CONSTRUCTION INDUSTRY COUNCIL

Eswatini Construction Industry Access to Credit Report

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Acronym

Acronym	Full-Term
CIC	Construction Industry Council
EBA	Eswatini Bank's Association
CBE	Central Bank of Eswatini
STD	Standard Bank
FNB	First National Bank
NED	Nedbank
ENIDC	Eswatini National Industrial Development Corporation
IDCE	Industrial Development Company of Eswatini
FINCORP	Eswatini Development Finance Corporation
YERF	Youth Enterprise Revolving Fund
B	Building Works
C	Civil Works
E	Electrical Works
M	Mechanical Works

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1. Introduction

1.1 Background

The CIC through the Contractor Development Strategy (CDS) identified a gap in terms of access to finance for the industry, thus arose the need to engage with the financial sector to ascertain the challenges encountered in funding the construction sector and the proposed product solutions. The sector is considered a “high risk” by most financial providers and the report determines the reasons for such. The report incorporates respondents from contractors only that is building, civil and specialists works.

The Small-Scale Loan Guarantee scheme was also explored to ascertain how the construction industry can fully utilize it by coming up with “proposed” construction product offers. The Construction Industry Council in its mandate to regulate develop and promote, the industry has conducted the study to determine:

- The issues faced by the construction industry when attempting to access finance from banks and non-financial institutions.
- The issues faced by banks when seeking to lend money to the construction industry; issues encountered by banks and non-bank financial institutions upon funding the construction industry.
- The banks and non-bank financial institutions’ expectations from the construction industry that would enable smooth access to credit facilitation.
- The construction industry’s expectations from banks and non-bank financial institutions to enable the ease of access to finance.

According to the Eswatini Banker’s Association (EBA), “banks in Eswatini are available and have always availed finance to contractors when undertaking projects. The funding is subject to each bank’s lending criteria, assessment and lending policies; but in general, includes those requirements submitted by the Central Bank of Eswatini. The objective of the Small-Scale Credit Guarantee Scheme is to provide a portion of security to enable businesses to obtain financing - and would therefore assist where the contractors lack security. A lot of lending already takes place where contractors can provide their own security or other arrangements between bank and client. However, the uptake of the scheme has been low due to cumbersome and lengthy foreclosure arrangements and where businesses could not provide security where required. The banks welcome efforts to improve the scheme”.

1.2 **Objectives of the Report**

The Construction Industry Council in its mandate to promote, regulate and develop the construction industry wants to gather relevant data which will be of assistance in capturing information and data that will be useful in understanding: -

- The issues faced by the construction industry when attempting to access finance from the banks and non-financial institutions.
- The issues faced by banks when seeking to lend money to the construction industry; issues encountered by banks and non-bank financial institutions upon funding the construction industry.
- The banks and non-bank financial institutions' expectations from the construction industry that would enable a smooth access to credit facilitation.
- The construction industry's expectations from banks and non-bank financial institutions to enable the ease of access to finance.

2. Methodology

2.1 Target Group

2.1.1 Financing institutions as approved by the Central Bank of Eswatini to participate under the scheme which has signed Participation Agreements with the Fund. That is; all banks: Standard Bank Eswatini, Ned Bank Eswatini, First National Bank Eswatini, and Eswatini Bank. Non-bank Financial Institutions: Eswatini Development Finance Corporation (FINCORP), Youth Enterprise Revolving Fund (YERF), Industrial Development Company of Eswatini (IDCE), and Eswatini National Industrial Development Corporation (ENIDC).

2.1.2 Construction companies who are registered with the CIC, preferably considering all grades under each category.

2.2 Sampling Criteria

The population consists of all CIC registered construction company. A stratified sample was conducted as follows; there were 2 groups one having top 3 and the other having bottom 3 contractor performers across all categories and grades. In each stratum (top 3 contractors and bottom 3 contractors), cluster/group samples were taken according to category (that is, for each grade B1, B2, B3, B4, B5, B6, C1, C2, C3, C4, C5, C6, E1, E2, E3, E4, M1, M2, M3, M4 select both top and bottom 3 performers) and 20 individual artisans. A simple random selection was done based on grade representation in the absence of responses.

The table 1 below shows the summary of companies under different categories and grades that responded from the survey.

Table 1. Sampling Criteria

Construction Category	**Grade**	**Sample**	**Responses**
Building works	B1	5	4
	B2	4	1
	B3	5	3
	B4	4	3
	B5	2	1
	B6	7	1
Civil works	C1	5	2
	C2	3	1
	C3	5	1
	C4	3	1
	C5	3	1
	C6	3	1
Electrical Works	E2 E3 E4	6	1 1 1
Mechanical Works	M4	5	2
Specialist works	BSh-6 ESa-4	8	1 1
Consultancy	C/SE ME	7	3 1
Individual Artisans		11	0
	Totals	**86**	**28**

3. Construction Industry Key Findings on Access to Credit

3.1 Banks and Non-Financial Institutions Engagements

Financial institutions that were targeted by the CIC were the Central Bank of Eswatini, Eswatini Bank, Standard Bank Eswatini, First National Bank Eswatini and Ned Bank Eswatini, Eswatini Development Finance Institution (FINCORP), Youth Enterprise Revolving Fund (YERF), Industrial Development Company of Eswatini (IDCE) and Eswatini National Industrial Development Corporation (ENIDC).

