

ICAZ WINTER SCHOOL



Partners For Success

TOPIC: DO LOCAL BANK LOANS ENSNARE OR HELP ENTREPRENEURS?

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PRESENTATION OUTLINE



- Introduction
- Entrepreneurship in Zimbabwe - Overview
- Banking sector support to Entrepreneurs
- Constraints to financing Entrepreneurs
- Analysis of local Bank loan conditions
- So do local bank loans ensnare or help entrepreneurs?
- Conclusion
- Discussion – Q & A

INTRODUCTION



ENTREPRENEUR:

- “An innovative , risk-taking individual who identifies a need in a market, and finds a way to fill it, in order to turn a profit or provide a solution to some larger issue in the world “ Andrew Schrage
- An individual who owns and leads an enterprise, starting as a small, grows it to medium and large enterprise.
- Entrepreneurs – owners or leaders of SMEs.



BENEFITS OF ENTREPRENEURSHIP:

- Sustainable economic development
- Innovation – new products, services, technologies and markets
- Employment creation
- Income and wealth generation for nations
- Facilitation of exports and imports
- Poverty alleviation

ENTREPRENEURSHIP IN ZIMBABWE



- Entrepreneurship is a key driver for economic growth and development.
- According to the Finscope SME survey of 2012, SMEs employ about 5.7 million people (2.8m business owners and 2.9m employees.)
- SMEs contribute more than 60% of the country's GDP.
- SMES are recognized as one of the key drivers of ZIMASSET and an engine for economic growth.
- Banking sector plays pivotal role in promoting growth and development of SMEs.
- Research shows that banks are the main source of external finances for SMEs across countries.

ENTREPRENEURSHIP IN ZIMBABWE OVERVIEW

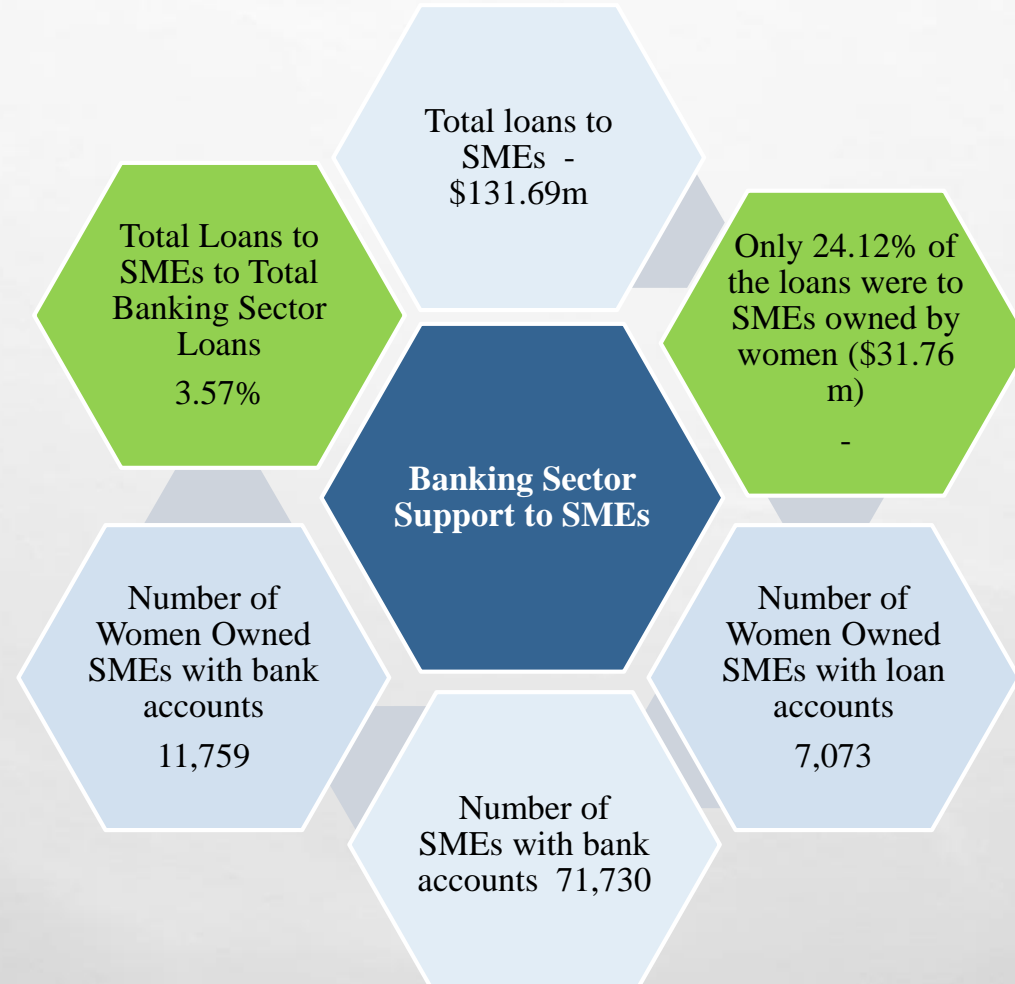


The banking sector undertakes various strategic initiatives to support SMES such as:

