

FINANCIAL SERVICES AND PRODUCTS STUDY

FOR AGS PROGRAMME IMPLEMENTATION

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Abbreviations

Abbreviation	Abbreviated term
AGS	Accelerated Growth for SMEs In Zambia
AMSCO	African Management Services Company
DBZ	Development Bank of Zambia
DFI	Development Finance Institution
EZCF	Enterprise Zambia Challenge Fund
FSP	Financial Service Provider
FTE	Full-time employee
ICT	Information and Communication Technology
JICA	Japan International Cooperation Agency
MFI	Micro Finance Institution
MSME	Micro, Small and Medium-sized Enterprise
MSMED	Ministry of Small and Medium Enterprises Development
N/A	Not available
NTBC	Zambia National Technology and Business Centre
UNCDF	UN Capital Development Fund
ZABS	Zambian Bureau of Standards
ZATP	Zambian Agribusiness and Trade Project
ZCGS	Zambia Credit Guarantee Scheme Limited
ZDA	Zambian Development Agency
ZFAWIB	Zambia Federation of Associations of Women in Business
ZICTA	Zambia Information and Communications Technology Authority
ZRA	Zambia Revenue Authority

Executive summary

This study builds on Bank of Zambia's (BoZ) 2018 "MSME Finance Diagnostic Study" which concluded that the "MSME finance gap" is the biggest perceived obstacle to doing business in Zambia and found that minimizing information asymmetries between FSPs and MSMEs is an important part of reducing this finance gap.

To minimize information asymmetries between FSPs and MSME, this study has collected information about FSPs' products and services aimed at MSMEs in AGS's focus provinces (Lusaka, Copperbelt and North-Western Province) and sectors (agribusiness, mining services, forestry, renewable energy, circular economy, ICT, and education). We have reached out to 40 FSPs and conducted interviews with 20.

We find that there are many institutions which aim to provide various types of financing solutions for growth companies. The interest rates and terms offered vary significantly which has business implications for MSMEs looking for financing. Many FSPs require substantial documentation in the funding application process, can spend weeks before disbursing funds and require clients to post significant collateral. We also found that most financial institutions offer non-financial services to their clients, such as trainings and networking events.

This study also collected information on non-financial services offered by other institutions such as development and governmental organizations and found that 17 such organizations provide support to MSMEs. This support comes in the shape of grants, guarantees for loans offered by third-parties, technical assistance and market access.

This study concludes that the banks have a significant, untapped potential supply of MSME financing. For many MSMEs, a knowledge gap and lack of preparedness make it hard for them to access this funding. Further, banks' organizational infrastructure is not structured to engage with MSMEs in the same way that MFIs are. We suggest further research into how support can be provided to MSMEs and into enabling partnerships between banks and MFIs.

Half of the identified FSPs did not want to be part of the study and a quarter of those in the study did not consent to publishing their interest rates and terms (despite said information being available online in some cases). Additionally, there were significant discrepancies in the interest rates obtained for the study. We suggest future work include building an easily accessible online tool for accessing and comparing financing providers based on publicly available information.

1. Introduction

Micro, Small and Medium-sized Enterprises (MSMEs) play a significant role in the Zambian economy, comprising 97% of all businesses and 88% of all employment.¹ The same holds true in countries across Africa and the rest of the world.

According to the Zambian Business Survey (2010), Zambian MSMEs are mostly in agriculture (70% of all MSMEs) and retail:



Failure rates for MSMEs are high everywhere, incl. in the US (40% failure rate over three years)² and in Europe US (50%). Studies have found that failure rates are even higher in Zambia (65%) and attested this to a variety of reasons, incl. lack of social capital, poor market conditions, lack of institutional support and access to finance.³ Without access to finance, it is harder for an MSME to fulfill orders or make investments in personnel or material, which in term limits success rate and growth.

According to the World Bank's Doing Business 2020 survey, Zambia's legal framework for credit is among the very best in Africa. However, credit coverage is very low, with only 30,000 companies listed with a credit bureau.⁴ In 2012, there were an estimated 1.08m companies in Zambia, 1.02m of which are informal MSMEs and 30,000 of which are formal MSMEs.⁵ Only 5% of Zambian MSMEs have borrowed from an MFI and only 2% have borrowed from a bank. Instead, MSMEs rely on family and friends for financing (88% of MSME have borrowed from this family and friends).

55% of MSMEs state that access to finance is a serious obstacle to business, making it by far the most serious obstacle, while only 25% of large enterprises find that to be a serious obstacle. The share of MSMEs finding access to finance as the biggest obstacle is higher in Zambia than in Sub-Saharan Africa in general.⁶ Further, MSMEs find the cost of credit to be extremely high, and 35% of MSMEs find the cost of credit to be a serious obstacle. In conclusion, getting credit is very difficult for MSMEs and when they do, the cost is very high. 66% of MSMEs report needing assistance accessing credit.⁷

¹ Ministry of Commerce, Trade and Industry and International Trade Centre (WTO), 2020

² AdvisorSmith, 2020

³ Zambia Chamber of Small Business Associations

⁴ World Bank, Doing Business 2020 survey

⁵ International Growth Centre, 2012: <https://www.theigc.org/wp-content/uploads/2012/06/Kedia-Shah-2012-Working-Paper.pdf>

⁶ World Bank, Enterprise Surveys

<https://www.enterprisesurveys.org/en/data/exploreconomies/2019/zambia#finance>

⁷ Ministry of Commerce, Trade and Industry and International Trade Centre (WTO), 2020

2. Objectives of the study

MSMEs face various constraints and challenges, which lead to business failure and growth below potential. In December 2018, the Bank of Zambia (BoZ) commissioned the “MSME Finance Diagnostic Study” to identify and examine the continuing weaknesses, challenges and bottlenecks facing the MSME sector in the country, with a particular focus on access to finance. This study concluded that the “MSME finance gap”⁸ is the biggest perceived obstacle to doing business in Zambia and found that minimizing information asymmetries between FSPs and MSMEs is an important part of reducing this finance gap.

This study builds upon the 2018 study and has as its overarching objective to minimize information asymmetries between FSPs and MSME. This study will collect information about FSPs’ products and services aimed at MSMEs in AGS’s focus provinces (Lusaka, Copperbelt and North-Western Province) and sectors (agribusiness, mining services, forestry, renewable energy, circular economy, ICT, and education). This information will include cost of services/products, eligibility criteria, decision turnaround time and funding thresholds. This information will be presented as fact sheets as well as summarized in this report.

⁸ Defined as the difference between the current supply of credit and other forms of finance by financial institutions; on the one hand, and potential demand for it by MSMEs, on the other.

3. Methodology

There are many different definitions of what constitutes an SME, with most definitions relying on a combination of factors including number of full-time employees (FTEs), annual turnover and assets. A couple of these definitions are listed here:

- Ministry of Small and Medium Enterprises
 - Micro: up to 10 FTEs, ZMW <150m annual turnover, ZMW <80m investment
 - Small: up to 50 FTEs, ZMW 151-300m annual turnover, ZMW 80-200m investment
 - Medium: up to 100 FTEs, ZMW 300-800m annual turnover, ZMW 200-500m investment⁹
- ZDA
 - Micro: 1-10 FTEs, ZMW <150k annual turnover, ZMW <80k investment
 - Small: 11-50 FTEs, ZMW 150-300k annual turnover, ZMW 80-200k investment
 - Medium: 51-100 FTEs, ZMW 300-800k annual turnover, ZMW 200-500k investment
- DBZ
 - Small: 10-50 employees, ZMW 800k-25m turnover, ZMW 400k-12.5m assets
 - Medium: 51-300 employees, ZMW 25-50m turnover, ZMW 12.5m-25m assets
- ZANACO
 - Micro: ZMW 50-150k turnover
 - Small: ZMW 150k-2m turnover
 - Medium: ZMW 2-50m turnover
- IFC: An enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria
 - Micro: up to 10 FTEs, USD <100k annual turnover, USD <100k assets
 - Small: up to 50 FTEs, USD 100k-3m annual turnover, USD 100k-3m assets
 - Medium: up to 300 FTEs, USD 3-15m annual turnover, USD 3-15m assets

For the purposes of this study, an MSME is defined as having 250 employees or less, as it is a simple and commonly accepted definition.

In order to establish what financial Services and products are available for Zambian MSMEs, a desk review, drawing on the findings and recommendations of previous studies was used to further understand the profile of Zambia's MSME sector. This study collected information about products and services offered by FSPs which are aimed at MSMEs in AGS's focus provinces (Lusaka, Copperbelt and North-Western Province) and sectors (agribusiness, mining services, forestry, renewable energy, circular economy, ICT, and education). This information included cost of services/products, eligibility criteria, decision turnaround time and funding thresholds. The study only includes entities with a geographical presence in Zambia.

We selected the study participants as follows:

Banks and Micro Finance Institutions:

⁹ https://www.parliament.gov.zm/sites/default/files/documents/committee_reports/MAIN%20REPORT-2018.pdf

All banks and microfinance institutions (MFIs) that are licensed under Bank of Zambia that are servicing MSMEs in Zambia were contacted for the study. All the organizations that were willing to share the information are included in the study. We contacted 32 banks and MFIs, of which 4 declined to participate in the study and 13 were unresponsive. Some of the institutions who shared information would like to remain anonymous. Such organizations are part of final report but not included in the fact sheets.