Table 2. Findings from Financial Institutions

Institution	Findings
1) CBE	The Small-Scale Enterprise Loan Guarantee Scheme is a special fund that was established by the Government (Ministry of Commerce Industry and Trade and the Ministry of Finance) and it is administered by the Central Bank of Eswatini. The scheme has a maximum credit limit of E1.0 million with a repayment period of 5 years-short-term or 10 years-long-term. The respective financing institutions are responsible for evaluating the proposals using their Credit Operation Criteria. Access to credit under the scheme is dependent upon: - • A viable proposal/business plan or company profile incorporating cashflow projections. • The project promoter- if they are legally incorporated in the country. • Certificate of incorporation, memorandum, articles of association, and trading license for companies. • Financial statements for businesses that have been in operation for over 12 months. • Owners' general contribution. The contractor who seeks credit from the participating financing institutions is as follows: - 85% of the loan amount for fully operational businesses 95% of the loan amount for start-up businesses is financed by 4 commercial banks, ENIDC, FINCORP, and IDCE. 95% of the loan amount for fully operational youth businesses under the YERF. 98% of the loan amount for youth business start-ups.
2) IDCE	The institution had been financing the construction industry at different levels and needed to be informed on the structure of the industry for better-informed decision-making. The institution requested that it needed to gain the confidence of the industry through: -

Institution	Findings
	• A tripartite agreement (between the contractor, project owner and financier) where CIC should be seen playing an arbitrator role to give comfort to financier in case job is not completed. • CIC to help on checking the relevancy of qualifications of persons who will be executing the construction works. • CIC to assist in the rating of construction works done by contractors as a point of reference.
3) YERF	The institution funds youth businesses between the ages 18-35. Funding is available for equipment and working capital and does not require collateral. YERF funds the business ideas that have a 50% probability to pay the loan. The institution requested that it needed to gain the confidence of the industry and Council through: - • Assisting contractors with the business documentation as contractors rush to do the work without making the proper documents for the company which proves to be an impediment when making loan applications. • YERF does not have the technical ability to evaluate the industry players' proposals and requires CIC's assistance on how they can see a viable business idea. • The institution has a problem with the contractors' service delivery and also payment. • Most contractors lack financial management abilities which hinder them to pay loans. • YERF and CIC need to promote the registration of contractors like masons etc. for example, to have standards to adhere to. • Institute needs to work with CIC on trade testing contractors' skills. • Since there is no collateral, the Council together with the YERF needs to do proper diligence in the screening of contractors.
4) Commercial Banks	There is participation in the utilization of the credit guarantee scheme by contractors within Commercial banks though it differs from one bank to another. Banks require collateral which is about 25% deposit of the requested loan from contractors which they normally do not have. The Challenges: - • More often than not, contractors will be seeking loans that are worth more than E1.0 million. • Contractors underestimate project costs. • Most contractors will be owing taxes.

Institution	Findings
	Most commercial banks do business clinics where businesses are advised and trained. A proposal from the banks is to finance the entire value chain; for example, if the main contractors would bank with the bank of his/her choice, it would be easier to pay off sub-contractors.
5) ENIDC	The institution indicated that the construction industry is a potential sector for financing but the institution needs to be more knowledgeable about it. As a result, the institution's sectors of focus are manufacturing and agro-processing, mining and energy, education and ICT, agriculture, and tourism. When issuing out loans to businesses, the institution has some control over the business requesting the loan through equity share. At a later stage when the business grows, it has the option to buy ENIDC out. For accessing credit, the institution approves businesses that want to extend dynamic intervention through innovation; and the construction industry would be ideal to push the agenda of innovative and creative building technologies. The institution requested that it needed to gain the confidence of the industry through: - • Understanding the nature of the construction industry business as a program that will help build the characteristics of innovation; and come up with a special fund. • Need to understand why and where most of the funding is needed; for example, most were observed to need funding for operational cash, and some want equipment etc. • Agreement with the CBE gives a guarantee, so honors are up to ENIDC to make up the program; however, what is needed by the institution is the guarantee that contractors have collateral. • Need to have a tripartite agreement between CIC, ENIDC, and the contractor. • And the business has to have the ability to grow.
6) FINCORP	The institution has the scheme and it is currently working but clients are few since it began in February 2022. Generally, businesses that apply under the scheme are in logistics and rental flats. The institution requested that it needed to gain the confidence of the industry through: - • A tripartite agreement since contractors have a lot of problems; for example,

Institution	Findings
	• When contractors get paid, they have pressure to pay-off other service providers at the detriment of FINCORP. • Contractors pay in installments • Most of contractors are working for the Government which more often than not delays payments. • Most contractors are found to be not bankable or credit-worthy. • Contractors fail to pay as agreed with the financier. • CIC and FINCORP can work together towards establishing a Construction Fund where every job that contractors get, they need to plough something into CIC as the "Fund". • Start-ups need to be promoted but need to be screened thoroughly for transparency through a criterion. • FINCORP is interested in knowing the grading criteria which will act as a way to determine/incorporate credit scores or ratings.