- Negotiating off-shore lines of credit
- Technical training of SMEs and bank staff in SME financing
- Reduction of interest rates and bank charges.
- Customization of credit policies to suit SME needs.
- Dedicated SMEs departments to provide customised financial services
- RBZ – Credit Reference Registry and Collateral registration of movable security for funding purposes.

BANKING SECTOR SUPPORT TO SMES - 31/12/16

SOURCE: RBZ

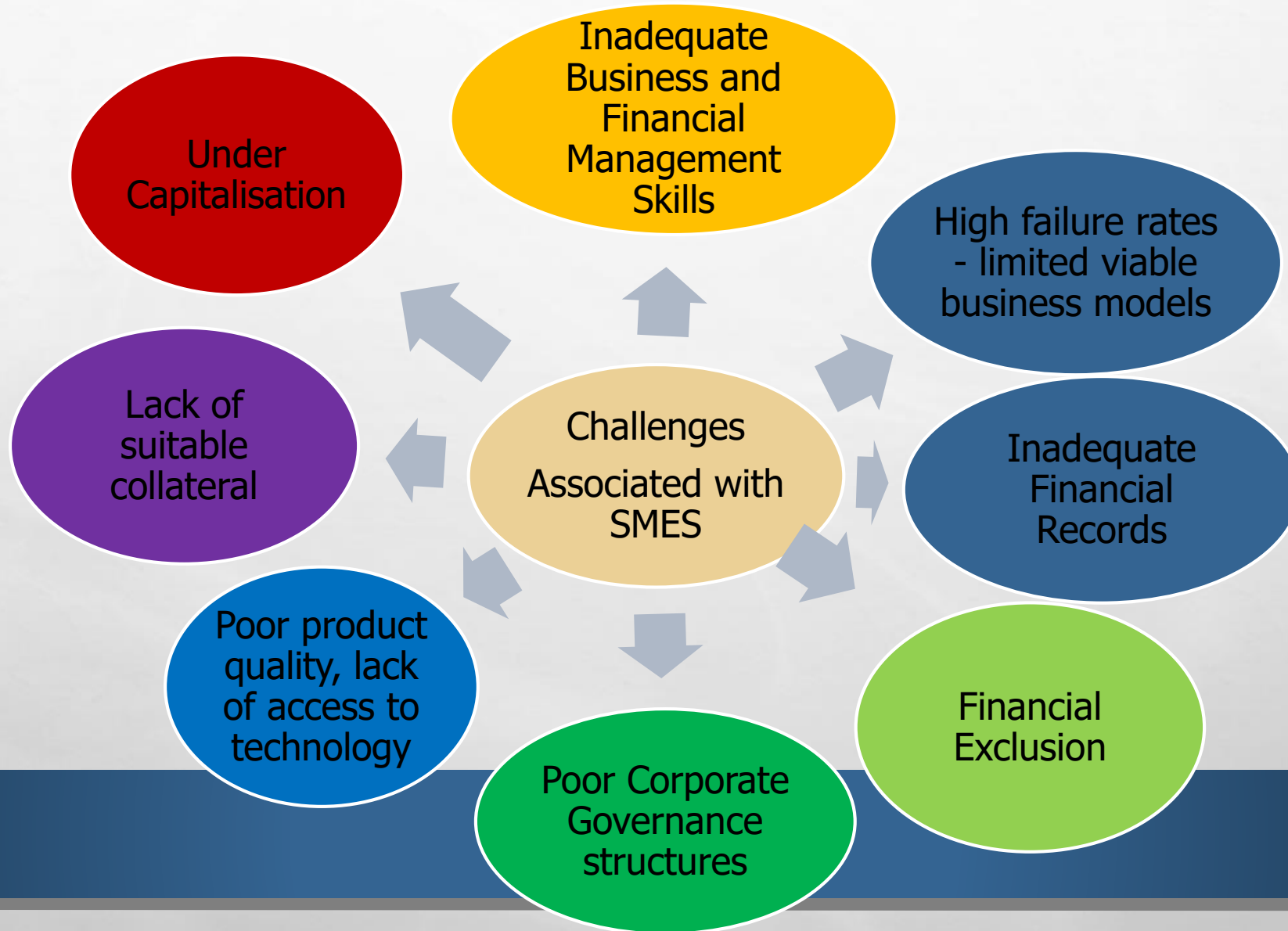


Majority of SMEs rely heavily on **informal sources of finance**, such as family and friends or from unregistered moneylenders, which is **not ideal for sustained growth of the SMEs**.