Business Development Partners

All Zambian ministries supporting Zambian SMEs were mapped out based on desk research and interviewed. During interviews, organizations working under each ministry were identified and interviewed. Other business development partners, i.e. entities aiming at supporting SMEs through tax incentives, guarantees, development services, were identified through interviews and desk research. We contacted 20 business development partners (BD partners) and 13 agreed to be interviewed, while desktop research was conducted for the rest.

Development Finance Institutions

Development Finance Institutions (DFIs) are, usually majority-owned by national governments, organizations which provide equity, loans and guarantees to businesses. Through desk research and Kukula's internal networks, we identified those present in Zambia. Based on the definition of MSME for the purpose of the study, many international development finance institutions did not qualify for the study as they target larger enterprises. We identified and interviewed 3 DFIs, see appendix 1.

Investors

For the study, we contacted 5 investors present in Zambia that target SMEs. 2 investors agreed to be interviewed and desktop research was conducted for the 3 other investors.

SMEs

SMEs based in Lusaka, Copperbelt and Northwestern provinces were identified from microfinance institutions interviewed, SMEs part of various programs under AGS and from Kukula internal network.

The study's total sample size is 60, comprising banks, MFIs, business development partners and DFIs. Using questionnaires, interviews and desk research as research tools the study sought to collect data from the selected FSPs who were broken down as follows:

Overview of the study

This study collected information about Financial Service Providers' products and services aimed at servicing MSMEs in the AGS's focus provinces (Lusaka, Copperbelt and North-Western Province).



AGS's focus provinces, Lusaka, Copperbelt and North-Western Province

Sector Focus	
Agribusinesses	
Mining services	
Forestry	
Renewable Energy	
Circular Economy	

A further 30 MSMEs from Lusaka, Copperbelt and North-Western province were reviewed.

After the first 4 weeks of data collection, we shared the raw data with AGS along with a draft fact sheet and arranged a progress meeting to align expectations.

After completing data collection, we created fact sheets for each financial product/service and non-financial services available to MSMEs to make the findings more accessible to users.

A validation meeting was held at the Radisson Blu Hotel on March 4, 2022, to present preliminary findings to research participants and provide feedback and recommendations. Mrs. Pamela Chitulangoma, from the Ministry of Small and Medium Enterprise Development, was in attendance, as was statutory body Citizens Economic Empowerment Commission Acting Director Mrs Mutepa Mzyece Fulai , and National Technological Business Center Chief Operating Officer Dr Chitundu Kasase. Four (4) financial institutions, three(3) microfinance institutions, and fifteen(15) small and medium-sized businesses attended the Validation meeting.

Mr. Ernest Muwamba gave an overview of the Accelerated Growth for SME's program, including its collaboration with the Ministry of Foreign Affairs of Finland and Zambia's Ministry of Commerce, Trade, and Industry (MCTI) to boost the growth and competitiveness of Micro, Small and Medium Sized Enterprises in Zambia.

4. Summary of findings

This section will summarize the findings of the study across the different categories analyzed, namely financial products and services and non-financial services.

4.1 Financial products and services

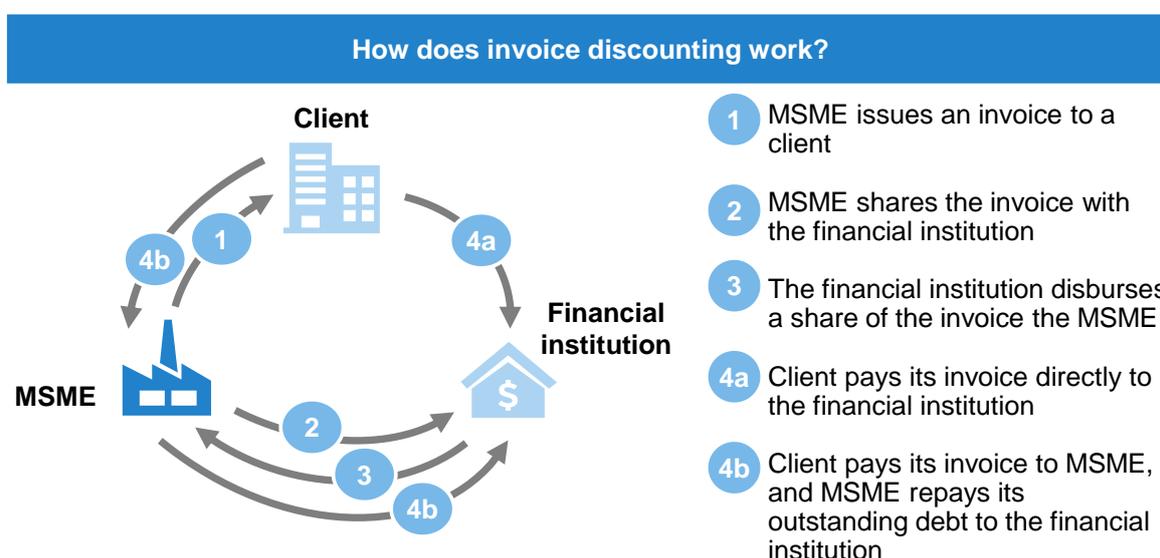
This study gathered information on 6 financial products and services, focusing on which institutions provide different types of financing to MSMEs, the scope thereof and requirements for obtaining financing:

1. Invoice Discounting
2. Order Financing
3. Overdrafts
4. Working Capital Financing
5. Collateralized term loans
6. Equity financing

Each financial product or service will be described before presenting relevant findings.

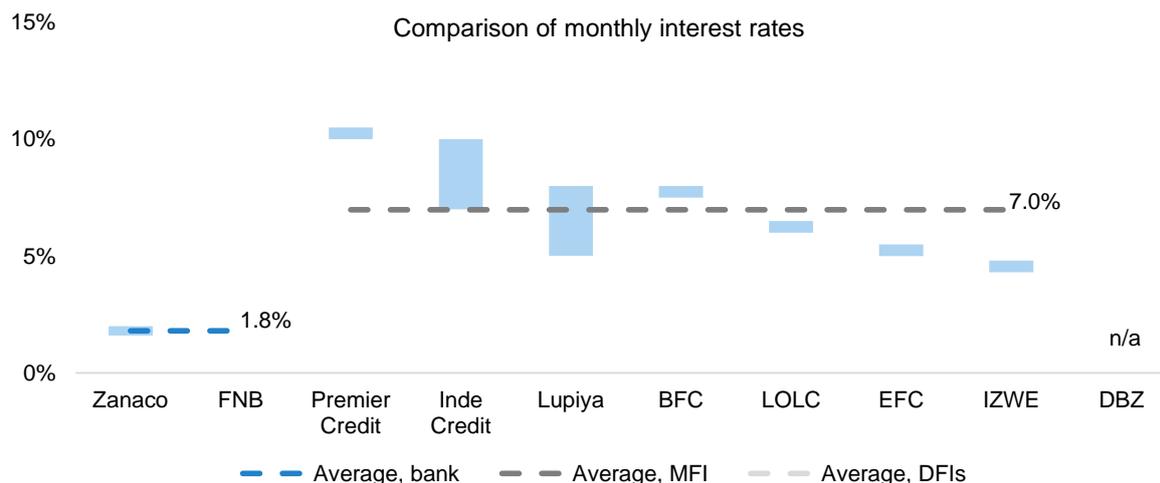
Invoice Discounting

Invoice discounting allows a company to obtain liquidity based on the value of an invoice issued to a – typically reputable – customer. Invoice discounting services are typically aimed at companies that supply a physical product. The larger and more creditworthy a client is, the easier it will be to obtain an invoice discounting facility from a financial institution.



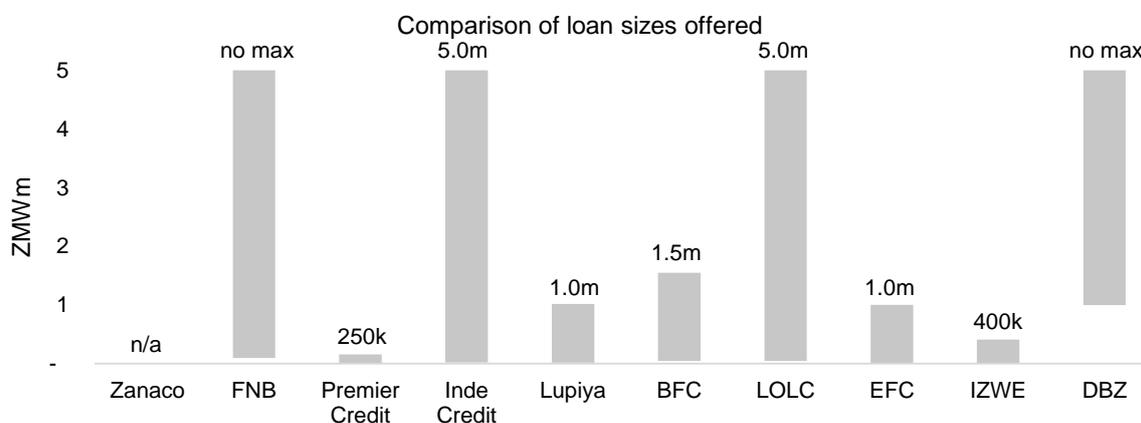
We identified 10 financial institutions offering invoice discounting: 3 banks, 6 MFIs, 1 development institution (DBZ); 8 are present in Lusaka, Copperbelt and NW-province; 8 are present in all AGS focus sectors. All institutions want to work with growth companies, but most require at least 1 year of operations. Most also require a clean CRB report. All institutions offer ZMW-facilities and 5 also offer USD-facilities. The below chart compares monthly interest rates:

Financial Services and Products Study



Only 1 bank, Zanaco, supplied the study with an interest rate (range). For ZMW loans, DBZ offers an interest rate equal to Bank of Zambia's policy rate plus an unidentified risk premium. Thus, the bank average is equal to Zanaco's average and significantly lower than the MFIs' average interest rate. MFIs on average also charge higher underwriting fees (3.4%) than banks (2.0%).