Summary of Financial Institutions' Findings

Figure 1: Expectations of Financial Institutions From Contractors

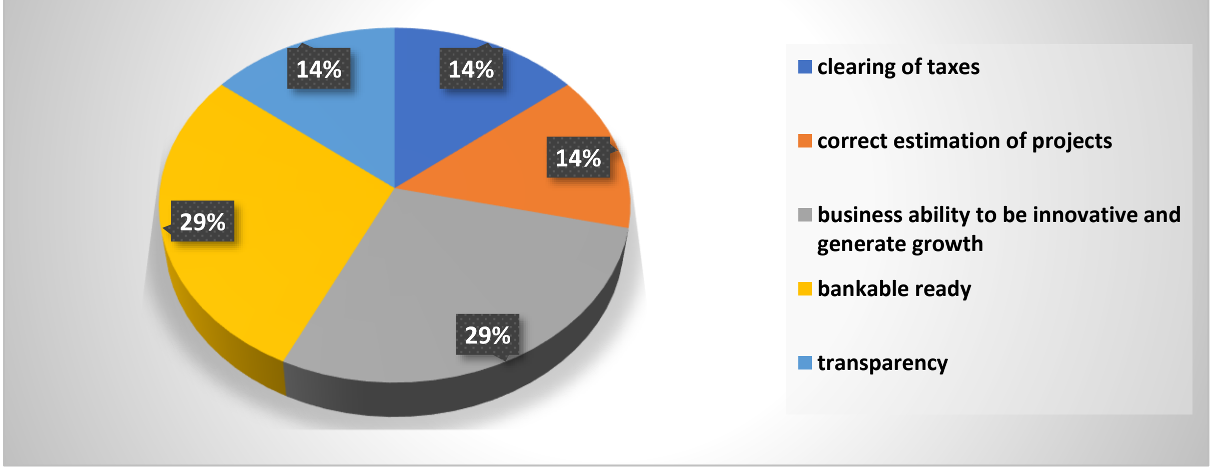
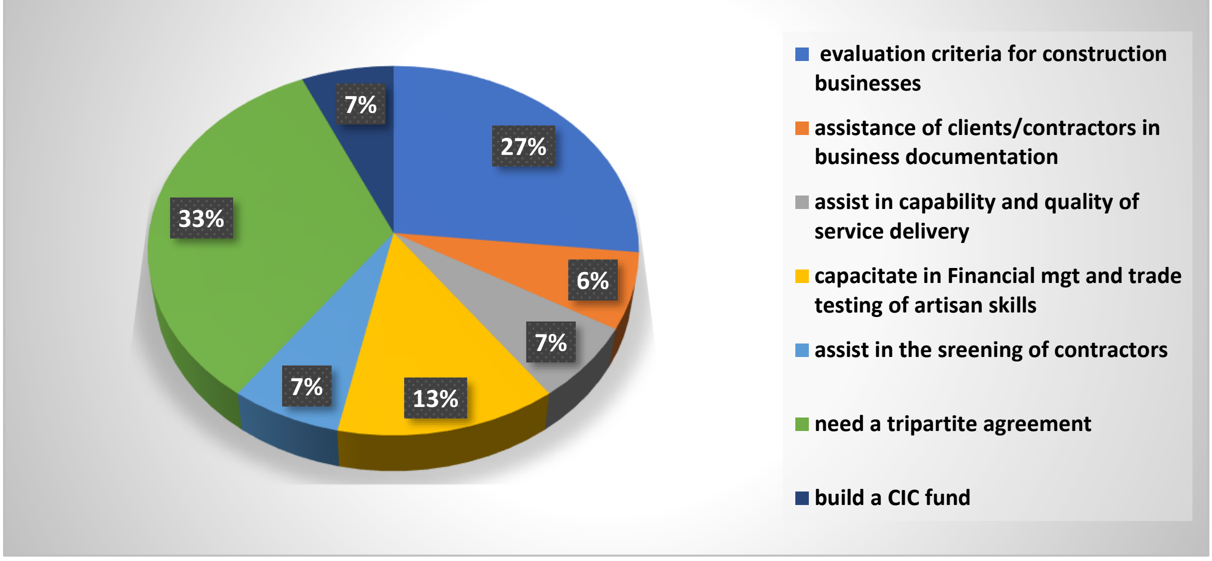


Figure 2: Expectations of Financial Institutions From CIC



3.2 The Credit Guarantee Scheme and its Construction Sector Utilization

Figure 4 shows where contractors borrow using the scheme. According to the sampled contractors who represent the construction industry's population, most contractors (about 93%) were unaware of the credit guarantee scheme and need to be sensitised on it in order for contractors to fully utilise the scheme as it was also observed that few contractors (about 7%) have borrowed under the scheme. It can be observed that contractors who have borrowed are ones who are aware of such an initiative, as there is a high correlation assumption between sensitisation and the act of borrowing.

Figure 3: Knowledge of and Borrowing from the Credit Guarantee Scheme

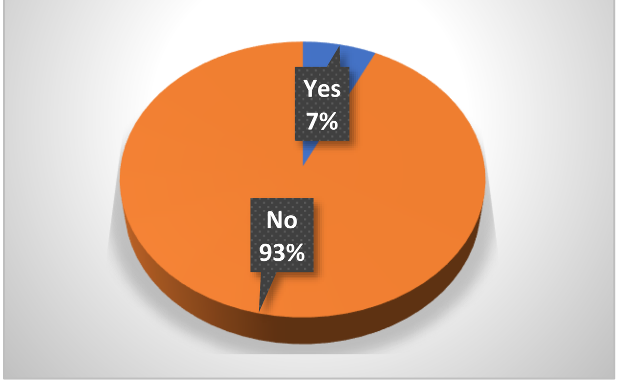
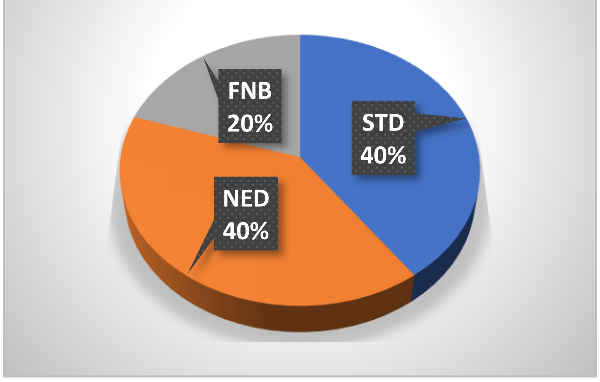


