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Project Finance Syndication: An Evaluation of the Challenges Faced by Parastatals in Accessing Project Finance in Developing Countries, a Case of Zambia

By Francis Nyirenda & Hanson Chishimba

University of Zambia

Abstract- The presence of good infrastructure and social amenities not only provides opportunities for employment and a physical beautiful environment but most importantly attracts direct foreign investments which may open a lot of doors for developing countries. It is for this reason that African countries particularly parastatals in Zambia have felt the need to participate actively to build and provide good roads, state of art hospitals, housing, telecommunications infrastructure, schools and shopping malls. However, these parastatals face a myriad of challenges in accessing project finance. Therefore, this study evaluated the challenges faced by parastatals in procuring project finance. Qualitative approach was used in collecting, collating, analyzing and integrating data. The population comprised parastatal’s, financial regulators and utility companies and ministry of finance. The sample of Thirty (30) was drawn from boards of directors, officials in charge of finance, investments and regulations using purposive sampling. The samples were drawn using purposive sampling.

Keywords: Financial syndication, Project finance, debt, sovereign guarantee.

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Project Finance Syndication: An Evaluation of the Challenges Faced by Parastatals in Accessing Project Finance in Developing Countries, a Case of Zambia

Francis Nyirenda & Hanson Chishimba

Abstract: The presence of good infrastructure and social amenities not only provides opportunities for employment and a physical beautiful environment but most importantly attracts direct foreign investments which may open a lot of doors for developing countries. It is for this reason that African countries particularly parastatals in Zambia have felt the need to participate actively to build and provide good roads, state of art hospitals, housing, telecommunications infrastructure, schools and shopping malls. However, these parastatals face a myriad of challenges in accessing project finance. Therefore, this study evaluated the challenges faced by parastatals in procuring project finance. Qualitative approach was used in collecting, collating, analyzing and integrating data. The population comprised parastatal’s, financial regulators and utility companies and ministry of finance. The sample of Thirty (30) was drawn from boards of directors, officials in charge of finance, investments and regulations using purposive sampling. The samples were drawn using purposive sampling. Data was collected using questionnaires. The study found that challenges in procuring project finance by parastatals can be attributed to poor company statement of financial position, high debt equity ratio, challenges of the treasury in terms of lacking adequate space under the Loans and Guarantees regulations resulting into a capping on the debt ceiling of the treasury, delays in obtaining Sovereign Guarantees to support the borrowing on the international financial market, delays in obtaining consents from Attorney Generals, abandoned projects due to failure to acquire financing, and the government’s inability to convince multilateral development agencies to support and/or extend financial facilities for key and bankable infrastructure projects. The study has identified various challenges faced by parastatals in Zambia in accessing project finance, such as poor company statement of financial position, high debt equity ratio, lack of space under the Loans and Guarantees regulations leading to a debt ceiling cap, delays in obtaining Sovereign Guarantees, delays in obtaining consents from Attorney Generals, abandoned projects due to lack of financing and the government’s inability to secure financing from multilateral development agencies. Arising from these inadequacies, the study recommends the development of specialized financial institutions that can provide project finance and a creation of a streamlined process for parastatals to access project finance. This should include developing a clear set of criteria and requirements for project funding that is easy to understand and implement.

Keywords: Financial syndication, Project finance, debt, sovereign guarantee.

I. Introduction

Project finance serves as a financing mechanism specifically designed to support projects with substantial capital requirements. Its distinctive advantages encompass enhanced access to capital, heightened flexibility, a more economical cost of capital, diminished risk exposure, improved decision-making processes, heightened operational efficiency, and potential tax benefits. The involvement of multiple investors in project finance contributes to risk mitigation, alleviating the financial burden on the project sponsor. By actively engaging all stakeholders in the project and its progression, project finance fosters improved decision-making and operational efficiency. Furthermore, it often brings tax advantages to investors, as project-related costs are typically eligible for tax deductions.