Of the 8 institutions willing to share the facility lengths offered, 6 offer facilities with maturities of down to 30 days (only Inde Credit offers facilities of 14 days), and 8 offer facilities up to 90 days (one institution offers 6 months and one offers 18 months). 5 institutions offer facilities of down to ZMW 25,000. Banks offer larger facilities. Financial institutions cannot lend out facilities greater than 25% of their regulatory capital. The chart below compares the loan sizes offered:



All institutions require some form collateral such as a charge on receivables, mortgages, guarantees or personal insurance, the specifics of which can depend on loan size. In the application process, all institutions require company registration documents. Some require business proposals, audited financial statements, cash flow projections (FNB, DBZ), bank statements (Inde Credit, Lupiya), proof of payments for similar orders (Inde Credit, Zanaco) and one requires an agreement with the potential lender's client (Zanaco).

While MFIs charge higher interest rates, engaging with them might still be the best option available to an MSME looking for invoice discounting finance. Firstly, it is more of a focus area for MFIs, meaning that an MSME is more likely to be provide invoice discounting. Secondly, MSMEs often need invoice discounting at short notice and MFIs have lower

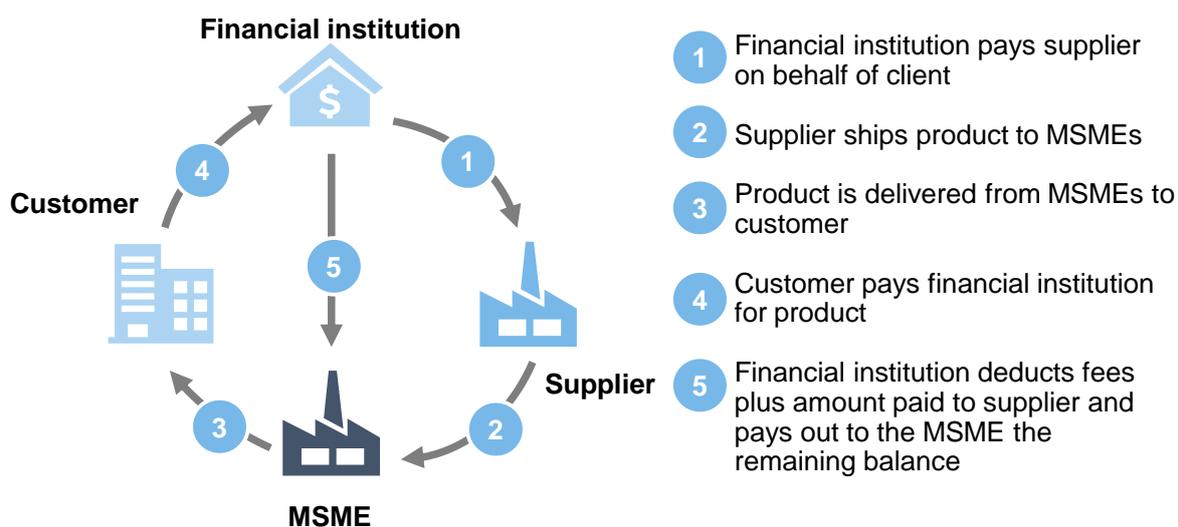
turnaround times (often 48-72 hours) while only 2 institutions (both banks) have turnaround times of more than a month.



Purchase Order Financing

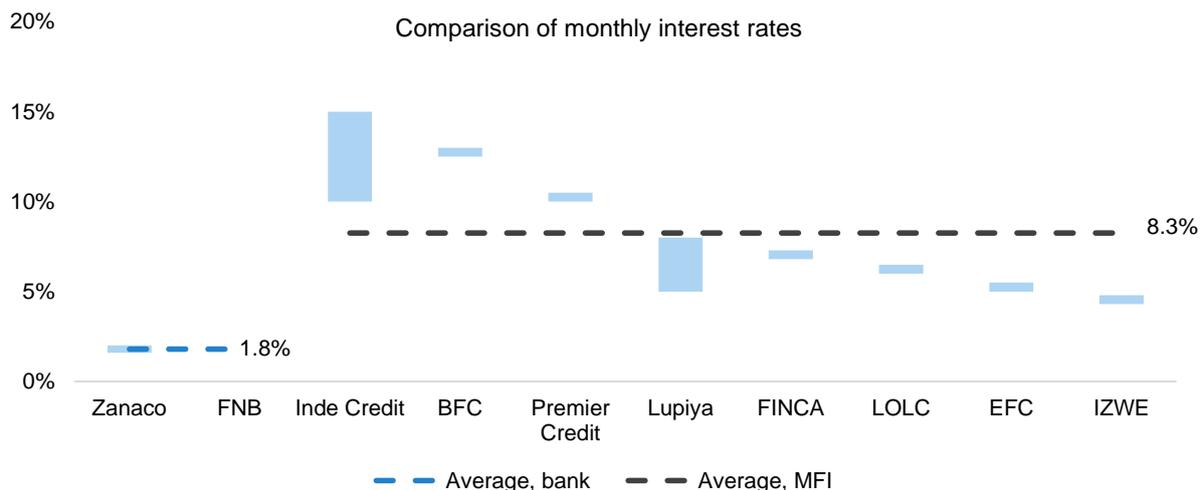
Order financing allows a company to obtain financing against a confirmed purchase order from a customer. Purchase order finance has similarities with invoice discounting with the main difference being when they are used. Invoice factoring is used after a business sells goods or services. Purchase order financing, available only to businesses that sell tangible goods, is used before selling anything. It is most useful to MSMEs serving clients offering unfavorable payment terms and lets the MSME acquire goods and services and satisfy the order. The larger and more creditworthy a client is, the easier it will be to obtain an order financing facility from a financial institution.

How does purchase order finance work?



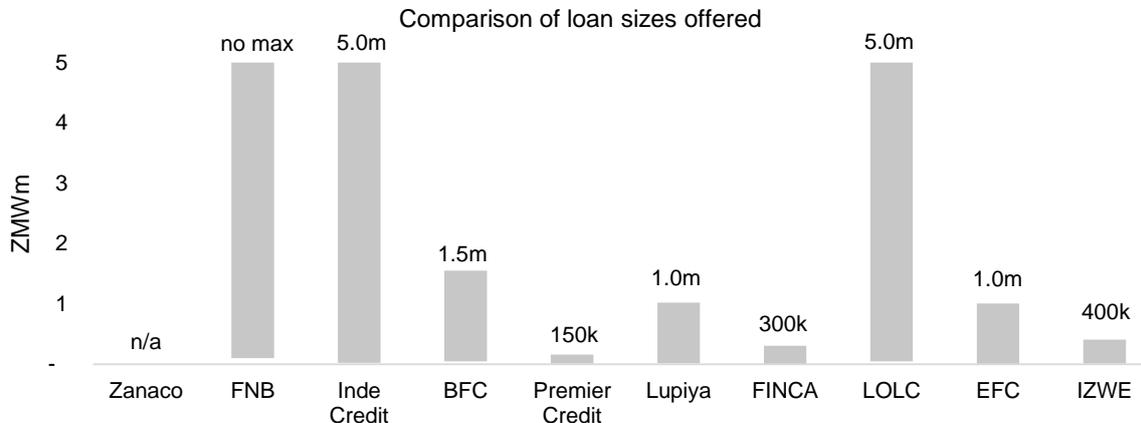
We identified 10 financial institutions offering order financing: 2 banks and 8 MFIs; all are present in Lusaka, 8 in the Copperbelt (BFC and EFC are not) and 7 in NW-province (BFC, EFC and FINCA are not); 8 are present in all AGS focus sectors. All institutions want to work with growth companies, but most require at least 1 year of operations. Most also require a clean CRB report. All institutions offer ZMW-facilities and 5 also offer USD-facilities. The below chart compares monthly interest rates:

Financial Services and Products Study



Only 1 bank, Zanaco, supplied the study with an interest rate (range). Thus, the bank average is equal to Zanaco's average and significantly lower than the MFIs' average interest rate. MFIs on average also charge higher underwriting/arrangement fees (5.6%) than banks (1.3%).