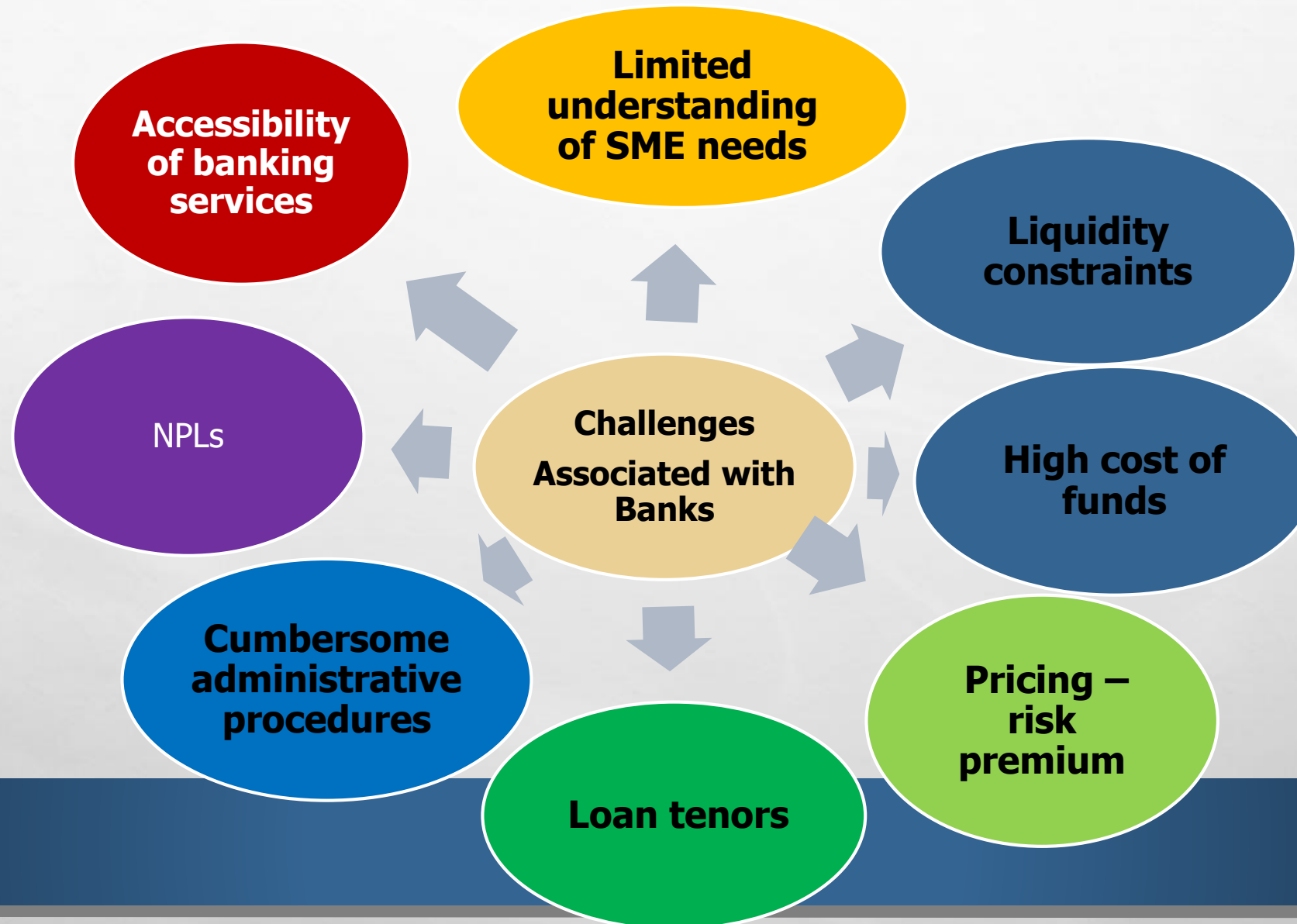
CBZ SUPPORT TO SMES

- ✓ Dedicated Business Banking (SMEs) Division with Business centres across the country
- ✓ \$10 million SME facility over and above the existing SMEs loan book
- ✓ Collaboration with funding partners who offer special loan facilities
- ✓ Value Chain financing model
- ✓ Group lending methodology
- ✓ Technical training of SMEs
- ✓ Availing special offshore lines of
- ✓ Training of over 1,300 Youth Entrepreneurs from the 10 provinces and provision of seed capital to the top 20 winners.

