Access to Finance and Funding Practice in Zambia

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Abstract: ***Access to finance is critical to the improvement of a country's economy. Government and companies are in constant need of funding to produce and provide the most desirable consumer goods and services. This article focuses on the factors that have an impact on access to finance in Zambia. The article details the description of access to finance and the specific factors that have an impact on access to finance in Zambia namely Financial infrastructure, Credit reporting, Credit rating, The Payment and Settlement System, Small and Medium Scale Enterprises (SMEs), Mobile Banking, Agricultural and Rural Finance, gender and finance and Financial Capability.The details in this article is entirely collected through secondary research, specifically from scholarly articles banking and finance, various text books inbanking and finance and journals from professional bodies. The paper is focused on the factors that have an impact on access to finance with emphasis on Zambian institutions, although general commentaries from various areas on the continent of Africa are also included in the article.***

Key word: Access to finance, Agriculture and Rural finance, Gender and finance, Financial capability, The Payment and Settlement system, Mobile banking, Small and Medium Scale Enterprises, Credit reporting, Credit rating, information asymmetries.

I. INTRODUCTION

This article discusses the factors that have an impact on access to finance in Zambia and the focus is on the following specific factors Financial infrastructure, Credit reporting, Credit rating, The Payment and Settlement System, Small and Medium Scale Enterprises (SMEs), Mobile Banking, Agricultural and Rural Finance, gender and finance and Financial Capability. Furthermore the description of the term access to finance is discussed.

II. OBJECTIVE OF THE STUDY

- To define and describe the term access to finance.
- To discuss the factor that have an impact on access to finance and government and other stakeholders are doing to improve access to finance.

A. What is access to Finance?

Access to finance refers to the extent to which financial services are available. Access to finance plays a pivotal role to the development of a country. It is an aid to the production and distribution of goods and services. Lack of finance has been a major drawback for a number of firms especially the small medium scale enterprises (SMEs). SMEs employ the largest share of workers in most countries in Africa and are a major contributor to the GDP of most economies on the continent. SMEs increase competition, generate employment and foster innovation, although SMEs are prone to challenges to grow and therefore it is vital that these issues are resolved as this will result in SMEs increasing their contribution to economic development.

It is also important to state that limited access to finance is not just a problem to the small and medium scale enterprises (SMEs), this also extends to large institutions, including government. Government and several other institutions are in constant search of funding to carry out various projects and activities that contribute to a health and safe lifestyle of the citizens. Physical access, affordability or eligibility are constraints to the access to finance. In addition small and medium scale businesses may have difficulties in meeting eligibility criteria such as the ability to provide collateral or strict documentation requirements. Most entities have limited access to formal financial services due to cost barriersin form of high transaction fees. It is important to state that the lack of access to funding has necessitated most institutions like the ones described above to obtain debt finance as a means of funding there operations, projects and activities. Research indicates that in Africa, less than 20 percent of households on average have access to formal financial services. Even where there is availability of access small and medium businesses and low-income individuals and may have difficulties in meeting eligibility criteria like strict documentation requirements or the ability to provide collateral.

B. Financial infrastructure

Financial infrastructure includes sets of market institutions, shared physical infrastructure that enable the effective operation of financial intermediaries, the exchange of information and data, and the settlement of payments between wholesale and retail market participants and networks. A safe and efficient financial infrastructure is imperative for the successful operation of modern integrated financial markets and fosters financial stability.Most economies on the continent of Africa have financial infrastructure in its infant stage development. Financial infrastructure covers credit reporting, credit ratings, and payment and settlement systems and they are explained below, in addition to other factors in the article.

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C. Creditreporting

Credit rating bureaus assign credit scores to individuals. Credit rating bureaus engage in what is referred to as credit reporting which is the evaluation of the credit worthiness of a borrower in general terms or with respect to financial obligation. A credit reference agency is another term used to refer to a credit bureau. Through credit bureaus comprehensive credit report which can be used by potential creditors usually based on the credit history of an individual taking into account both negative and positive information such as repayment behavior. Credit bureaus are important in either reducing or eliminating some of the information asymmetries that prevent lenders from evaluating risk profiles and the expansion of credit in economies. A number of countries in Africa face challenges in establishing credit reporting and one major reason is that a number of citizens in most African countries lack national identity cards (IDs) in Zambia they are known National Registration Cards (NRCs). Another reason is the absence of physical addresses and in most cases the physical addresses are not well labeled. In additional the effect of economies of scale is insignificant because credit markets in Africa is small in size.Research indicates that between 2002 and 2017, cardinal legal changes were made in Zambia and several African countries to enable private credit bureau operate.