Of the 9 institutions willing to share the facility lengths offered, 8 offer facilities with maturities of down to 1 or 2 months and up to 3 or 4 months. 5 institutions offer facilities of down to ZMW 25,000, while only three institutions offer facilities of more than ZMW 1m. Financial institutions cannot lend out facilities greater than 25% of their regulatory capital. The chart below compares the loan sizes offered:



All institutions require some form of collateral such as a charge on receivables, mortgages, guarantees or personal insurance. In the application process, all institutions require company registration documents. Some require business proposals (BFC), audited financial statements (BFC, LOLC), cash flow projections (Zanaco, FNB, BFC, LOLC, EFC), 6 months of bank statements (Inde Credit, Lupiya), proof of payments for similar orders (Zanaco, Inde Credit) and Zanaco requires an agreement with the ultimate client of the business seeking financing.

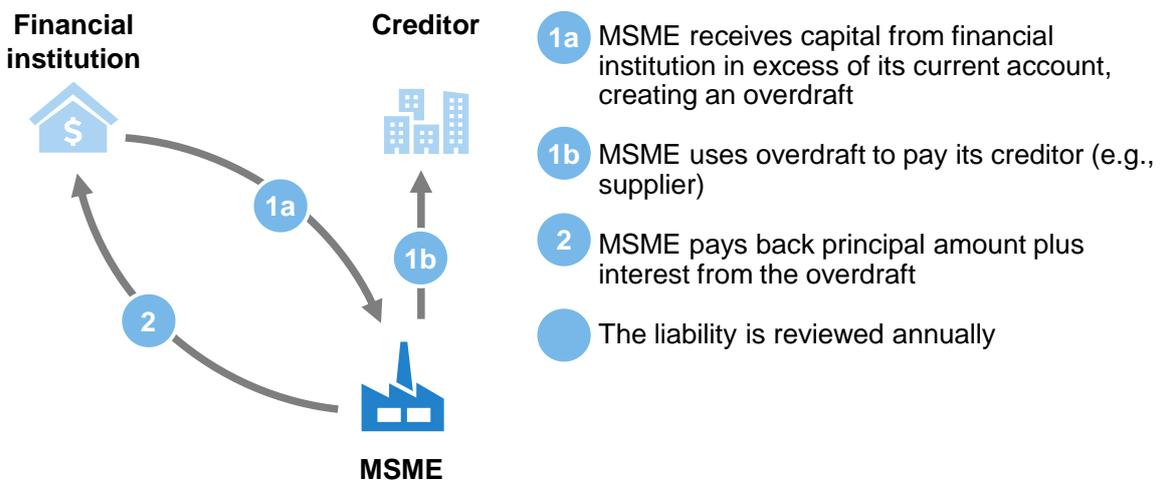
While MFIs charge higher interest rates, engaging with them might still be the best option available to an MSME looking for order financing. Firstly, it is more of a focus area for MFIs, meaning that an MSME is more likely to be provided. Secondly, MSMEs often need purchase order financing at short notice and MFIs have lower turnaround times (often 48-72 hours) while the only institution with a turnaround time of more than a month is bank.



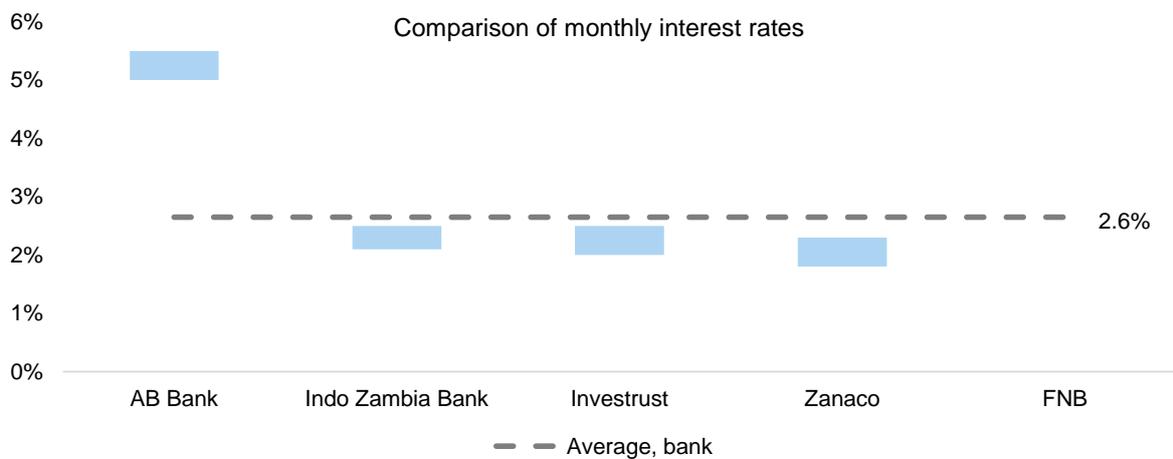
Overdraft

An overdraft allows a company to draw funds from a current account up to a previously agreed upon overdraft limit. It is a short-term credit facility that allows an MSME to finance day-to-day cash flow requirements.

How does overdraft work?

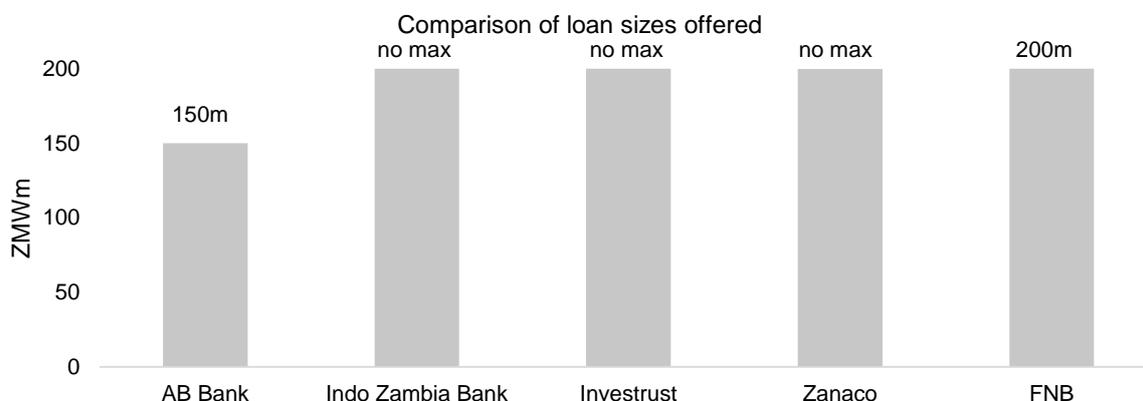


We identified 5 financial institutions offering overdraft facilities: all banks; all present in Lusaka and the Copperbelt, while AB Bank is not active in NW Province. 4 are present in all AGS focus sectors, while one focuses exclusively on renewable energy. All institutions want to work with growth companies, but most require at least 1 year of operations. All require a clean CRB report. All institutions offer ZMW-facilities and 4 also offer USD-facilities. The below chart compares monthly interest rates:



While FNB did not wish to disclose its interest rate (range), 3 banks offer interest rates of 1.8 – 2.5%. Only 2 banks (Investrust and Indo Zambia Bank) have an arrangement fee.

Of the 4 institutions willing to share the facility maturities offered, 3 offer facilities up to 12 months. Three institutions have no upper limit on overdrafts, the others have upper limits of ZMW +150m:

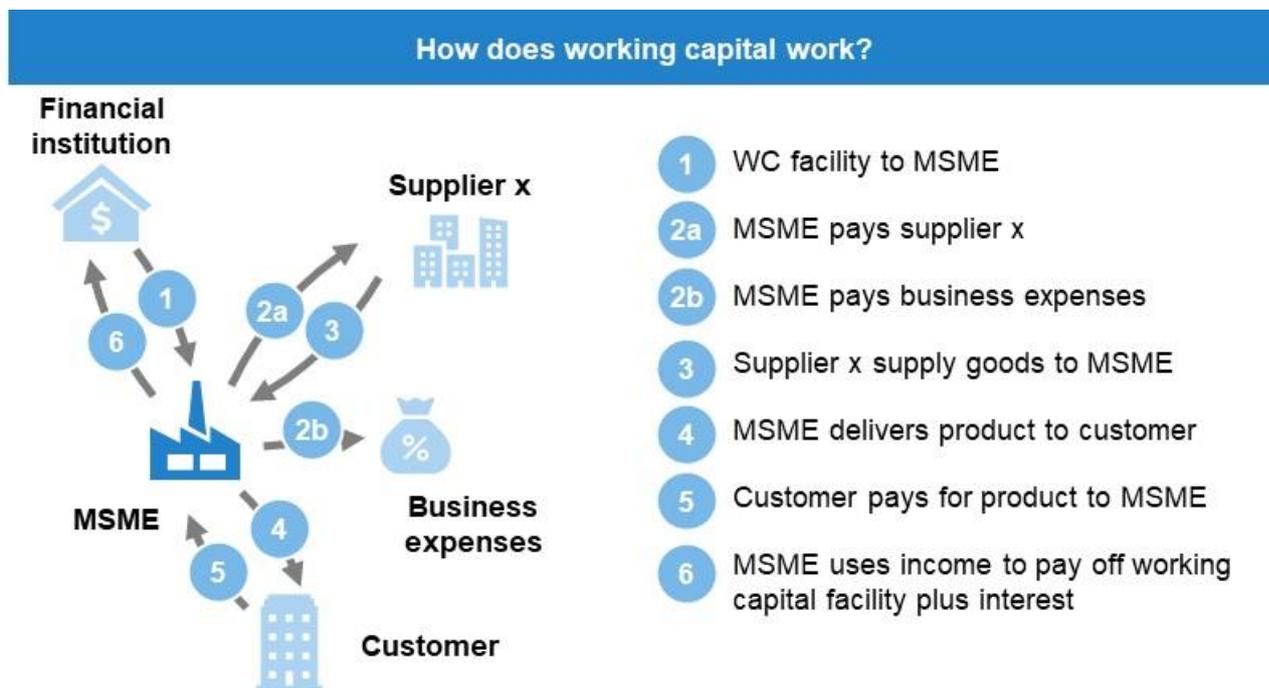


Turnaround times vary significantly, from 48-72 hours up to 1 month.

