



CHALLENGES AND OPPORTUNITIES FOR MOBILIZING CONSTRUCTION FINANCE

By Gomolemo Zimona
Botswana Housing Corporation





PRESENTATION OUTLINE

- **THE IMPORTANCE OF CONSTRUCTION FINANCE**
- **FINANCING CONSTRUCTION IN DEVELOPING COUNTRIES.**
- **CHALLENGES FACING CONTRACTORS IN ACCESSING FINANCE**
- **OPPORTUNITIES FOR CONTRACTORS**
- **CONCLUSION**



THE IMPORTANCE OF CONSTRUCTION FINANCE

- Raw materials expensive, labour cost is immense - affects the the businesses cash flow.
- Working capital needed for day to operations of the business- to bridge the time between expenditures and revenues
- Pay wages and salaries, and creditors if it is to keep its workforce and ensure its supplies
- important in the short term but also in the long term to ensure the survival of the business.
- Proper financial planning essential – access needed from financiers

FINANCING CONSTRUCTION IN DEVELOPING COUNTRIES....

- Trade credit - a contractor receives credit from a supplier of goods in the normal course of business.
- Accrued expenses - another spontaneous source of short term financing and is a natural source as it allows the contractor to receive services before paying for them.
- Deferred income is when the contractor receives funds for the services he has agreed to supply in the future
- Bank borrowing - when construction firms borrow from banks, which happens to be the main institutional source of working capital finance. Contractors receive funds in the form of overdraft, cash credit, and discount of invoices, letters of credit and working capital loans.

CHALLENGES FACING CONTRACTORS IN ACCESSING FINANCE

- Lack of access to finance /loans.
- small scale contractors generally do not have sufficient collateral to obtain finances from commercial banks.
- contractors do not have power to negotiate payment and terms
- internal problems attributed to liquidity in construction firms are poor cash flow.
- consequence of limited access to funding sources prevents SME,s from satisfying the financial requirements (e.g. bid and performance bonds) needed to win major contracts often awarded to their foreign counterparts.



CHALLENGES CONTINUED

- where collateral security and other documents are available to secure loans, there is a further inhibition of high interest rates.
- difficulties in accessing funds for initial take-offs of projects also contribute negatively to project success thus hindering the overall performance.
- the inability to gain access to funding for projects leads to the difficulty of firms to retain qualified personnel.



Challenges continued..

- Bad performance – has rippling repercussions on the economy of the nation as delays in project delivery due to fluctuations in cost of materials and labour wage rates swells government budgetary allocations and expenditure
- Studies show that If Mobilization is not provided - contractors overdraft requirements turned out to be much higher, net cash flow turned out to be negative, resulting in working capital deficiencies leading to poor performance



OPPORTUNITIES FOR CONTRACTORS

- construction sector is one of the main engines of growth in an economy – employment creation and contributes between 5% and 10% of most countries GDP
- Mobilization Advance Payment-good for the sector(reduces the need to lobby working capital & impacts positively on cash flow, be made available and easily accessible to contractors to enhance their performance and save them the burden of relying on banks for initial working capital with high charges that robs them of their profits.

Opportunities Continued....

- Many multinational firms are moving into developing countries, especially to Africa where a lot of markets are emerging - a lot of demand for all types of construction work.
- China \$60bn in financial support to African countries -\$15bn in grants, interest-free loans and concessional loans, a credit line of \$20bn, \$10bn for "development financing" and \$5bn to buy imports from the continent.
- High likelihood of Government expenditure
- Capacitation of Contractors- financial and project management training



Conclusion

- The experience of SMEs reduces their probability of being credit rationed by banks. From the bank perspective the experience of SMEs is determined from their ability to keep proper financial statements, the performance of their bank accounts with the banks, and their ability to make profits.
- This calls for capacity building of SMEs in areas of business management (including financial record keeping) if they are to be rated as credit worthy borrowers by the banks. From the perspective of SMEs, banks need to improve on their efficiency that can be reflected in reduction of loan processing time and the cost of borrowing (i.e. interest rates).
- This will improve access to bank credit by the SMEs and promote their growth thereby stimulating economic diversification, employment creation opportunities.



Conclusions continued..

- A lot of financial and consistent training needs to be undertaken for contractors in the bid to optimize their finances. There is thus need to mobilize both the domestic and international financial resources.
- There is also need to harness the role of the private sector in financing development, and to maximize the use of innovative financing sources and mechanisms. Working together, these components will help increase trade capacity and investment to help create good jobs and drive economic growth -- with the resulting benefits of reductions in poverty and increases in shared prosperity.
- Lastly, Construction and consulting firms have to work towards joint ventures, partnership, strategic alliances, agency and regional cooperation to enhance opportunities of participating in foreign markets.