However, despite the potential of parastatals to propel economic growth, they encounter impediments in accessing project finance. These challenges stem from factors such as limited access to capital markets, a dearth of financing alternatives, elevated investment risk, and a restricted understanding of the intricacies of project finance.

This research aims to scrutinize the hurdles confronting parastatals in securing project finance in Zambia and propose viable solutions to facilitate their access to funding. The study will delineate the current project finance landscape in Zambia, evaluating both opportunities and risks inherent in the investment climate. Ultimately, the research endeavors to furnish the Zambian government with recommendations aimed at refining the project finance environment, thereby streamlining access to funding for parastatals in the country.
II. Literature Review

The critical need for infrastructural investment in Africa is underscored by staggering statistics, with estimates reaching US$93 billion annually. However, the current investment levels on the continent are only half of this requirement, creating a substantial infrastructure gap (Dentons, 2013). A more recent report by the African Finance Corporation and Boston Consulting Group indicates an even higher annual infrastructure gap for Sub-Saharan Africa, reaching US$100 billion (African Finance Corporation & Boston Consulting Group, 2017). Alarming figures reveal that up to two-thirds of the continent's population lacks access to power, and only a third of the land is accessible by road (African Finance Corporation & Boston Consulting Group, 2017). This stark reality, coupled with an annual cost of 2.1% of Sub-Saharan Africa's GDP attributed to the infrastructural gap, positions the region as the world's least developed in terms of infrastructure performance (African Finance Corporation & Boston Consulting Group, 2017; World Bank, 2017).

While the World Bank's 'Africa Pulse' notes improvements in telecommunication and water/sanitation sectors, there are persistent disparities in access to safe water between rural and urban areas (World Bank, 2017). Public investment in infrastructure, as a percentage of GDP, has declined from around 5.8% in 2014 (World Bank, 2017). Several studies highlight the general challenges of accessing project finance in developing countries, citing limited access to capital markets, lack of transparency, political risk, and insufficient knowledge of the project finance process as major hurdles (Olomola, 2018; Okorie & Onu, 2017; Sharma & Pandey, 2020; Bhatt & Sharma, 2019).

Zooming in on Zambia, studies point out challenges such as limited access to capital markets, financing options, and a lack of understanding of the project finance process (Lungu, 2015). Addressing the inadequacy of infrastructure is crucial for economic growth, and private capital emerges as a potential solution (Bhattacharya et al., 2012; Helm, 2009). Successful projects in Sub-Saharan Africa are seen as offering higher returns, attracting private capital. However, obstacles such as political will, policy uncertainty, and poor regulatory frameworks hinder private investment (African Finance Corporation & Boston Consulting Group, 2017). Governments must enact legislation, develop policies, and invest in capacity building to create a conducive environment for private investment and foreign direct investment (FDI) (African Finance Corporation & Boston Consulting Group, 2017).

Public-Private Partnerships (PPPs) could bridge the infrastructural funding gap in Sub-Saharan countries, but their prevalence remains limited (World Bank, 2017). The literature emphasizes the importance of private capital in financing infrastructure, citing the need for policies that address shortcomings such as currency risk, long payback periods, and the lack of specific sources of private finance (Rajé, 2017).

To attract private investment and FDI, deliberate policies should include tax incentives, risk guarantees, and project financing. Capacity building is crucial to develop technical skills for successful infrastructure projects. Initiatives like finance investment programs, regulatory reforms, and promoting projects with risk-sharing structures can incentivize local market borrowing. Collaboration between governments and private investors, sharing best practices, and financial innovations like local currency infrastructure finance bonds can further enhance infrastructure development (African Finance Corporation & Boston Consulting Group, 2017).

The shift away from multilateral development banks is attributed to the emergence of private capital markets and increased availability of development finance from other sources. The reduced prominence of multilateral development banks is due to their conservative lending and slower response compared to other sources. The growing reliance on private finance and a decrease in the share provided by multilateral development banks highlight the changing landscape of infrastructure financing.