All institutions require some form of collateral such as a charge on receivables, mortgages or fixed or floating charge on assets. In the application process, all institutions require company registration documents and cash flow projections. Some require business proposals, audited financial statements, and bank statements.

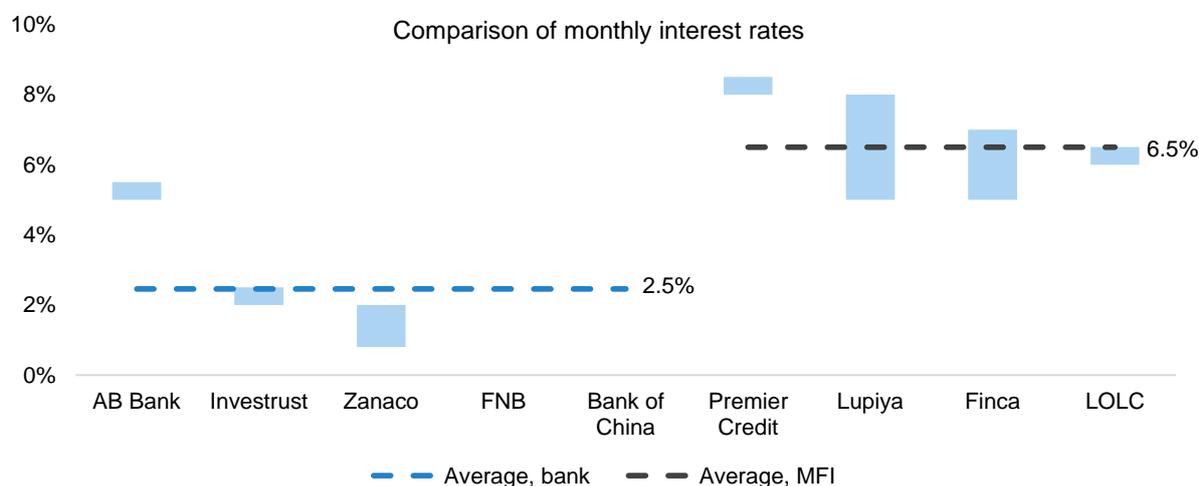
Working Capital Finance

A Working capital facility is provided by a financial institution for an MSME to finance everyday operations. It is very similar to an overdraft facility. Working capital finance is ideal for companies that have high cyclical sales to help with short-term periods of reduced business activity and when revenue generation is unpredictable.



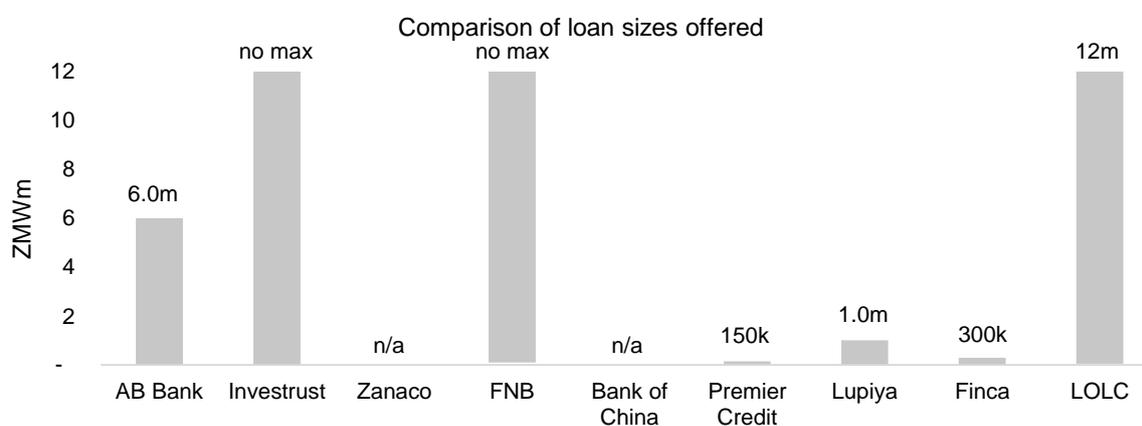
Financial Services and Products Study

We identified 9 financial institutions offering working capital financing: 5 banks and 4 MFIs; all are present in Lusaka and the Copperbelt and 6 in NW Province (AB Bank, FINCA, Bank of China not present in NW Province); 7 are present in all AGS focus sectors. All institutions want to work with growth companies, but most require at least 1 year of operations. Most also require a clean CRB report. All institutions offer ZMW-facilities and 4 also offer USD-facilities. The below chart compares monthly interest rates:



Banks offer lower monthly interest rates (2.5%) than MFIs (6.6%). MFIs also charge higher underwriting fees (5.8% vs. 1.3%).

Of the 8 institutions willing to share the facility maturities offered, 4 offer facilities with maturities of down to 30 days (one institution offers facilities of 14 days), and 7 offer facilities of 12 months or more. The chart below compares the loan sizes offered:



Banks offer substantially larger facilities, with LOLC being the only MFI to offer facilities greater than ZMW 1m.

3 of the institutions, all MFIs, claim turnaround times of 48-72 hours, while the remainder have turnaround times of +7 days.

All institutions require some form collateral such as a charge on receivables, mortgages, guarantees or personal insurance, the specifics of which can depend on loan size. In the application process, most institutions require company registration documents and cash flow projections (Lupiya, Bank of China and Premier Credit do not). Some require audited financial statements (Investrust, LOLC, Bank of China), 6 months of bank statements

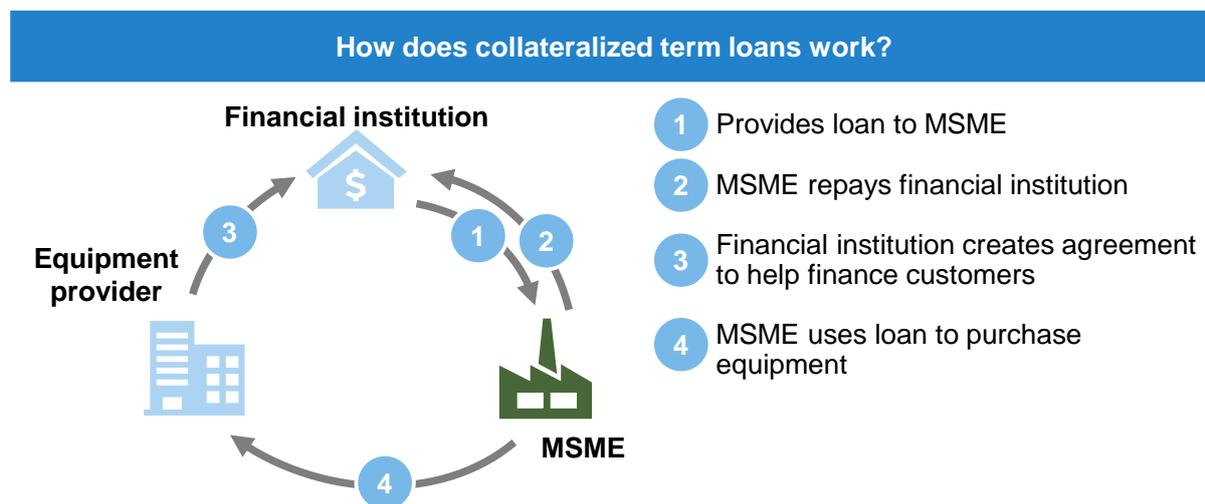
(Lupiya), title deeds and directors' personal bank statements (Investrust), and business levy certificate (FINCA).

In working capital financing, there is a significant number of providers within both the bank and MFI space. Banks charge lower interest rates and offer larger facilities, making them attractive providers. However, their turnaround times are often significantly longer, with AB Bank being the only bank with a turnaround time of less than 3 weeks.