Figure 4: Contractors' Banks Utilising the Credit Guarantee Scheme



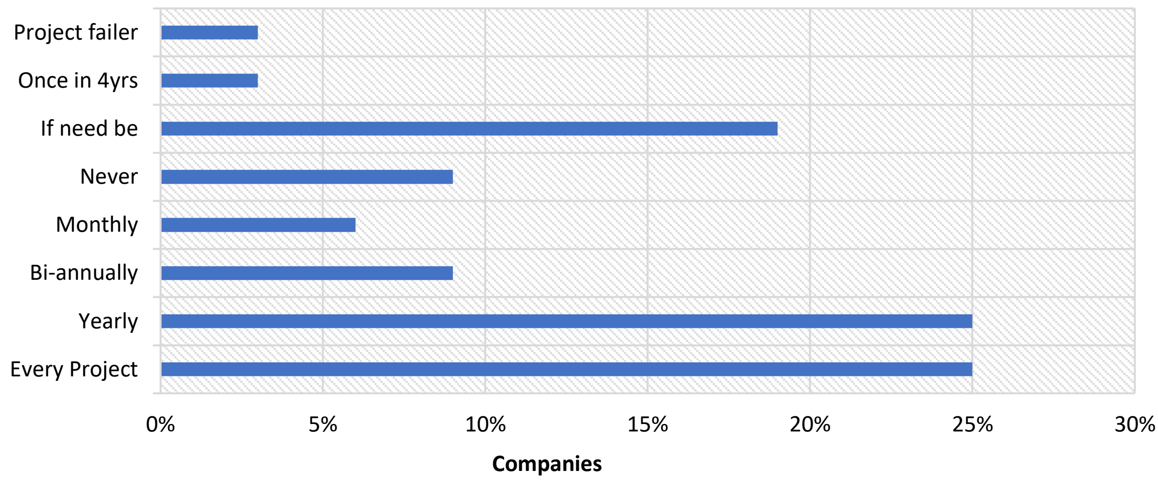
According to contractors that were aware of the credit guarantee scheme and have borrowed successfully under it, Standard Bank Eswatini had the most lending under the scheme followed by Ned Bank and First National Bank, respectively. The rest of the financing institutions had no representation. There were instances where B1 companies had no knowledge about the scheme but did borrow under it after made aware of it upon loan application; these used the Standard Bank and Nedbank; whilst other companies mostly under C1 knew about it but chose not to borrow under it probably because they needed more funding than the maximum amount of E1 million.

3.3 Construction Industry Access to Credit Trends

3.3.1 Frequency of Borrowing

Contractors' financial needs vary from one contractor to another depending on the availability of construction works and so does their borrowing vary. Figure 5 shows the different timeframes contractors borrow from financial institutions. About 29% of contractors borrow for every project awarded and 29% to borrow annually; 11% declared to borrow bi-annually and the other 11% claimed to have never borrowed instead were self-funded from their company reserves; and 7% are observed to borrow on a monthly basis. Other contractors who represented 28% mentioned to have borrowed either when the need arose, upon project failure or even once in 4 years. This is illustrated in figure 5 below:

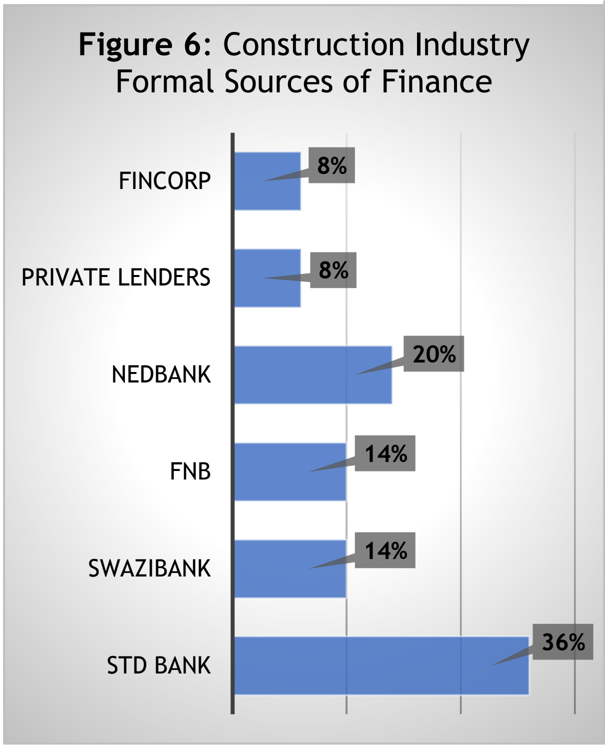
Figure 5: **Borrowing Frequency by the Industry**

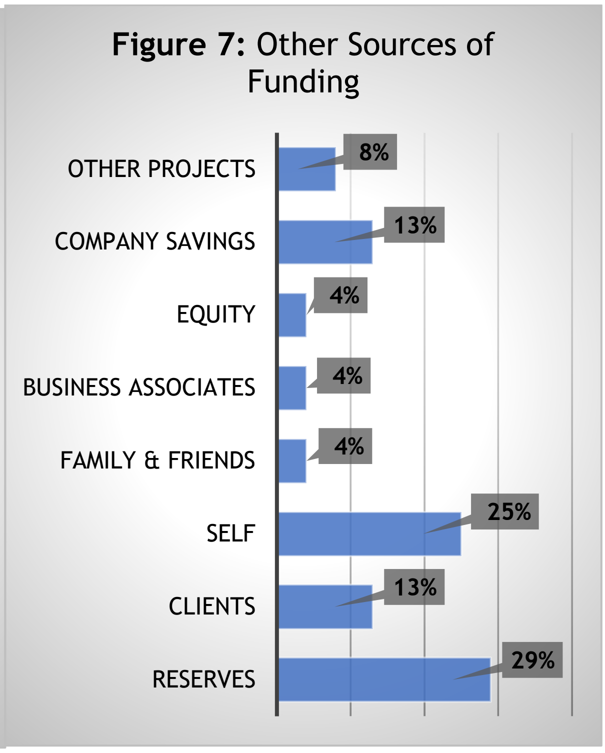


3.3.2 Utilisation of Sources of Finance

The construction industry accesses loans through various banks which include mainly Standard Bank which stands at 36% of contractors, Ned Bank at 20%, Eswatini Bank and, First National Bank both stand at 14%. About 8% of contractors borrow from