D. Creditrating

Credit rating is defined as the rating of debtors in terms of their credit worthiness. Credit rating agencies are tasked with the responsibility of the evaluation the debtor’s credit worthiness. Credit rating does not involve the assigning of credit scores to individual, but rather they assign credit scores to institutions. These institutions issue debt obligations with the aim of raising funding in form of debt.The institutions that are rated can be governments, companies, cities and non-profit organizations.Credit rating involves assessing the debtor’s likelihood to default on their obligation and the ability of the debtors to pay back the debt. Lower rating carries high interest rates on the borrowing while higher rating carries low interest rates on the borrowing. Letters are normally used to assign credit scores e.g. AAA, BB+ etc. The top three (3) credit rating agencies in the USA and worldwide are Moody's, Standard & Poor's and Fitch. Research indicates that as of the year 2009 only a fraction of African countries had been credit rated by credit rating agencies. Although in the past few years several African countries including Zambia had been credit rated and it has been an essential ingredient for governments to obtain funding in form of debt.

E. Benefitsof good credit rating score

A good credit rating score on an institution leads to the institution benefiting in terms of interest rates on loans and generally borrowings lowering them such that the institution does not have to pay higher interest rate on their loans. Another benefit of having a good credit rating scoreis that the approval of loans is guaranteed and the approval is normally done without delays. The lender provides funding with confidence unless when they have doubts in the borrower to repay back the loan due to poor credit score. With a high credit score the negotiation power for instance to obtain credit facilities such as loans are enhanced. However, if the borrower obtains a low credit score, their bargaining power to obtain credit facilities such as loans declines. Intermediaries such as commercial banks are willing to let borrower to borrow more money because they have demonstrated that they can pay back what they have borrowed on time. A good credit score enables the borrower to graduate to a high limit in terms of obtaining credit facilities this means that they can obtain higher credit facilities from the lenders than before. Therefore the borrowing power of an entity increases with the improvement in the credit score.

F. ThePayment and Settlement System

Payments are flow of funds from the***payer*** to the ***payee***, for the purpose of compensation for the provision of products or services or to settle a liability. Payments normally involve the exchange of cash in form of coin and currency serving as a medium of payments. Provision of a payment system is one of the primary purpose of a bank. This is by providing chequing services and electronic funds transfers (EFT). The processes involved in the chequing system and the electronic funds transfers (EFT) instructions to transmit money from one account to another and the actual exchange of funds. Usually the payee's account is credited and payer’s account is debited. In the current dynamic environment accounts are normally electronic records.Payment systems take into account the following factors to function effectively procedures, sets of rules, and mechanisms for transmitting funds between two or more financial intermediaries and their customers. The clearing system is an important part of the payment system and this involves the process of transferring cheques from the payee's bank to the payer's bank and the transmission of money from the payer's account to the payee's account. The ***Settlement*** is the actual adjustment of accounts to reflect the transaction, where the payee's account is credited and the payer's account is debited. The clearing and settlement services to its members are provided by the clearing house and the members are normally participating banks. The use of paper in the modern payment system is completely eliminated. Generally the payment and settlement system of several economies on the continent of Africa lag behind as compared to other economies, however most economies in Africa are taking several steps to improve their payment and settlement system.

G. Small and Medium Scale Enterprises (SMEs)

The small and medium scale enterprises are one of the major contributors to the GDP of most economics on the continent of Africa as well as employing the largest share of workers. Specifically the small and medium scale enterprises (SMEs) have played the row of fostering innovation, generating employment and increasing competition, however SMEs in the continent face several challenges to growth and it is important that these issues are resolved as this will result in SMEs increasing their contribution to economic development.

Most countries in the sub region are at all times continuously finding means of providing funding to small and medium scale enterprises due to the significant role they play to economic development. In Zambia for instance institutions such as the citizen economic empowerment commission (CEEC) have been set to provide funding to citizen with viable projects and empower them economically.

H.Mobile Banking

The use of mobile phones to deliver banking services is referred to as Mobile Banking orM-Banking. Mobile banking offers the advantage of overcoming the limitations of physical infrastructure. Mobile banking has had an exponential growth of penetration in recent years over the continent of Africa. According to research at least four out of ten individuals in Africa have access to a mobile phone. Mobile banking has had a significant effect on the provision of financial services not just in Zambia, but in many other countries in the universe.

I.Agricultural and Rural Finance

Agricultural and Rural financial services are offered by both formal and informal financial institutions.