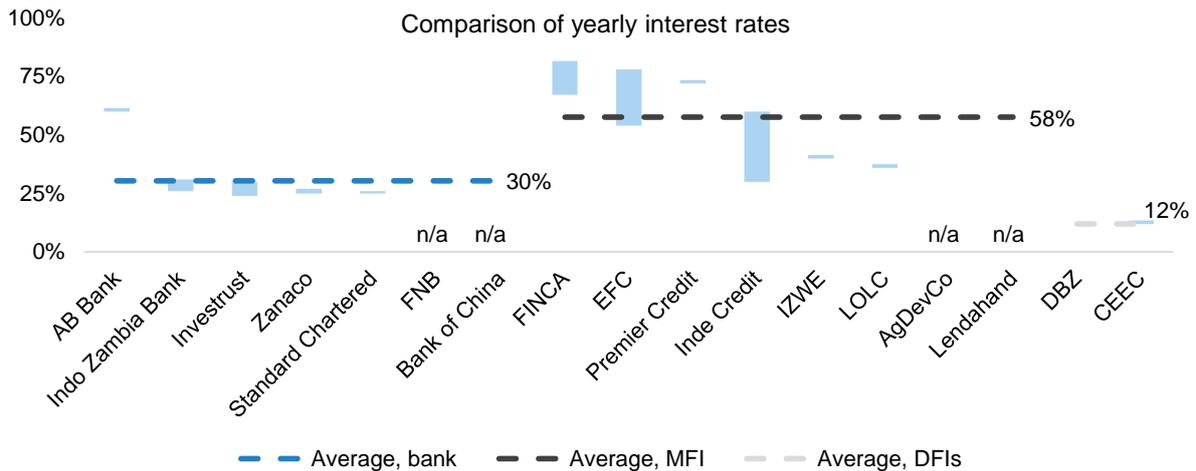
Collateralized term loans

A collateralized term loan is a medium-term facility secured by hard asset(s), whereby an MSME can access financing to acquire sector-specific assets required for further growth. The MSME then uses the revenue generated from the equipment to repay the loan. These loans are ideal for MSMEs in equipment-intensive sectors (e.g. agriculture). In some cases, an equipment provider is involved in the transaction as shown below; in some cases, the MSME deals only with the financial institution.



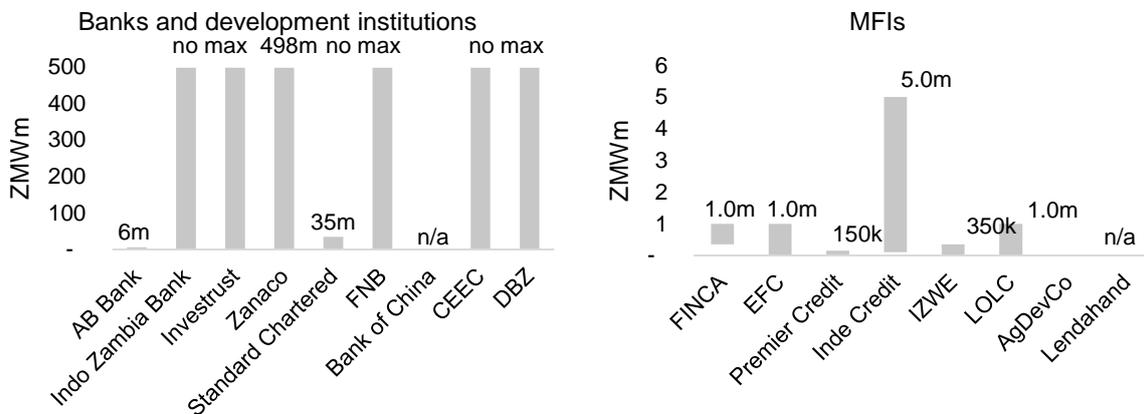
We identified 16 financial institutions offering collateralized term loans: 8 banks, 2 MFIs and 2 development partner; all are present in Lusaka, 15 are present in the Copperbelt and 13 in NW province; 7 are present in all AGS focus sectors, and most are present in several focus sectors. All institutions want to work with growth companies, but most require at least 1 year of operations. Most also require a clean CRB report. All institutions, except for Lendahand, offer ZMW-facilities and 9 also offer USD-facilities. The below chart compares yearly interest rates:

Financial Services and Products Study



On average, banks offer lower interest rates (30%) than MFIs (58%), while CEEC, the only development partner willing to share interest rates, offers a yearly interest rate of 12%. Banks also charge lower underwriting/arrangement fees than MFIs (3% vs. 7%).

All the institutions have very flexible maturities, with most offering maturities of somewhere between a couple of months to several years. Zanaco's offers loans up to ZMW 498m, while Indo Zambia Bank, Investrust, FNB and DBZ have no official limit. Financial institutions cannot lend out facilities greater than 25% of their regulatory capital. The chart below compares the loan sizes offered:



Most institutions claim turnaround times of a week or less, while 2 (DBZ and CEEC) have turnaround times of more than a month.

Except for Lendahand, all institutions require some form collateral such as a charge on receivables, mortgages, fixed or floating charge on assets, or landed property. In the application process, all institutions require company registration documents, and some require audited financial statements, cash flow projections.



The collateral registry process

In 2016, Zambia officially operationalized the credit bureau, and in 2018 introduced the new Movable Property Act and the corresponding creation of the new collateral registry which is operational, unified geographically, searchable by a debtor's unique identifier, modern, and notice based. The Movable Property (Security Interest) Act No. 3 of 2016 of the Laws of Zambia and the Collateral Registry are targeted at all users of the Collateral Registry who include commercial banks and other financial institutions that seek to protect their rights (security interests) in movable property pledged as collateral as well as borrowers that may wish to ascertain whether a registered security interest has been discharged. The Guide may equally be of interest to members of the general public in verifying whether a particular movable asset is subject to a security interest.

This promotes movable property based lending and thus ultimately increases access to credit by small scale businesses, in particular. Owing to a number of factors including the previous lack of a unified registry which verifies whether a movable asset is subject to other third party interests (encumbered) and difficulties associated with enforcement, collateral in form of immovable or fixed assets has been preferred by banks and other creditors.

Unlike immovable or real property (houses and land), whose records have been kept at the Lands and Deeds Registry at the Ministry of Lands, no equivalent collateral registry existed in relation to movable property until 2018. However, the Office of the Registrar of Trades Charges, which falls under the Ministry of Commerce, has not been functional. The movable registry is operated by the Patents and Companies Registration Agency (PACRA) through their Movable Property Registry system (MPRS). The MPRS provides for online registration of security interests in movable assets pledged as collateral, pursuant to the Movable Property (Security Interest) Act No. 3 of 2016.

The system contains all information relating to protection of security interests in movable assets, starting from how security interests are created, perfected and discharged and, in case of default, enforced. The system also contains background information to the Account, fees applicable and other useful information. The PACRA Movable Property Registration System allows for the following collateral related procedures:

- (a) Creation of User Account
- (b) Registration of Financing Statement
- (c) Amendment of Financing Statement as well as update, subordination and transfer of Financing Statements.
- (d) Filing of Enforcement Notice
- (e) Discharge of Financing Statement
- (f) Search
- (g) Request for Certificate of Status

The Collateral Registry is fully electronic - there is no provision for physical lodgments. All transactions in the Registry, including payment for services, are made via PACRA's website www.pacra.org. Accordingly, the prescribed forms are also electronic. Since the Collateral Registry is electronic, it is accessible 24 hours a day. An application for registration can therefore be made any anytime, including weekends.

Our investigation indicates that the registry has been successfully implemented although there is need for increased awareness of its existence and procedures in order to enhance secured lending and borrowing processes; allowing for lenders to issue secured loans to SMEs.

Accordingly, there have been efforts to improve the security interest registration system in Zambia such as the integration of all registries regardless of the nature of security interest or type of asset, or the type of debtor. This unified registry system means that a lender can now

be assured that an asset is free of any third-party interest (encumbered) after searching all the registries. This is expected to enhance financing processes. Furthermore, an integrated system is expected to ease the challenges presented by multiplicity of registries which often leads to confusion as to priority ranking of security interests. For instance, in case of default, it is difficult to determine which of the several lenders is entitled to a priority claim over the asset pledged as collateral. The net result is reluctance to accept movable property as collateral and preference for immovable or fixed assets which have a relatively lower risk or to companies.

Equity Financing

6 institutions responded affirmatively to providing equity financing for MSMEs: DBZ, AgDevCo, Inside Capital, Goodwell, AHL Venture Partners, Kukula. 2 institutions invest less than USD 1m (Goodwell (min. 500k), AHL Venture Partners (min. 200k)). Inside Capital and AHL Venture Partners aim for minority stake, while Kukula and DBZ request min. 25%. All companies except for Inside Capital invest in growth companies with Goodwell and AHL also investing in startups or early-stage companies. AgDevCo and Inside Capital both require min. 3 years of audited financial statements (AgDevCo ideally three years of positive cash flows). All but AgDevCo have explicit impact requirements to considering investments.