III. Methods

a) Ethics Statement

Prior to commencing the study, the researchers diligently obtained informed consent from all participants. Each respondent was requested to provide a signed consent form, signifying their willingness to partake in the research. Before the interviews were conducted, interviewees received comprehensive information that the study exclusively served academic purposes. Furthermore, the research team meticulously safeguarded the anonymity and confidentiality of all records. To uphold privacy, respondents were not required to disclose their names; instead, a unique respondent code was assigned to each questionnaire.

Importantly, the study adhered to ethical standards by obtaining approval from the University of Zambia's School of Humanities and Social Sciences Research Ethics Clearance Committee (HSSREC) before its commencement.

b) Study Design

This research used the qualitative approach in collecting, collating, analyzing and integrating data. By using the qualitative methods, the research gained in understanding and validating the data collected and research findings, while eliminating some limitation intrinsic to using this approach. In parallel, secondary data sources, including scholarly journals, government policy documents, and online resources, were
harnessed to augment and contextualize the study's findings. The study was conducted in Zambia. The Country is an ideal study location for this research as it is an emerging market and is classified as a lower-middle income country by the World Bank. This makes it an ideal location to study the challenges faced by parastatals in accessing project finance in developing countries. In this study, the population comprised parastatal’s, financial regulators and utility companies and ministry of finance. The sample of Thirty (30) was drawn from boards of directors, officials in charge of finance, investments and regulations using purposive sampling.

IV. Results

a) Infrastructure Profile of Selected Parastatals

i. Zambia Electricity Supply Corporation (ZESCO)

Zambia Electricity Supply Corporation (ZESCO) is the main power generation and distribution utility in Zambia. The majority of the power distributed by ZESCO is generated at hydro power stations, with the most notable being Kariba, Victoria Falls, and Kafue Gorge. Kariba is notable for being the site of one of the largest man-made lakes in Africa, while Victoria Falls is located to the south of the country. The Kafue Gorge power station is the largest in Zambia and provides a large portion of the country's energy needs. In addition to hydroelectricity, ZESCO also operates numerous solar, wind, and thermal power plants. These plants provide an additional source of renewable energy to Zambia, helping to reduce the country’s reliance on fossil fuels.

- Eurobond Financed Projects

The Government of the Republic of Zambia was able to successfully issue a USD750 million Eurobond, and allocated USD69 million of that to ZESCO for the purpose of rehabilitating and expanding the national power grid. This financing gave ZESCO the resources to construct new substations, expand and modernize existing ones, as well as replace any outdated transmission equipment. This enabled ZESCO to improve the infrastructure of the power grid, providing a more reliable and efficient system. Furthermore, this investment helped to create jobs and boost the local economy, as well as improve the quality of life for citizens by providing a reliable energy source.

ii. National Road Fund Agency

The National Road Fund Agency is responsible for managing the financing of the road sector. It administers the country’s road fund and allocates resources for the construction, rehabilitation, and maintenance of roads. The funds given by the National Road Fund are based on the work plan submitted by the Road Development Agency. The road sector was one of the primary recipients of funds from the Government of the Republic of Zambia’s issuance of infrastructural Eurobonds. This allowed for an increase in investment into the road sector, providing resources for the construction, rehabilitation, and maintenance of roads. This, in turn, helped to improve the quality of the roads, providing safer and more efficient transportation for citizens. Additionally, this investment helped to create jobs and stimulate the local economy.

iii. Lusaka Water and Sewerage Company

The Lusaka Water and Sewerage Company provides water and sanitation services to Lusaka Province. It is the country’s biggest water utility, the construction of new water supply systems in the province, the installation of modern water meters, the expansion of pumping stations and water reservoirs, the installation of new sewerage systems, and the rehabilitation of existing drinking water and sanitation systems. The company also operates a laboratory for water quality testing, as well as a customer service center to provide information and support for customers. In addition, the company has implemented a number of initiatives to improve water efficiency, such as the installation of rainwater harvesting systems and the promotion of water conservation measures among the population. The Lusaka Water and Sewerage Company is committed to providing safe and reliable water and sanitation services to the people of Lusaka Province. Infrastructural projects carried out by the Lusaka Water and Sewerage Company include:

- Kafue Bulk Water Supply Project

This project, worth USD150 million, has a scope of works which includes a 150,000m3/day intake structure, a 50,000m3/day water treatment plant complete with a high lift station as well as a booster station in Chilanga, which lies 20km south of Lusaka.

- Lusaka Sanitation Program

This project has earmarked the construction of 520km of sewer lines in 26 previously unreached locations. In addition, treatment facilities are slated to be constructed in seven high density neighborhoods. The project also includes the rehabilitation of existing sewerage systems, the installation of pumping stations and water reservoirs, the installation of modern water meters, the upgrading of wastewater treatment plants, and the construction of new water supply systems. In order to further improve the quality of water and sanitation services, the project also plans to implement a number of initiatives such as the promotion of water conservation measures and the installation of rainwater harvesting systems. Furthermore, the project has ensured that the people of Lusaka Province will have access to reliable and safe water and sanitation services by providing training to local staff and technicians on the best maintenance practices.

iv. Public Service Pensions Fund

Public Service Pensions Fund (PSPF) is a body corporate that was established under the Public Service
The Public Service Pension Fund (PSPF) has had to resort to capital markets in order to finance infrastructure projects. This has necessitated the implementation of a semi-business approach to raise capital. However, the conditions of the open market for borrowing can be stringent, as demonstrated by the fund’s past attempts to develop properties. Furthermore, local banks may impose high lending rates, making viable projects expensive to finance in a developing country.

The Public Service Pension Fund has had to look abroad for project finances due to the unfavorable local lending rates. However, this presents its own challenges such as requiring a sovereign guarantee issued by a Minister of Finance, taking up expensive insurance, and having to adhere to arbitration jurisdictions dictated by the financier. In addition, a country’s negative rating by rating agencies can have a detrimental effect on the borrowing entity. Moreover, the schedule of Conditions Precedent can be daunting to fulfill, potentially discouraging the borrowing entity.

Furthermore, the foreign financers will typically assess the risk of the project by looking at the country’s sovereign debt, which can be a challenge for the PSPF. They will also evaluate the bankability of the project by analyzing its positive NPV/IRR and other financial metrics. In addition to the sovereign guarantee, the financers usually require the borrowing entity to take out insurance from their own insurance houses. This can be costly depending on the amount of money being borrowed. Once a financing agreement is in place, the financers will also dictate the arbitration jurisdictions, which can be a challenge for the PSPF. All of these factors must be taken into account when the PSPF is seeking project finance from outside Zambia.

v. Food Reserve Agency

The function of the Food Reserve Agency is to ensure the nation’s food security by stockpiling food reserves and providing a market for small farmers in far flung areas whom might not otherwise have the capacity to market their crops to large scale millers and other food processors in the value chain. This failure is caused by their individual inability to meet certain minimum quotas. The Food Reserve Agency aggregates the yield purchased from farmers and keeps this in storage for most of the year, before being sold on to millers and other manufacturers up the food value chain. In addition to acting as an aggregate supplier to the food industry, the Food Reserve Agency keeps stores of food in various parts of the country as emergency stock in the event of drought or other reasons for crop failure. In this event, the stored cereal crops are made available where need arises.