CONSTRAINTS TO FINANCING SMES



CONSTRAINTS TO FINANCING SMES...



ANALYSIS OF LOCAL BANK LENDING RATES

Year	Lending Rate pa
2013	6-33.5%
2014	6-35%
2015	6-18%
2016	6-18%
2017	6-12%

Source: RBZ

- Lending rates have decreased from 35% in 2014 to 12% following intervention by the Regulator

COMPARISON OF LENDING RATES – AFRICAN COUNTRIES

Country	Lending Rate June 2017
Malawi	33.60%
Mozambique	28.25%
Uganda	23.25%
Zambia	18.00%
Nigeria	17.43%
Kenya	16.6%
Zimbabwe	12%
Namibia	10.75%
South Africa	10.50%

Source : Central Banks & Trading Economics

ANALYSIS OF LOCAL BANK LOAN PRODUCTS

FACILITY	BRIEF DESCRIPTION	INT RATE	TENOR
OVERDRAFT	<ul style="list-style-type: none">• Revolving facility• Ideal for working capital• Interest charged on amount utilized only	10-12%	12 months renewable
LOAN	<ul style="list-style-type: none">• Repayable by regular reductions over a fixed period of time• Ideal for capital expenditure• Monthly or quarterly repayments	10-12%	12 - 36 months
LEASE FINANCE	<ul style="list-style-type: none">• For rental or purchase of assets such as motor vehicles , plant, equipment, machinery etc.• Asset purchased secures the loan.	10-12%	24-36 months

ANALYSIS OF LOCAL BANK LOAN PRODUCTS

FACILITY	BRIEF DESCRIPTION	INT. RATE	TENOR
TRADE FINANCE	<ul style="list-style-type: none">• Invoice discounting• Debt factoring• Bills discounting• Order financing	1.5 - 3% 10-12%	30-90 days
MORTGAGE FINANCE	<ul style="list-style-type: none">• Purchase or improvement of immovable properties• Property being purchased used as security	9-12%	5-25 years
LETTERS OF GUARANTEES	<ul style="list-style-type: none">• Help customers to obtain credit or goods and services without cash outlay• Bank provides undertaking	1-5%	3 – 12 months

SUCCESS STORIES

- ✓ Nash Paints – paints manufacturer
- ✓ Chicken Slice – fast foods distributor
- ✓ Navidale Textiles – knitwear manufacturer
- ✓ Battery Centre – distributor of batteries
- ✓ Eat and lick – fast foods distributor
- ✓ Chitaitai Chemicals – polish manufacturer

SO DO LOCAL BANK LOANS HELP OR ENSNARE ENTREPRENEURS?

- ✓ Yes local bank loans help entrepreneurs to start and grow their enterprises in Zimbabwe.
- ✓ There is a positive relationship between the value of loans advanced by banks (over \$130m) and growth of SMEs.
- ✓ Local bank loan terms and conditions have improved since dollarization and compare favourably with regional banks.
- ✓ However, some businesses have failed due to unfavourable loan conditions.

- Research attributes failure of most Zimbabwean SMEs to the following factors:
 - ✓ Unfavourable macroeconomic environment.
 - ✓ Poor business management skills
 - ✓ Lack of finance for working capital and investment
 - ✓ Lack of markets
 - ✓ Competition from imports
 - ✓ High operational costs

LOAN FEATURES TO WATCH TO AVOID PROBLEMS

○ Pricing:

- ✓ Sustainable
- ✓ Business should be generating sufficient profit to cover interest and related fees.

○ Amount:

- ✓ Should be adequate for the project or purpose.
- ✓ Commensurate with balance sheet size.

○ Loan tenor:

- ✓ Short tenor loan products for short term needs.
- ✓ Capex – medium or long term.



LOAN FEATURES TO WATCH

○ Facility Structure:

- ✓ Should suit business cash flows

○ Security:

- ✓ Borrowing is based on business viability and demonstrated capacity to service the loan.
- ✓ Security is the 2nd line of defense.
- ✓ Customer and bank protect the security by ensuring good business performance.
- ✓ Banks foreclose on security as a last resort.
- ✓ RBZ working on collateral registry to broaden securities for loans – movables.



CONCLUSION

- Local bank loans help entrepreneurs to start and grow their businesses.
- Entrepreneurs with viable and bankable projects are encouraged to approach their bankers for financial and technical support.
- As Chartered Accountants, you are ideally placed to help entrepreneurs structure their businesses and proffer advice to make their businesses successful.
- Government must continue to implement policies that reduce the country risk premium in international capital markets.



Thank

you