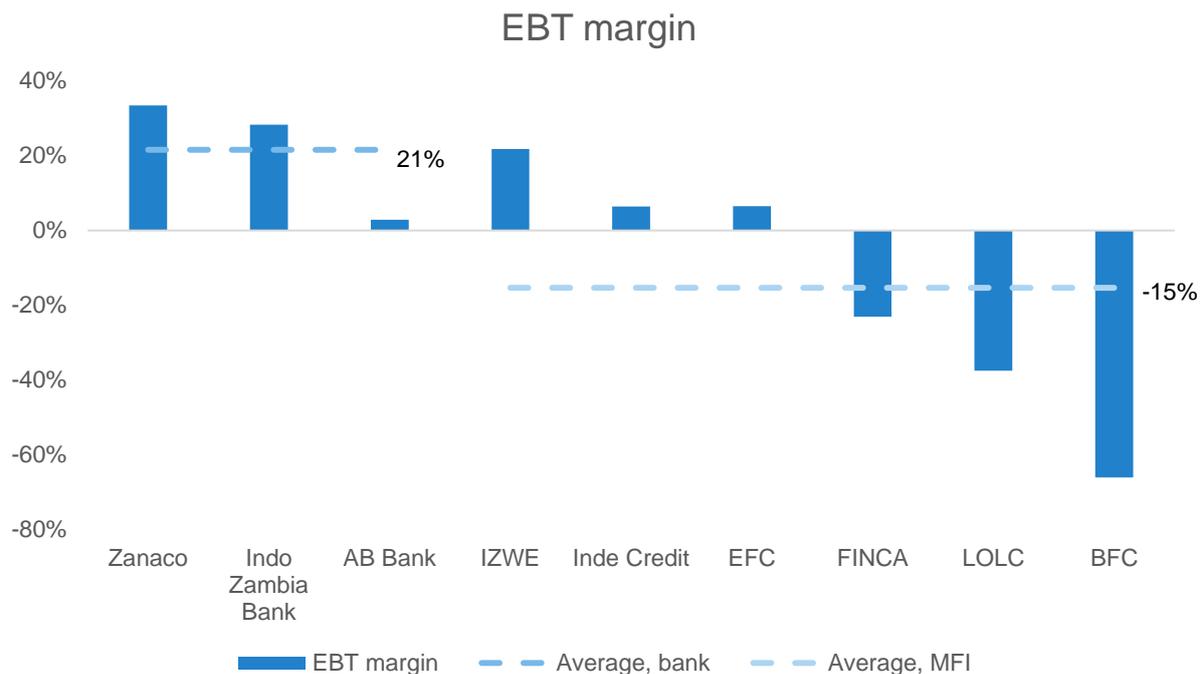


Other findings

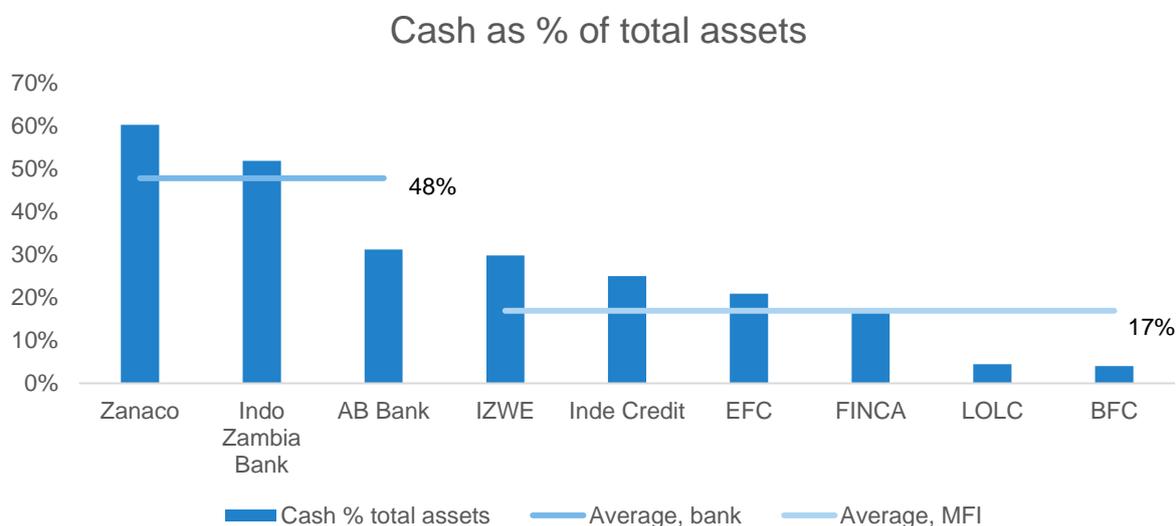
In our conversations with financial institutions, we found that the banks and larger institutions' most popular financing products tended to be term loans and overdrafts, while MFIs' most popular financing products tended to be invoice discounting and order financing. We also found that almost all institutions provide some type of non-financial services/support to their clients, incl. trainings, technical assistance, and networking opportunities.

At the study validation meeting, we heard from FSPs, one MFI (Inde Credit) and one bank (Zanaco), about their experiences with lending to MSMEs. Both stated that some potential MSME lenders are ill-prepared to obtain funding through not having their documentation, incl. registration documentation and financial books, in order. Zanaco stated that this could be caused by MSMEs not adequately forecasting their capital needs and thus failing to plan ahead for obtaining capital, and by a knowledge gap in terms of what it takes to obtain financing. Not planning ahead leads MSMEs to apply for financing last-minute. According to Zanaco, their incapacity to lend to MSMEs not complying with basic requirements can be mistaken by MSMEs as a refusal to lend to them.

MFIs take a different approach to engaging with and lending to MSMEs than banks by having a relatively larger number of loan officers and more contact with their borrowers. This allows them to build relationships with MSMEs and assist them in assessing and addressing their capital needs. This is one of the reasons that MFIs have a larger share of the MSME market. So far, focusing on – and winning – the MSME market has not resulted in high profits for MFIs despite charging higher interest rates than banks.



This indicates that an obstacle to MSMEs’ access to finance is the MSMEs themselves rather than simply a lack of capital on the part of financial institutions. This finding is supported by the fact that Zambian banks have large cash and cash-equivalent positions (upwards of 50% of total assets, significantly more than required by the Bank of Zambia). This suggests that banks do not have enough attractive potential borrowers or that the banks do not have the organization in place to work with large volumes of MSME borrowers.



4.2 Non-financial services

This study gathered information on 7 different types of non-financial services available to MSMEs, focusing on which institutions provide services, the scope thereof and requirements for obtaining such services. Each non-financial service will be described before presenting relevant findings.

Access to markets

In developing markets, markets are often disconnected resulting in loss of opportunities, higher production costs and limited scalability for MSMEs. We gathered information from 10 institutions that help MSMEs get better access to markets: Zambian Development Agency (ZDA), Zambian Agribusiness and Trade Project (ZATP), ZamB2B, Musika, AGS, Development Bank of Zambia (DBZ), Prospero, Ministry of Small and Medium Enterprises Development (MSMED) and MarketConnect.

Only DBZ's services are not free. Most focus on providing MSMEs with access to larger corporate buyers such as chain stores (ZDA), large corporations in general (ZamB2B and ZDA), large agribusinesses (Musika) and opportunities across borders (AGS), for example via trade shows (MSMED) or helping bridge farmers' logistics problems (MarketConnect). Musika and ZATP focus on MSME farmers.

The service providers have various types of requirements ranging from simple sign-up formulas (ZamB2B) to having to include things like company registration documents, cash flow projections, business proposals and tax clearance certificates (Musika, ZDA).



Business Advisory

Business Advisory services are a variety of (paid or unpaid) services provided by development partners aimed towards enabling growth in Zambian MSMEs. We gathered information from 2 institutions that provide various types of business advisory services to MSMEs: ZDA and DBZ: ZDA provides various business management services but is focused on incubation; DBZ assists MSMEs with financial modelling and business plan preparations. ZDA's services are free, while DBZ charges 2% of funds raising in connection with their services.

Requirements include company registration documents, business plans and more.



Grants

We have gathered information from 10 different entities that regularly provide grants to MSMEs in Zambia: UN Capital Development Fund (UNCDF), Prospero, Zambia Information and Communications Technology Authority (ZICTA), Musika, Zambia National Technology and Business Centre (NTBC), Enterprise Zambia Challenge Fund (EZCF), Self Help Africa, TechnoServe, MarketConnect and Japan International Cooperation Agency (JICA).

ZICTA and NTBC focus on the ICT sector, supporting innovators that respond to socio-economic needs and providing grants for prototypes, respectively. Musika, Self Help Africa, Technoserve and MarketConnect focus on (smallholder) agribusinesses in Zambia. UNCDF provides grants for digital financial services. Prospero provides grants towards the cost of accessing specialist technical expertise.

Grants range in size from USD 6k up to USD 1.2m, with some grants being given on a matching-basis (EZCF, MarketConnect), whereby the grantee must also contribute money toward the financing of what the grant is dedicated to.

Potential grantees must comply with a range of grant-specific requirements and grantees will typically have to go through some form of due diligence before obtaining a grant.

										
Est. USD issued per year	n/a	7m	70k	0.7m	n/a	7m	0.5m	n/a	n/a	30k

Guarantees

By pledging a guarantee, an institution guarantees an MSME's loan, which can assist the MSME in unlocking private debt funds. We have gathered information from 3 different entities offering guarantees: DBZ, UNCDF, and Zambia Credit Guarantee Scheme Limited (ZCGS). UNCDF and ZCGS's guarantees are free. Guarantors work in partnership with financial institutions (for example, ZCGS does not work directly with MSMEs) and the requirements for MSME wanting to access guarantees are extensive and akin to those required to obtain a loan, incl. submitting all company registration documents, cash flow projections, audited financial statements and budgets, management CVs. Additionally, ZCGS considers economic impact in terms of employment creation, gender equality, clean energy usage etc.