The main infrastructural projects carried out by the Food Reserve Agency revolve around building adequate storage facilities throughout the country. In order to successfully carry out its mandate, the Food Reserve Agency seeks to increase its storage capacity in all ten provinces of the country.

b) Challenges Faced by Parastatals in Procuring Project Finance

In a quest to establish challenges faced by parastatals in procuring project finance by ZESCO, the study found that despite Zambia’s huge potential to harness its major water resources and develop hydro power generating stations, progress has been slow due to the poor company statement of financial position, high debt equity ratio, challenges of the treasury in terms of lacking adequate space under the Loans and Guarantees regulations resulting into a capping on the debt ceiling of the treasury, delays in obtaining Sovereign Guarantees to support the borrowing on the international financial market, delays in obtaining consents from Attorney Generals, abandoned projects due to failure to acquire financing, and the...
government's inability to convince multilateral development agencies to support and/or extend financial facilities for key and bankable infrastructure projects.

In the same vain, NRFA revealed that the Agency faced various challenges. These included the need for a guaranteed source of project financing, as well as the need for upskilling in project formulation and implementation. To achieve this, an Act of parliament was passed which authorized the Agency to construct road tolling facilities as an alternative model for raising finances. However, even with this new strategy, the Agency still faced difficulties in persuading financial institutions to provide funding, as it was evident that the funds would have no real impact unless a deliberate funding mechanism was set in place to jumpstart the process. This challenge with regards to secure sources of financing is largely due to the fact that a lot of the project financing comes from government and is not always guaranteed or disbursed on time due to budgetary constraints.

In revealing the challenges faced by Lusaka Water and Sewerage Company in procuring project finance, the study found that the water utility company in Lusaka is facing a major challenge of erratic release of project funding, especially when the funding comes from government budgetary allocation. It also takes a long time to secure project financing, resulting in the restructuring and rescheduling of priority projects, and continual revision of the master plan. With the population of Lusaka continuing to grow, the water utility company is in need of expanding its water treatment and supplying facilities but is hindered by the difficulty of accessing affordable financing. To ensure that the water utility company can fulfill its mandate, it is essential that adequate funding is provided, and the government can play a key role in this by providing sovereign guarantees and other forms of support to help the company acquire the financing it needs.

In postulating its challenges, the Food Reserve Agency (FRA), expressed a need for more appropriate levels of funding from the government. They would prefer the government to obtain infrastructure financing on their behalf, as they lack the financial capacity to put up adequate grain storage facilities to prevent food wastage. The Agency has a very weak balance sheet, making it difficult to seek infrastructure funding without the support of the treasury. Even though the Agency exports some of its excess crop, such as non-genetically modified maize, to the sub-region where it can command a good selling price, all the gains are lost due to overdraft facilities, leaving the Agency financially strained. This means that for the FRA to develop its storage capacity, it must rely on the treasury for funding, although this can be very erratic and unreliable. Therefore, the government must take measures to ensure that adequate and reliable funding is provided to the FRA in order to allow it to develop the necessary storage capacity and prevent food wastage.

Adding to the lamentations, the Public Service Pensions Fund bemoaned a high cost of borrowing on the local financial markets, stringent conditions precedent by multilateral financing institutions and inadequate technical capacity to manage large scale projects. It was recommended that the government ensures economic stability through appropriate economic policies and effective adherence to monetary policy. The spiraling sovereign debt by the Zambian Government has also presented its own problems to the Public Service pensions fund in that the financier of its flagship infrastructure project which is being co-financed by the Industrial and Commercial Bank of China has faced challenges when drawings are triggered. The author of this dissertation who happens to the Manager responsible for projects has had this firsthand experience. This has resulted in delayed payments of more than 5 months thereby forcing the project completion time to be extended at great cost to the developer.

The Development Bank of Zambia summarized the challenges faced parastatals and private entities in procuring project finance included; limited financing and a need for improved skills in project finance proposal formulation. Under limited financing, it was discovered that despite the well-intended purpose for setting this local development financing institution, the Treasury did not have adequate financial resources to channel to this financial institution for on-lending to the local market parastatals included. Furthermore, even in instances where this local financial institution borrowed on the international market with the same intention of on-lending onto the domestic market, the volatility of the local currency rendered such initiatives ineffective as the borrowers more often than not would still be required to purchase forex currency to service the loan as well as subsequent redemption of the principal debt thereby rendering the whole initiative unattractive and expensive.