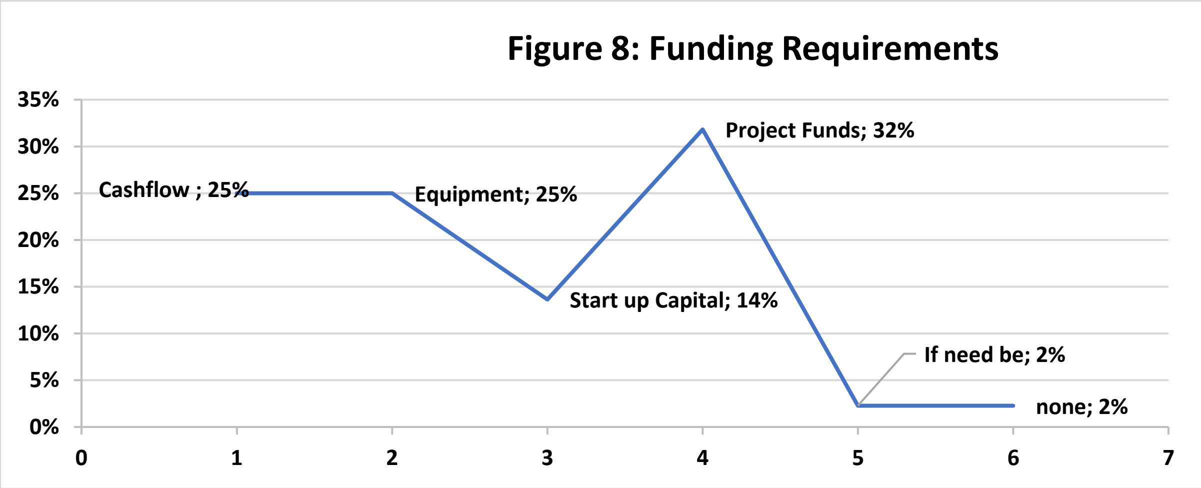
Fincorp and private lenders who also consist of shylocks (non-regulated private lenders). According to findings, contractors have no borrowing history with IDCE, ENIDC and YERF. This is shown in figure 6.





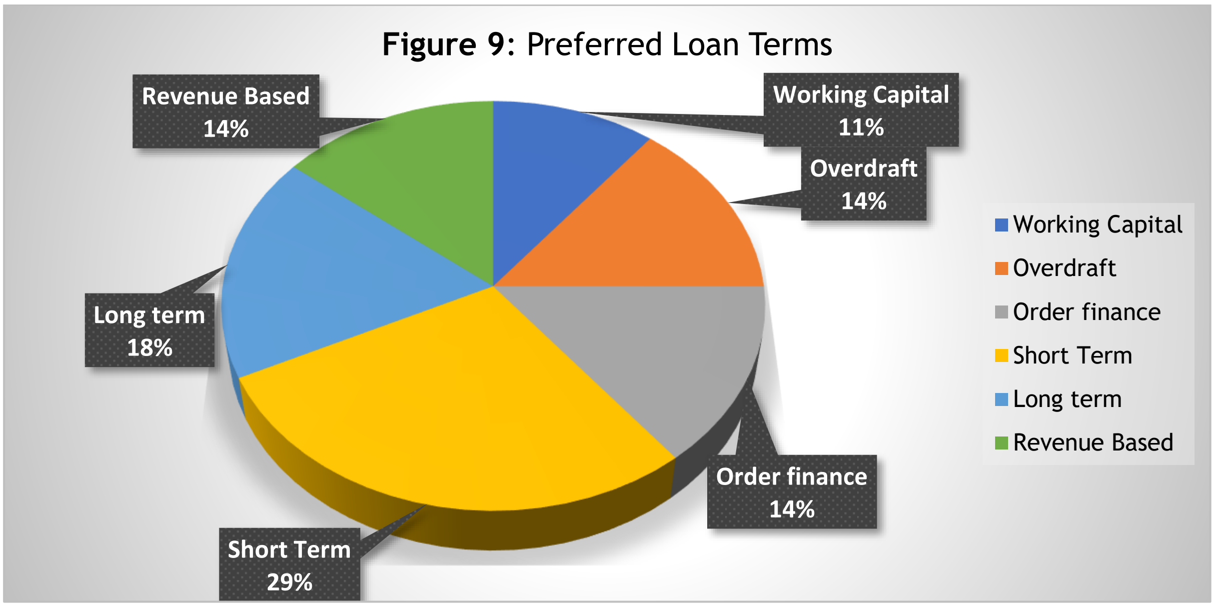
Above and beyond the formal contractors' sources of credit, it was observed that about 29% of contractors fund for tender awarded projects through company reserves,25% by themselves, and 13% through company savings and clients/project owners, respectively. This is demonstrated by figure 7.

Of those contractors accessing credit, approximately 32% of contractors require these different sources of financing for project funding, 25% for both operations and equipment as is illustrated in figure 8. About 14% of contractors prefer funding for start-up cash and only 2% require funding if the need arises.



3.3.3 Construction Industry Suggested Loans and Payment Terms

Figure 9 shows that about 29% of the contractors recommend short-term loan for the construction industry, 18% of contractors suggest for long-term loans that the project duration should determine the loan payment terms, 18% say that banks should allow for both long-term loans whilst about 14% contractors prefer having either an overdraft, order finance or revenue-based loan terms, respectively. Only 14% of contractors opt for working capital loans.