ZCGS guarantees

ZCGS works in partnership with FSPs and does not deal directly with MSMEs. ZCGS works with FSPs from all provinces across Zambia and also within AGS's focus sectors. Aside from providing partial credit guarantees at 50% loan coverage, ZCGS offers technical assistance by working with various international strategic partners such as the AFD, Swedish International Development Agency and International Trade Centre. ZCGS has partnered with Zambian commercial banks and is yet to finalize MoUs signing with other institutions such as Access Bank and Entrepreneur Financial Center (EFC). ZCGS does not work with un-regulated financial institutions.

For ZCGS to guarantee an MSME's loans, the criteria set by the partner FSPs must be met. ZCGS targets employment creation, gender equality, affordable and clean energy, decent work, and economic growth.

Once a credit assessment of the recommended applications is received from the FSPs, all credit applications are reviewed and only viable businesses who meet all requirements are guaranteed. Upon notification by the FSPs to disburse the loan, ZCGS will then inform the nominated business development service provider (e.g. ZDA) to commence monitoring of the guaranteed loans. The FSP sends monthly credit reports which ZCGS uses to assess/review the performance of each guaranteed loan. Upon full liquidation of the loan, the bank notifies ZCGS and the guarantee ends. Among other challenges faced by the institution, the FSPs are either considered too expensive or are often not certified to conduct such functions.

DBZ guarantees

DBZ offers guarantees for MSME loans and works with all financial service providers. MSMEs must submit a standard application form along with supporting documentation such as company registration documents, business plan and cash flow projections. MSMEs must fulfil the FSP's lending criteria and should have created positive impact. DBZ is also developing a guarantee program for wider SMEs to access. Applications less than ZMW1m are not considered.



Networking Events

We have gathered information from 5 different organizations that regularly schedule networking events where MSMEs can meet other business in their sector and value chain in order to open up markets, find business partners etc.: ZDA, The Zambia Federation of Associations of Women in Business (ZFAWIB), Infratel, AGS and Prospero. ZFAWIB charges a modest ZMW 200/year membership fee to access their network of 5,000 business and 55 business associations, while the other institutions' events are free. ZDA events are focused on building B2B linkages, Infratel hosts a one-day conference on integrating digital technologies, while Prospero's event aims to support impact investments.



Tax Incentives

Zambia Revenue Authority (ZRA) is naturally the only institution in Zambia that can provide tax incentives to incentivize specific desirable actions on the part of businesses incl. MSMEs. These include customs duty rebates on machinery and equipment, corporate vehicles and in a Multi-Facility Economic Zone.

Regulation	Beneficiaries	Requirements
98B (1)	Business enterprises that create employment	the said business enterprise is entitled to a customs duty rebate on machinery and equipment used for the business enterprise
98C (1)	Incentives for Motor Vehicle and Trailer Assembly	A rebate, refund or remission of the whole or any part of the customs duty paid or payable in respect of: Machinery, equipment and component parts required for the assembly of motor vehicles and trailers by a business enterprise registered by the ZDA
98C (1)	Incentives for Manufacture of Roofing Sheets	A rebate, refund or remission of the whole or any part of the customs duty paid or payable in respect of inputs used in the manufacture of roofing sheets and roofing tiles
98D (1)	Incentives for Manufacturing activities in an MFEZ/Industrial Park/Rural Area	A customs duty rebate will be granted to machinery and equipment used for manufacturing that is located in a Multi-Facility Economic Zone, or in an Industrial Park, or in a Rural area

98D (1)	Incentives for Multi Sector Industries listed in the 2nd Schedule of the ZDA Act	Under this Regulation, a customs duty rebate will be granted to machinery and equipment used by different industries from multiple sectors as listed in the 2nd Schedule of the ZDA Act
98D (1)	Incentives on Machinery, Equipment and specified goods for Development of MFEZs and Industrial Park	Under this Regulation, a customs duty rebate will be granted to machinery and Equipment and other goods specified in the bills of quantities submitted with an application for an approval, to be used for development of a Multi-Facility Economic Zones, or an Industrial Parks

Technical Assistance

Technical assistance can provide targeted support to and build capacity of an MSME. We have gathered information from 12 institutions providing technical assistance to Zambian MSMEs: African Management Services Company (AMSCO), UNCDF, ZDA, AgDevCo, Citizens Economic Empowerment Commission (CEEC), Musika, AGS, Zambian Bureau of Standards (ZABS), GIZ, Self Help Africa, Technoserve and JICA. Technical assistance is typically granted by development organizations and thus free, with exceptions being AMSCO’s services which are typically mandated by a funder or development partner. The types of assistance include staff and management training, preparation of funding proposals, access to expert networks, business development training, financial management training, productivity enhancement and mentoring.

Requirements for accessing technical assistance range from submitting an application to including various types of supporting documents, e.g. company registration documents, business proposal. Some organizations focus their assistance on certain sectors, e.g. fintech (UNCDF), renewable energy (GIZ) or agriculture (Musika, Self Help Africa, Technoserve, AgDevCo).



Conclusions and recommendations

This study finds that there are 20 financial institutions in Zambia that provide financing to MSMEs, in the shape of invoice discounting, term loans, order financing, working capital financing or overdrafts, most of them targeting Lusaka, Copperbelt and NW Province as well as most of AGS' focus sectors. This finding could seem at odds with the existence of a substantial MSME finance gap in Zambia. However, this study also identified a range of challenges in bridging the finance gap.

Firstly, according to some FSPs, some MSMEs have a knowledge gap when it comes to what is required to access financing. This leads to MSMEs approaching FSPs last minute without proper company and financial documentation and results in borrowing applications being rejected. This indicates that support for MSMEs in preparing for obtaining financing, both from a timing- and documentation-perspective, could contribute to improving access to financing for MSMEs, and that further research and work is needed.

Secondly, this study found that the potential supply of financing for MSMEs is not necessarily insufficient, but that MSMEs are simply not able to access it. As shown in section 4.1, MFIs have limited excess cash for lending to MSMEs, grants have limited overall impact on access to finance, while banks have very large cash holdings, which could be used to increase lending to MSMEs. Banks, however, do not have the same organizational infrastructure as MFIs to engage with and manage MSMEs. This suggests that enabling partnerships between banks and MFIs to target MSMEs could improve MSMEs access to financing, but more research is required to establish how.

Thirdly, 17 of 35 FSPs did not want to be interviewed and that 4 of those interviewed did not agree to have their data on loan sizes, maturities, requirements etc. publicly disclosed, despite a significant amount of information being available on their own websites. This reluctance to engage with the MSME landscape echoes what some MSMEs express, namely that it can be difficult to get an audience with financiers and eventually access finance. Further, the study has found significant differences in the interest rates offered to MSMEs. In many countries, online price comparison sites list providers of various types of financing and compare costs of financing, both for personal accounts and companies, automatically gathering publicly available information and allowing individuals or companies to contact finance providers. A recommendation for further study/work on this topic could be to develop a similar tool for Zambia.

Appendices

Appendix 1 – List of FSPs contacted for the study

	Organization	Interviewed	Desk research
Banks	Absa Bank Zambia Limited	Not responsive	No
	Access Bank Zambia Limited	Not responsive	No
	Atlas MARA	Not responsive	No
	Bank of China	Not responsive	Yes
	First Capital Bank Zambia Limited	Not responsive	No
	FNB	Yes	No
	Indo Zambia Bank	Yes	No
	Investrust Bank Zambia Limited	Yes	No
	NatSAVE	Not responsive	No
	Stanbic Bank	Yes	No
	Standard Chartered	Yes	No
	UBA	Not responsive	No
	Zanaco	Yes	No
	ZICB	Declined	Declined
MFIs	AB Bank	Yes	No
	Agora Micro Finance	Declined	No
	ALS Capital	Not responsive	No
	Altus Financial	Not responsive	No
	Betternow Finance	Yes	No
	Business Partners International	Not responsive	No
	EFC	Yes	No
	EFC	Yes	No
	Elpe Finance	Not responsive	No
	FINCA	Yes	No
	Inde Credit	Yes	No
	Izwe Loans	Yes	No
	LOLC Finance	Yes	No
	Lupiya	Yes	No
	Madison Finance	Not responsive	No
	Meanwood Finance	Not responsive	No
	Micro Finance Zambia	Declined	Declined
PremierCredit	Declined	Declined	
DFIs	AgDevCo	Yes	No
	CEEC	Yes	No
	DBZ	Yes	Yes
Business development partners	AGS	Yes	No
	EU challenge	Yes	Yes
	GIZ	No	Yes
	Green Ministry	Yes	No
	JICA	Yes	No
	Market Connect	No	Yes
	Ministry of Science and Technology	Yes	No
Ministry of Small and Medium Enterprises	No	No	

Financial Services and Products Study

	Ministry of Trade Commerce and Industry	No	No
	Musika	Yes	No
	National Technology Business Center	Yes	No
	Prospero	Yes	No
	Self help Africa	No	Yes
	Technoserve	Yes	Yes
	Zambia Bureau of Standards	Yes	No
	Zambia Chamber of Commerce	No	No
	Zambia Credit Guarantee Scheme	Yes	No
	Zambia Development Agency	Yes	Yes
	Zambia Revenue Authority	No	Yes
	ZICTA	Yes	No
Investors	AHL Venture Partners	No	Yes
	Goodwell Investments	Yes	No
	Inside Capital	No	Yes
	Kukula Capital	Yes	No
	Lendahand	No	Yes