| a) Financial products: | 2 |
| b) Names: | Term loans, Lease finance |
| c) Interest: | Market driven ⁵ |
| d) Arrangement: | Processing fees (Market driven) |
| e) Accessibility: | 7 days |
| f) Reasons for unsuccessful: | Applicant does not meet the preconditions |
| g) Support towards business: | Operational; Expanding |
| h) Financial Requests: | Constant |
| i) Post finance: | None taken |
| j) Security: | 50% to 100% of the amounts being sought |
| k) Preconditions: | Submission of last 3 years Balance sheet, Collateral, Latest management accounts, Bank statement copy for the past 12 months |
| L) Minimum: | K 5 Million |
| Maximum: | K 400 Million. |

2. Industrial Credit Company

| | |
|------------------------------|---|
| a) Financial products: | More than 3 |
| b) Names: | Direct (finance) lease, Operating Lease, Sale and Lease back, Stock finance, Business development loan, Order finance, Invoice discounting. |
| c) Interest: | Base rate on US \$ 8.5%, ZMK 16% |
| d) Arrangement: | Lease management fee depending on the type of facility |
| e) Accessibility: | 7 days under \$ 50,000 and 14-30 days over \$ 50,000. |
| f) Reasons for unsuccessful: | Inability to meet the requirements |
| g) Support towards business: | Operational; Expanding |
| h) Financial Requests: | High, there is a greater demand for leasing products. |
| i) Post finance: | Relationship managers monitor the performance of the client's business |
| j) Security: | Security cover of 1.5 times the amount the being sought, however, at management's discretion, a lower cover can be arrived at. |

⁵ Market driven is referred to as the rate that is applicable or charged by other financial institutions which could either be equal to or higher.

Appendix 3

OTHER SOURCES OF FINANCE FOCUSING ON ZAMBIA

World Bank Group:

International Finance Corporation

Financial Products: Equity, Loans, Capital Mobilization, Guarantees, Co-financing

Priority Sectors: Infrastructure, Mining, Environment

Contact: Haydée Celaya, Director (South Africa)

Email: hcelaya@ifc.org

Tel: (011-22-11) 371-3000, **Website:** <http://www.ifc.org>

<http://www.infoexport.gc.ca/ifinet/projectfin/ifc-e.htm>

Multilateral Investment Guarantee Agency

Financial Products: Investment Guarantees

Contact: Federica Dal Bono, Corporate Relations Officer

Email: fdalbono@worldbank.org

Tel: (202) 458-9292, **Website:** <http://www.miga.org>

<http://www.infoexport.gc.ca/ifinet/projectfin/miga-e.htm>

Regional Development Banks:

African Development Bank

Financial Products: Loans, Equity, Guarantees

Priority Sectors: Infrastructure

Contact: Luciano Borin, Director of Private Sector Operations

Email: l.borin@afdb.org

Tel: (011-216-71) 102-043, **Website:** <http://www.afdb.org>

<http://www.infoexport.gc.ca/ifinet/projectfin/afdbpriv-e.htm>

Development Bank of Southern Africa

Financial Products: Equity, Guarantees, Loans

Priority Sectors: Infrastructure, Water & Sanitation, Transportation, Energy, Telecommunications

Ownership Restrictions: There are no restrictions as long as the investment is located in an SADB member country.

Contact: Frenzel Gillion, Acting Manager

Email: frenzelg@dbsa.org

Tel: (011-27-11) 313-3004, **Website:** <http://www.dbsa.org>

Eastern & Southern African Trade & Development Bank

Financial Products: Loans, Equity

Priority Sectors: Agriculture, Tourism, Mining, Infrastructure

Ownership Restrictions: Projects with majority participation by a company from a COMESA member country are preferred.

Contact: Dr. M. Gondwe, President, **Email:** president@ptabank.co.ke

Tel: (011-254-20) 271-2250, **Website:** <http://www.ptabank.org>

European-Based Finance Sources:

European Investment Bank

Financial Products: Loans, Structured Finance

Priority Sectors: Industry, Energy

Contact: Bram Schim van der Loeff, African, Caribbean, & Pacific Countries

Email: a.schimvanderloeff@eib.org

Tel: (011-352-43) 793-134, **Website:** <http://www.eib.org>

<http://www.infoexport.gc.ca/ifinet/projectfin/eib-e.htm>

Canada-Based Finance Sources:

Export Development Canada

Financial Products: Project financing, Political Risk Insurance, Credit Insurance, Contract Bonding

Contact: Jean-François Croft, Regional Manager, Africa & Middle East

Email: jcroft@edc.ca

Tel: (613) 597-7882, **Website:** <http://www.edc.ca>

CIDA Industrial Cooperation Program (CIDA-INC)

Financial Products: Investment-related project development and/or training support

Contact: Normand Demers, Program Manager

Email: normand_demers@acdi-cida.gc.ca

Tel: (819) 997-2069, **Website:** <http://www.acdi-cida.gc.ca/inc>

Development Finance Institutions:

Overseas Private Investment Corporation (US)

Financial Products: Political Risk Insurance, Loans

Major Sectors of Activity: Agribusiness, Industry

Contact: Info Line

Tel: (202) 336-8799, **Website:** <http://www.opic.gov>

<http://www.infoexport.gc.ca/ifinet/projectfin/opic-e.htm>

Actis (United Kingdom)