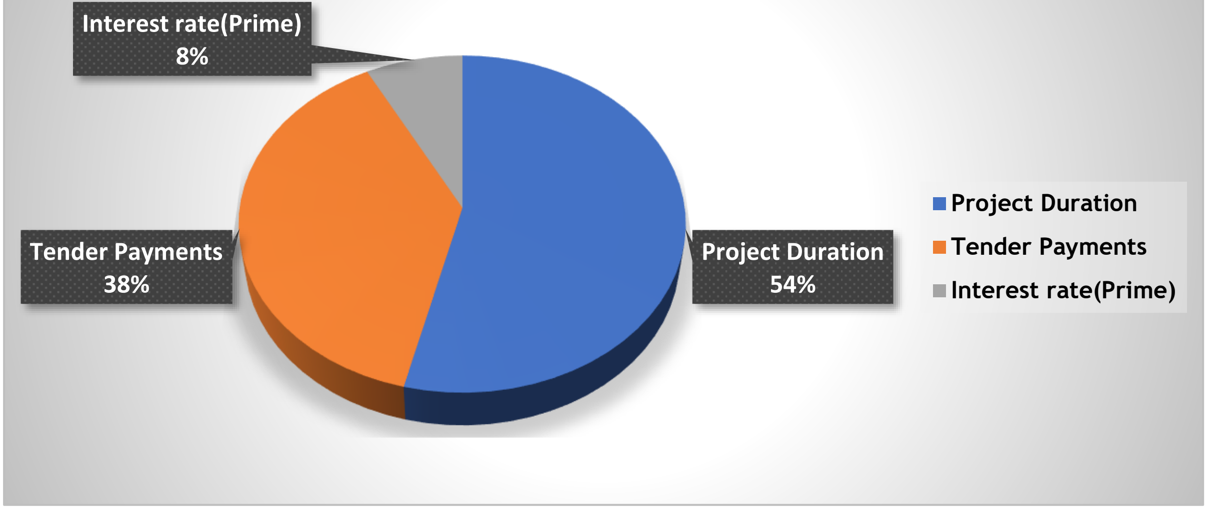
Definition of Terms

- **Revenue based loans:** a loan that has a periodic repayment amount that is a percentage of the company's gross or net revenue in the period with respect to which the payment is going to be made. It can be monthly or yearly depending on the revenue generated by the company.

- **Order Financing:** cash advance that small-business owners can receive on their purchase orders.
- **Working Capital:** the money of a business which is used in its day-to-day trading operations meet your current, short-term obligations.
- **Overdraft:** This is when banks let you borrow money through your current account by taking out more than you have in the account
- **Short-term loan:** a type of loan that is to be paid back over a period of time between six months to a year – at most, 18 months (e.g., credit card)
- **Long-Term Loan:** a type of loan that is to be paid back over a long period of time between three and ten years, and sometimes for as long as twenty to Twenty-five years (e.g., mortgage loan).

Figure 10 indicates that more than half of the contractors (54%) prefer paying their loans upon project completion; 38% of the contractors prefer having tender payments and only 8% prefer having loan payment terms with conditions such as fixing the interest at the prime rate.

Figure 10: Preferred Loan Payment Terms



Definition of Terms

- **Interest rate(prime):** This means that contractors prefer a repayment period of a favourable or fixed prime rate. An increase in the prime rate could make a loan more expensive than a similar fixed rate loan. Similarly, a decrease in the prime rate could make a loan cheaper than a similar fixed rate loan.
- **Tender payments:** This means implementing advance payments for tender awarded projects from employers.

- **Project duration:** This means that contractors prefer a repayment for a loan upon the completion of the project.

3.4 Construction Industry Access to Credit Challenges

About 36% of construction companies find it difficult to access loans/credit from financing institutions as shown by figure 11. Of those who were observed to have difficulties in accessing credit, most complained of their credit risk (about 21%); their inability to have security/collateral (about 18%); and the banks' long documentation (about 11%) which can be time-consuming for contractors (about 11%), respectively. Thirty-nine percent (39%) of contractors found no difficulties in accessing credit. This is shown in figure 12. A majority of these submissions were made by construction companies that ranged under B1 to B6 and C1 to C4.

Figure 11: Difficulty in Contractors Accessing Credit

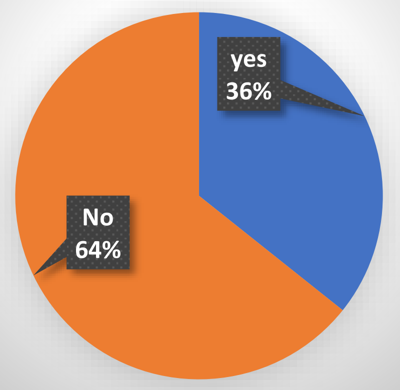
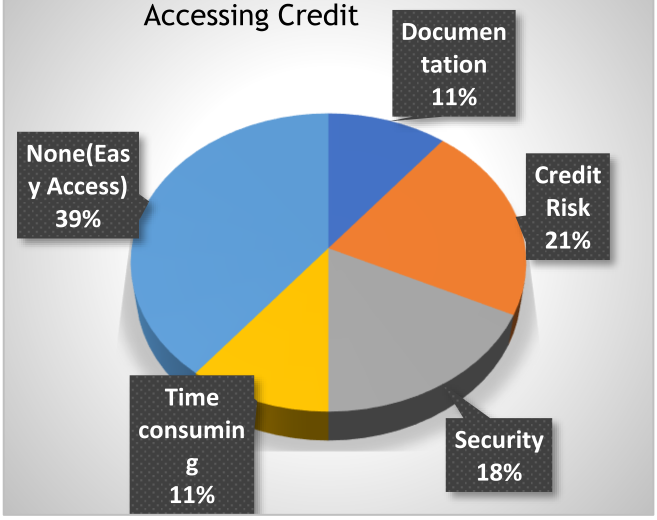