To add to the complication, the Development Bank of Zambia makes financing available to private entities. This entails a high level of competition for financing if parastatal bodies are to acquire it on commercial terms. The above scenario further entails that the likelihood of default at repayment is high as sometimes the failure to repay the debt is triggered by the further devaluation of the local functional currency the Zambian kwacha. Furthermore, the Bank revealed that in recent times, it experienced severe cash flow problems mainly due to its failure to recover debt despite it having deployed adequate mechanisms to recover loans. This has arisen from the fact that the principal lenders have also faced challenges to recover funds which the institution itself borrowed. This has resulted into the bank finding itself into a debt trap thus leaving it with no choice but to also raise the interest
rates whenever an opportunity arises to lend money to parastatals as well as private bodies thereby further making it impossible for parastatals to access affordable project finances.

V. Discussion

a) Theme 1. Infrastructure Profile of Selected Parastatals

i. Zambia Electricity Supply Corporation (ZESCO)

ZESCO, as Zambia’s primary power generation and distribution utility, relies heavily on hydroelectric power stations, including notable ones like Kariba, Victoria Falls, and Kafue Gorge. The Kafue Gorge power station, the largest in Zambia, plays a pivotal role in meeting the country’s energy needs. Complementing hydroelectricity, ZESCO operates solar, wind, and thermal power plants, contributing to Zambia’s renewable energy goals.

The government’s issuance of a USD750 million Eurobond, with USD69 million allocated to ZESCO, fueled infrastructure improvements. This financial injection facilitated the construction of new substations, modernization of existing ones, and the replacement of outdated transmission equipment. The resulting enhanced power grid not only bolstered reliability and efficiency but also spurred economic growth by creating jobs and improving the quality of life for citizens.

ii. National Road Fund Agency

Tasked with managing road sector financing, the National Road Fund Agency allocates resources based on the Road Development Agency’s work plan. Infrastructural Eurobonds further boosted investments in the road sector, leading to significant improvements in road quality. This influx of funds facilitated the construction, rehabilitation, and maintenance of roads, ultimately ensuring safer and more efficient transportation for citizens. Additionally, the investment stimulated job creation and contributed to the local economy.

iii. Lusaka Water and Sewerage Company

As Zambia’s largest water utility, the Lusaka Water and Sewerage Company undertakes various projects to provide water and sanitation services to Lusaka Province. Notable infrastructural projects, like the Kafue Bulk Water Supply Project and the Lusaka Sanitation Program, involve constructing water treatment plants, sewer lines, and wastewater treatment facilities. These initiatives aim to enhance water quality, expand access to safe water, and improve sanitation services. The company’s commitment extends to water efficiency measures, such as rainwater harvesting systems and water conservation initiatives, ensuring reliable services for Lusaka Province residents.

iv. Public Service Pensions Fund (PSPF)

Established under the Public Service Pensions (PSP) Act, PSPF actively manages an investment portfolio to secure stable retirement income for its members. Identifying commercially viable infrastructure projects, PSPF diversifies its portfolio, with a focus on commercial property and real estate. While seeking to grow its investments, PSPF has resorted to raising capital through a semi-business approach in the open market. The fund balances the need for reinvestment with pension benefits, necessitating strategic financial decisions.

v. Food Reserve Agency

The Food Reserve Agency plays a crucial role in ensuring national food security by stockpiling reserves and providing a market for small farmers. The agency’s primary infrastructural focus lies in building adequate storage facilities throughout Zambia. By increasing storage capacity in all ten provinces, the Food Reserve Agency efficiently aggregates and stores crops, acting as a reliable supplier to the food industry. The stored reserves also serve as emergency stock in times of crop failure, contributing to the nation’s resilience against factors like drought.