Financial Products: Loans, Co-Financing, Equity

Major Sectors of Activity: Minerals, Oil & Gas

Contact: Bornwell Chiyabi, Director, Zambia

Tel: (011-260-1) 254-285

Email: bchiyabi@act.is, **Website:** <http://www.act.is>

<http://www.infoexport.gc.ca/ifinet/projectfin/cdc-e.htm>

Netherlands Development Finance Company (FMO)

Financial Products: Equity, Guarantees

Priority Sectors: Healthcare, Energy, Transport, Infrastructure

Contact: Tom Ryan, Cavmont FMO Capital Corporation

Email: tfryan@cavmont.com

Tel: (011-260-1) 224-280, **Website:** <http://www.fmo.nl>

<http://www.infoexport.gc.ca/ifinet/projectfin/fmo-e.htm>

Japan Bank for International Cooperation

Financial Products: Equity, Loans, Guarantees

Major Sectors of Activity: Manufacturing, Infrastructure, Telecommunications

Contact: Tim Armstrong, Toronto Liaison Office

Email: armstrong@jbic.ca

Tel: (416) 865-1700, **Website:** <http://www.jbic.go.jp/>
<http://www.infoexport.gc.ca/ifinet/projectfin/jbic-e.htm>

EVD International Business and Cooperation

Juliana Van Stolberglaan 148
NL 2595 CL The Hague
P O Box 20105 NL 2500 EC The Hague
Website: www.evd.nl/psom

NORSAD

NORSAD is a joint Nordic/Southern African Development Community (SADC) initiative, which started its operations in 1991. The purpose is to contribute to the development of the private sector in the participating SADC countries: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

This is done through direct or indirect financing of SME's (small and medium sized enterprises) in order for them to start and/or expand their activities.

NORSAD makes use of the capital of the NORSAD fund, which has been provided by the participating Nordic countries: Denmark, Finland, Norway and Sweden

HEAD OFFICE

NORSAD Agency
Anglo American Building
6th Floor, 74 Independence Avenue
P.O Box 35577, Lusaka, 10101, Zambia
Tel: +260 211 255663/4 or 255773/4
Fax: +260 211 255432
Email: norsad@norsad.org,
Website: <http://www.norsad.org>

Private Equity Funds:

Zambia Venture Capital Fund (SMEs)
Africa Millennium Fund (Infrastructure)
AIG Africa Infrastructure
J&J Group (IT, Telecommunications)
Modern Africa Fund (IT, Industry,
Financial Services)
ZM Africa Investment Fund (IT,
Telecommunications)
Emerging Africa Infrastructure Fund

Other Sources

| Institution | Contact Details | Type of Facilities |
|---|--|--|
| Burek Dale Victor LLC | Andrew R Dale 1200 Fifth Avenue Suite 1800 Seattle WA 98101, www.bdvlc.com Tel: 206 956 0898, Fax: 206 956 0863 | Venture Capital |
| Nova Capital Partners, LLC | Trevor Simumba Nova Global Markets Group 122 East 42nd Street, 21st Floor New York, NY 10168. Tel: 212-321-7093 (office) Tel: +260 211 220376 (Lusaka, Zambia Office) Tel: +260 977 442672 (Lusaka, Zambia Mobile) Website: www.novacapitalpartners.com | Private Equity and Long Term Capital |
| Export and Import (Exim) Bank | USA Embassy, P O Box 31617, Lusaka | Guarantees of working capital |
| Women Finance Cooperatives Zambia Ltd | P O Box 50839, Lusaka Tel: 260-1-221628 | Financial services to SMEs |
| Zambia Agribusiness Technical Assistance Centre | Private Bag 207 Woodlands, Lusaka Tel: 260-1-263512 | Financial and Business advisory services |

Appendix 4: Grant Scheme

The grant schemes provided by a number of organizations are meant to provide resources for building the capacity of the business to access technical services directing at making the business viable in the quest to seek finances. Some of the schemes available include the under listed of which specific guidelines and requirements can be obtained from these organizations. It is also important to mention that some donor program which have finite period of assistance also do offer grant for various business development aspects. These would be provided through business intermediary organizations.

International Finance Corporation (IFC)

World Bank Group

Peter Mwanza - Manager

Copperbelt Small & Medium Supplier Development Programme

P O Box 23486, No. 2 Monmouth Close

Parklands, Kitwe, Zambia

Tel: +260 2 22 71 71 / 22 71 91

Email: pmwanza@ifc.org

Centre for the Development of Enterprise (CDE)

Mr. Edward C. Sefuke - Project Director

Consolidated Advisory Services Company

P.O. Box 310238

Plot N° 8652 Kudu Road, Lusaka, Zambia

Tel: +260 211 251450 / 260 211 251839, Fax: +260 211 252434

Email: esefuke@yahoo.com

EU - SADC INVESTMENT PROMOTION PROGRAMME (ESIPP)

The Programme Manager

ESSIP, Unit 9

Kgale Mwes, Postnet Kgale View

Private Bag 351 # 140, Gabarone, Botswana

Tel: +267 318 0121, Fax: +267 318 0131

Email: mail@esipp.org, Website: www.esipp.org

EU – ACP Business Assistance Scheme (EBAS)

Delegation of the European Commission to the Republic of Zambia

P. O. Box 34871

Plot 4899, Los Angeles Boulevard, Lusaka

Tel.: 260 211 250711/251140/ 250179/255583/255585

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E-mail: Delegation-Zambia@cec.eu.int





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