Figure 12: Difficulty in Contractors Accessing Credit

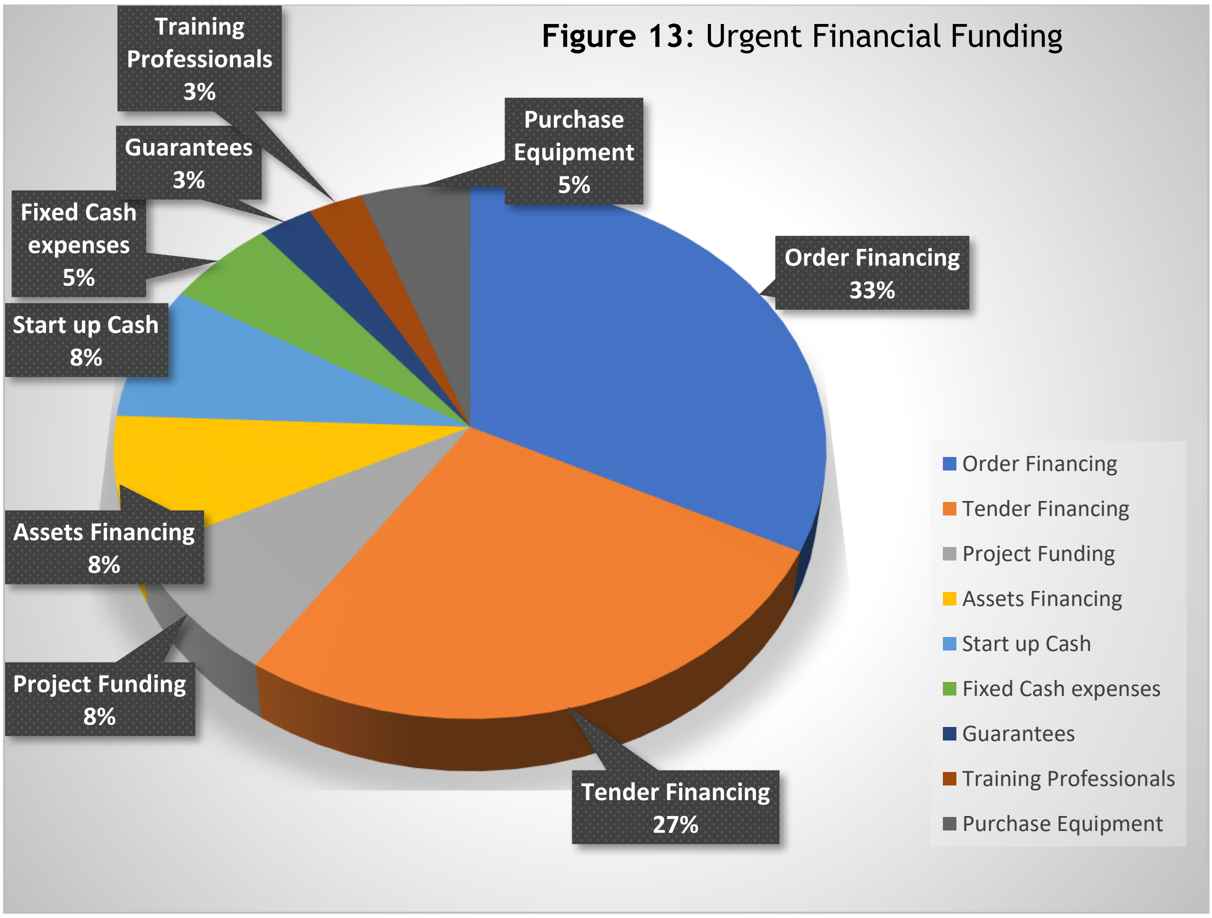


Challenges are mostly encountered by small or fairly new business enterprises including those in lower grades such as B6 and C6. The results shows that most banks have stringent requirements that do not take into consideration that small businesses at their early stages are high risk and are often requested to open call accounts.

Most of these construction companies have no security in terms of fixed assets and also have incurred some unsettled credits/debts. The unsettled debts are a result of the financial sector not understanding the construction industry operations and what would work as payment terms/obligations instead of the red tape (stalling process that comes from the uncertainty of how to handle the construction industry) they experience in the banking sector. The feeling was that banks need to come up with a sector specific documentation that shall be user friendly and straight to the point, coupled with the allowance of banks to have an account with any bank.

3.5 Product(s)/Needs for Urgent Preferential Funding

Figure 13 shows the proposed products/needs where the construction industry requires urgent preferential funding. A total of about 33% suggested the need for ordering finance which allows contractors higher bargaining power, to purchase from manufacturers; followed by 27% proposing tendering finance. Order financing is made possible because the project owner is well-known and reputable hence implying that the commitment will be met.



