

## **Caleb M Fundanga: Exploring and creating financial opportunities in Zambia**

Remarks by Mr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of Venture Capital Workshop, Lusaka, 26 January 2010.

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***The Managing Director, Slyvettan Investment Limited, Mr Robert Masiye  
Distinguished Resource Persons, Dr Peter Njang and Mr Kenny Rice  
Distinguished Participants  
Members of the Press  
Ladies and Gentlemen***

I am greatly honoured to officiate at this important workshop which is aimed at exploring and creating financial opportunities in Zambia. I wish to extend a warm welcome to all participants and resource persons, particularly those who have travelled from outside the country.

**Mr Chairman**, I would like to commend Slyvettan Investment Limited for organising this important workshop. This workshop which is aimed at increasing access to capital by local entrepreneurs through venture capital is indeed more than timely as the country strives towards financial deepening, wealth creation and reducing the levels of unemployment. In order to achieve this, affordable financial services should be available to the majority of businesses. It is also gratifying to note that, potential investors will present their projects for possible funding at this workshop.

Let me begin by giving a brief perspective of the enormous investment potential this country possesses. Zambia is a country with abundant natural resources and human capital. It is a centrally located country with eight neighboring countries and close proximity to the large market of South Africa. It also boasts of a suitable climate and peace. The country possesses all the necessary attributes for sustainable economic growth and development. Competitive production costs, incentives, and reforms have also enhanced the attractive investment climate for both local and foreign investors. Numerous investment opportunities exist in the agriculture, manufacturing, tourism and mining sectors across various regions of the country. Almost all provinces in Zambia remain potential areas of investment whose resources remain largely untapped. Its active participation in the SADC Trade protocol and the COMESA/FTA offers preferential tariff access to a market of nearly 380 million people.

A key challenge in developing this economic potential and enhancing the wealth creation capability of Zambians to drive growth and development is the ability to access long term investment capital especially for economically viable projects at start-up level. Financial institutions are critical in this process of mobilising and channeling these investment resources. To do so successfully, the industry must identify the constraints to the provision of finance and credit and provide innovative solutions to address them. Such innovations may include venture capital funds, structured finance products, equity and other innovations that allow a more efficient management of risks during the initial stages of the business cycle.

On its part, the Bank of Zambia needs to ensure that there is sustainable stable macroeconomic environment first. But we also need to have a good understanding of the financial innovations that may be needed to attract and disburse investment capital. This is important if we are to ensure that monetary and supervisory policy frameworks are fully supportive of the ability of the financial sector to finance growth and development. Zambia today has a large portfolio of large scale industrial and energy projects such as the Multi Facility Economic Zones (MFEZ) and several large and small hydro-power projects. These require innovative financial solutions as well as varied sources of finance and expertise, both domestic and foreign.

**Ladies and Gentlemen**, as you may be aware, the banking sector in Zambia has over the last few years, witnessed significant growth in lending. The credit expansion has no doubt brought significant benefits to the economy as resources are channeled through to the lower end of the market. However, most of the credit extended by banks and microfinance institutions is targeted at already established enterprises and individuals in formal employment. Only an insignificant amount is extended to start-up initiatives or businesses with potential for growth.

In order to bridge this financing gap, it is pertinent to establish financing arrangements such as Venture Capital Funds. Venture Capital Funds are essentially collective investment schemes where investors place their money into a Fund with the aim of achieving greater impact and security than could be realised individually. Venture Capital Funds seek to provide finance to enable businesses to start-up, expand or restructure through the use of equity and quasi-equity instruments such as preference shares, convertible debentures, and shareholders loans that reflect the risk and reward in investing in such businesses.

Furthermore, given the relatively high interest rates prevailing, debt financing is not easily available to start-up and other emerging enterprises because they generally lack the collateral, track record, or earnings required to get loans. To this effect, venture capital funds can be essential to these enterprises as they are a combination of equity and professional know-how. To be attractive investment vehicles, venture capital firms must be able to deliver a rate of return that is more attractive than those available in markets for publicly traded stocks and other securities.

**Mr Chairman**, in line with the workshop theme, “**exploring and creating financial opportunities**”, it should be noted that the financial sector in Zambia is considered relatively under-developed and has had limited reach to all sectors of the economy. A 2005 study by Finmark Trust revealed that only 33% of the total population in Zambia had access to financial services. The survey also revealed that most Zambians prefer to invest in non-financial instruments such as a businesses, livestock, land or agricultural equipment.

In recognition of the strategic importance of the financial sector to the country’s development and poverty reduction efforts, the Zambian Government launched the Financial Sector Development Plan (FSDP) in 2004 to address weaknesses that had been identified in the financial sector. The FSDP is a comprehensive strategy that is aimed at achieving a financial system that is sound, stable and market-based, that would support efficient resource mobilization necessary for economic diversification and sustainable growth. The weaknesses noted in the financial sector are addressed through a public and private sector partnership.

A number of activities have already been undertaken under the FSDP such as the establishment of a Credit Reference Bureau. Similarly policies and the legal and regulatory frameworks have been developed to take into account the fast changing financial environment. These developments have resulted in a considerable increase in the number of banks and other financial service providers in the country.

**Ladies and Gentlemen**, this workshop is therefore timely as it tries to bring together Zambian financial sector players and international financial players who have an interest to see that Zambia takes its rightful place in the world economy. Apart from being a sensitisation platform to the general public, this workshop should diligently explore ways on how entrepreneurs can access venture capital funds in Zambia. Although venture capital organizations in Zambia are not many and evident to the general populace, our expectation is that after this workshop, we shall see the emergence of an interactive and symbiotic alliance between International and Zambia financial institutions. This alliance is expected to provide venture capital funds and financial services that should uplift the well-being of the Zambian people at large. This sounds like a difficult task to achieve but it is my conviction that it is better to begin a step towards this direction rather than waiting for it to happen in future.

**Mr Chairman**, as I conclude, let me take this opportunity to guide the participants that discipline is key in accessing venture capital funds. It is common practice in Zambia for entrepreneurs to mis-apply funds obtained for capital purposes. Instead of growing businesses, we tend to use funds obtained as loans, for luxurious goods such as latest cars, suits etc. This results in business failures and thus non-performing loans for banks and thereby higher interest rates. It is also important to realise that not all projects can access venture capital funds. Only innovative, high quality and highly profitable projects may qualify for these funds. Therefore applicants of these funds should think outside the box and provide well researched project plans that meet international standards. In this regard it is key for project promoters to collaborate and pool resources as a team instead of the usual norm of going it alone.

In addition, as we are all aware, small and medium sized enterprises form the engine of economic and social development as they generate employment, and are an ingredient to growth and international competitiveness. It is therefore imperative that this key sector rises to the challenge and creates wealth through innovative entrepreneurship. A disciplined, innovative and successful SME sector will no doubt make Zambia an attractive destination for more venture capital. To this effect, this workshop on venture capital should explore ways to support efficient resource mobilization for SMEs.

**Distinguished Ladies and Gentlemen**, with these few remarks, I now declare this workshop officially opened.

***I thank you for your attention and God bless your deliberations.***