The majority of the population in Zambia and the continent as whole depends on agriculture production and lives in rural areas. There is inadequate supply of financial services to the sector with a lower percentage of resources on average being allocated to the agricultural sector. There several reasons for lack of access to finance in rural areas and in the agriculture value chain the major ones being factors such as poor infrastructure and widely dispersed populations raise information and transaction costs. In addition there is a problem in the use of collateral due to difficulties in verifying title and property rights. The Zambian government has been keen to boost the agriculture sector to be a major income earner for the country to avoid too much dependence on mining. One of the recent programmesis that of the Zambian government and the International Fund for Agricultural development (IFAD) is the "Enhanced Smallholder Agribusiness Promotion Programme (E-SAPP)". The E-SAPP is financial agreement signed between IFAD and the Zambia government to promote market oriented agriculture and focus mainly on women and young people "www.ifad.org". This will enable smallholder farmers conduct farming as a business and not substance farming.In addition to E-SAPP the Zambian government for instance has made several amendments in the tax legislation over the past years in order to provide tax incentives to individuals and firms in the agriculture sector in orders to boost the sector.

J.Gender and Finance

Gender equality concerning the access to financial resources is a key issue in order to promote the empowerment of women as well as economic growth and sustainable development. A better provision of financial resources available to women would empower them economically but also politically and socially. Despite the existence of programmes specifically focused on women, there is a long way to go to ensure equal gender access to financial services, particularly in rural areas. Women face a wide range of constraints that hamper their access to financial services. On the demand side, they are likely to lack financial capability and confidence to manage their finances thus impeding them from being in a position to take advantage of opportunities. They are also likely to lack time due to their important role in the household and mobility in order to interact with financial service providers. According to research Zambia is among the top five (5) countries in Africa in terms of women empowerment.Despite these several challenges, there are opportunities to advance women's financial inclusion on the continent of Africa. This can mainly be done by removing discriminatory aspects of legal and regulatory frameworks, increasing the awareness of policy makers and other stakeholders with regard to the financial needs of women and bringing women leaders directly into policy dialogue.

K.Financial Capability

According to research in financial services, financial capability is defined as the understanding, knowledge, attitudes and behaviors which consumers need to display in order to manage their money well, take advantage of financial opportunities as they arise and adapt to new financial circumstances. In Zambia and many other countries people need the skills and confidence to manage their money well. Financial capability is an essential ingredient to strengthen financial inclusion in Zambia and many countries in Africa.Therefore empowering people on the capability of managing their investments is an essential goal of financial capability. Enhancing financial capability ultimately aims at empowering people and changing their behavior in relation to management of investments and finances. In addition tostrengthening financial capability governments also has a role to play in protecting consumers by ensuring that financial intermediaries apply appropriate codes of conduct and standards.Recognizing the need for consumer protection is of paramount importance in enabling financial capability. Government need to enable provision of information on the prices and risks involved in the services from financial intermediaries so that consumers to make informed choices.Low-income households in the Sub region often have limited access to financial services such as loans, insurance and savings frequently leading to individual reverting to more expensive traditional alternatives. Therefore financial capability is a necessary ingredient to strengthen financial inclusion in Zambia and the African continent as whole. . According to the deliberation at the conference held at the Mulungushi conference centre on financial literacy on 28th March, 2017 government and other cooperating partners have set a target to archive financial literacy level of 80% by the year 2022

III. RESULT

We found the result from this paper: trade and commerce in the country would seriously be impaired if Government, companies and other institutions have limited access to funding necessary for them to produce and provide the most desirable consumer goods and services.

In addition the livelihood of the residents would be adversely affected as they are the main beneficiaries of the desirable consumer goods and services. Discussing the factors that impact on access to finance in the article gives an insight on the tools that can used to reduce on the hindrances to access to finance by units in short supply of finding depending on their various circumstances.

IV. CONCLUSION

Government and institutions such as the Bank of Zambia and the Bankers Associations of Zambia have been on an awareness campaign to enhance financial inclusion through the conduction of seminars, workshops and other means of awareness in the country. Furthermore government and other institutions are concerned about measures that can be used to enable Zambia to become a cash light economy and encouraging the general public to have their money sitting on financial services and ensuring that there is gender balance in the access of financial services in the country. Therefore the factors stated above can be used by government and other cooperating partners in ensuring improved accessibility to financial services.In order to archive financial literacy level of 80% target by the year 2022 the factors stated in the article could be worth consideration as benchmarks to monitor the success of the country in archiving the set target and tools for providing funding to ensure the target is archived. The factors stated could also be used to improve funding to critical sectors such as agriculture. The Zambia government has been striving to diversify its economy by attempting to enhance the agriculture sector in order to make it one of the pillars of the economy. The government of Zambia has been heavily dependent on mining, especially copper mining as a major source of its income for the country.

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