Definition of Terms

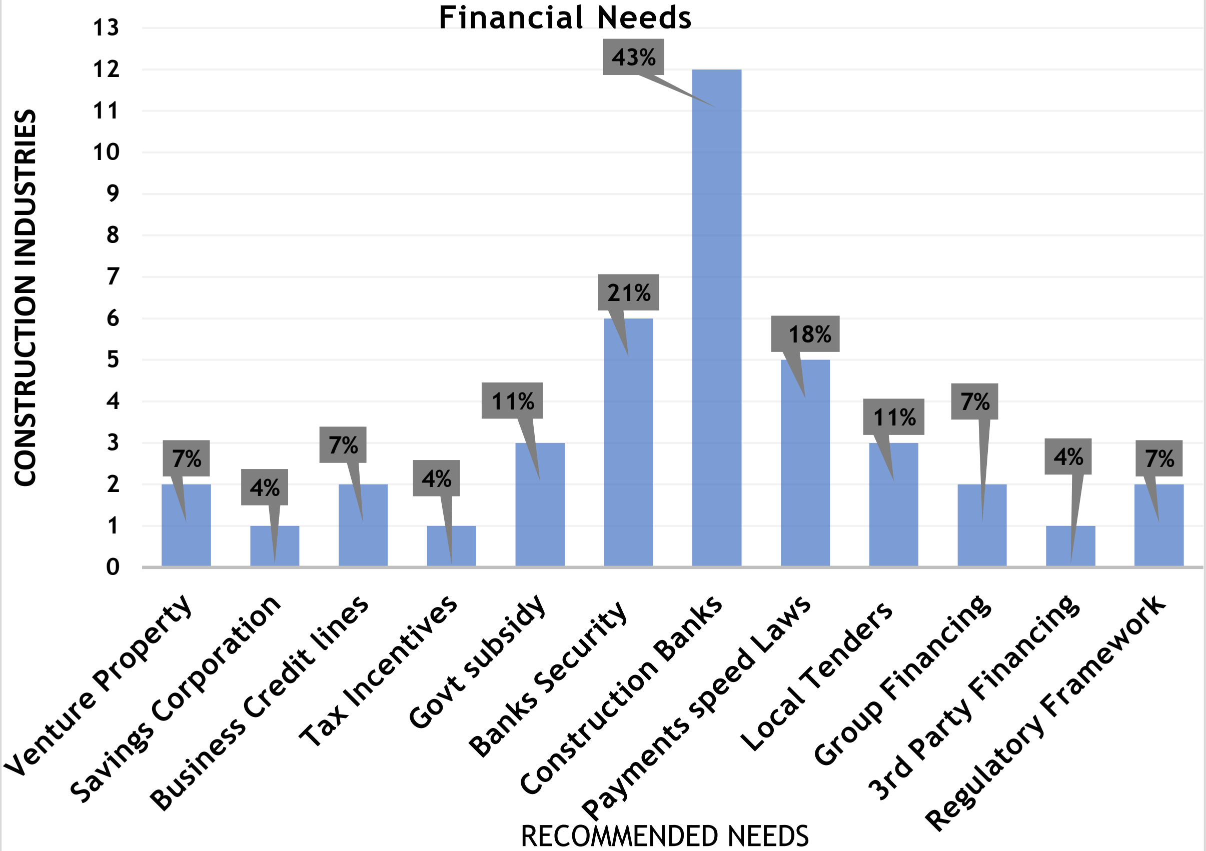
- **Guarantees:** A formal promise or assurance (typically in writing) that certain conditions will be fulfilled relating to a product, service, or transaction or a formal pledge to pay another person's debt or to perform another person's obligation in the case of default. This included tender guarantee, performance guarantee and retention money guarantee

- **Training professionals:** This refers to the training of people who are qualified in finance profession, to have the art to access finance/credit.
- **Fixed cash expenses:** From the survey, this refers to monthly cashflow fixed expenses and fixed operational cash expenses like petrol, wages, and food.
- **Order Financing:** cash advance that small-business owners can receive on their purchase orders.
- **Tender financing:** Tendering usually refers to the process whereby governments and financial institutions invite bids for large projects that must be submitted within a finite deadline.
- **Assets financing:** Asset financing refers to the use of a company's balance sheet assets, including short-term investments, inventory, and accounts receivable, to borrow money or get a loan. Asset financing allows a company to get a loan by pledging balance sheet assets.
- **Purchase Equipment:** This refers to equipment or machinery used in the day-to-day operations of the construction industries.

4. Construction Industry Recommendations

4.1 Recommendations

Figure 14: Summary of Addressing Construction Industry Financial Needs



Since the financial institutions do not fully understand the financial needs of the construction industry, there are some approaches suggested by the construction industry that can help assist contractors in as far as providing financial breakthrough.

- Most contractors prefer addressing their financial needs and have suggested a Construction Fund is put in place where contractors can contribute a certain percentage from work done; and borrow at a reasonable rate. The fund can also be used as security for ease of access to other financial institutions.
- Further findings suggested that the government can set a limit on payments to be done within 30 days.
- Government needs to enforce laws that will stop local contractors/project owners from awarding jobs or tenders to foreign companies that local contractors can carry out.
- Funding should be made available for renting out machinery for construction projects; there should be addressing of financial needs through group financing and implementing of advance payments from project owners.

Figure 14 shows that about 43% of the industry prefer addressing their financial needs by the utilization of CIC levy through having a Construction Fund, followed by having banks security at 21%, then about 18% of contractors are for having the enforcement of fast payment laws in banks enabled through the government.

Definition of Terms

- **Venture property:** means an undertaking formed for the purpose of, directly or indirectly, investing primarily in real property for making interests.
- **Tender payments:** This means implementing advance payments for tender-awarded projects from employers.
- **Savings corporations:** Corporate saving is undistributed (accounting) profits, or equivalently the part of corporate value added that is not paid to taxes, to labour, to debt holders, or to equity holders. The construction industry can form future savings groups to raise funds to cater to future unexpected expenses.
- **Business Credit lines:** This is a flexible loan for businesses that works like a credit card. Companies draw money from their credit lines as needed, only paying interest on the portion of money borrowed. As they repay the amount borrowed, they replenish the funds available.
- **Revenue-based loans**: a loan that has a periodic repayment amount that is a percentage of the company's gross or net revenue in the period with respect to which the payment is going to be made. It can be monthly or yearly depending on the revenue generated by the company.

- **Tax Incentives:** a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of tax that they have to pay.
- **Government subsidy:** This means government financial support to construction industries by providing a certain amount of the cash they need or providing loans.
- **Security at banks:** security means a certificate or a financial instrument that has monetary value or surety that the credit access will be repaid.
- **Construction banks**: Banks created specifically for funding construction companies.
- **Renting Machinery**: This refers to the leasing of machinery or equipment where the lessor, who is the owner of the equipment, allows the lessee to use the equipment for a specified period in exchange for periodic payments. The subject of the lease may be factory machines or any other equipment.
- **Payments speed laws:** This refers to the government intervention in the construction industry's access to credit whereby quick payments laws are enacted to MSEs (i.e., within 30 days).
- **Local Tenders:** This refers to tender projects being within the country rather than being conducted by foreign companies especially those that the local businesses can carry out.
- **Group financing:** a financial group means a financial holding company and a group of related corporations under such financial holding company primarily engaged in financial services or for the purposes of such financial services which includes at least one licensed person.
- **3rd Party financing:** This is when you're working through an intermediary, typically a dealer, instead of directly with a lender. This can make banks find it easier and less risky to finance projects.
- **Regulatory framework:** the act of governing the financial access to construction industries.