Each of these companies showcases Zambia’s commitment to addressing critical infrastructure needs, spanning power generation, road development, water and sanitation services, pension fund investments, and food security. These initiatives not only enhance the quality of life for citizens but also contribute to economic growth and sustainability.

b) Theme 2. Challenges Faced by Parastatals in Procuring Project Finance

In an exploration of the impediments faced by parastatals, particularly ZESCO, in securing project finance, the investigation unearthed a myriad of challenges. Despite Zambia’s abundant water resources and potential for hydro power projects, ZESCO has been hindered by factors such as a weakened financial position, a high debt equity ratio, limitations within the Loans and Guarantees regulations, resulting in a capped debt ceiling for the treasury. Delays in obtaining Sovereign Guarantees, consents from Attorney Generals, abandoned projects due to funding shortfalls, and struggles to persuade multilateral development agencies for crucial infrastructure projects have compounded the hurdles.

Similarly, a study by Mwelwa (2018) reiterated the challenges faced by parastatals in Zambia, mirroring the issues of financial instability, high debt equity ratios, and obstacles in obtaining guarantees and consents. NRFA faced its own set of challenges, emphasizing the necessity for a reliable source of project financing and the imperative need for enhanced capabilities in project formulation and execution. Despite legislative authorizations for constructing road tolling facilities, challenges
persisted in convincing financial institutions due to the absence of a deliberate funding mechanism.

Kapungwe (2020) echoed the persistent challenges faced by parastatals, stressing the recurring need for assured project financing and advancements in project formulation and implementation. Lusaka Water and Sewerage Company confronted difficulties, notably the erratic release of project funding, prolonged procurement periods, and the challenge of accessing affordable financing for essential expansions. The Food Reserve Agency sought more government funding to address storage capacity needs and prevent food wastage, emphasizing their reliance on the treasury due to financial limitations.

Public Service Pensions Fund highlighted the high cost of borrowing locally, stringent conditions from multilateral financing institutions, and insufficient technical capacity for managing large-scale projects. Economic stability through appropriate policies and adherence to monetary policies was recommended, particularly in light of the Zambian government's escalating sovereign debt, causing delays and financial strain. The Development Bank of Zambia shed light on challenges shared by both parastatals and private entities, including limited financing and competition for commercial terms.

Currency volatility and cash flow problems further complicated matters, leading to increased interest rates and rendering project finances for parastatals less accessible and affordable.

VI. Conclusion

This study evaluated the challenges confronted by Zambian parastatals when seeking project finance. These hurdles eminent from a compromised company financial position, elevated debt equity ratios, limitations under the Loans and Guarantees regulations leading to a capped debt ceiling, delays in securing Sovereign Guarantees, consents from Attorney Generals, as well as instances of project abandonment due to insufficient financing.

These shared challenges underscore the crucial need for a guaranteed source of project financing, enhanced skills in project formulation and execution, and the imperative for the government to secure infrastructure financing on their behalf. To ensure the sustained and reliable funding required by these parastatals, it is incumbent upon the government to take proactive measures in providing essential support, including sovereign guarantees and other forms of assistance, to facilitate the acquisition of the necessary financing.

VII. Recommendations

The research has identified inherent challenges in procuring project finance in Zambia. Arising from these inadequacies, the following are the recommendations to make it easier for parastatals to procure project finance:

1. Create a streamlined process for parastatals to access project finance. This should include developing a clear set of criteria and requirements for project funding that is easy to understand and implement.
2. Establish a credit enhancement programme to help parastatals access project finance. This could involve government guarantees or other forms of credit enhancement.
3. Encourage the development of local capital markets and the growth of specialised financial institutions that can provide project finance.
4. Provide technical assistance to parastatals to help them develop sound business plans and project proposals that are attractive to investors.
5. Establish a centralised fund to provide grants or low-interest loans to parastatals for investment in projects.
6. Facilitate the development of public-private partnerships to provide more efficient and effective access to project finance.

Authors Contribution

Francis Nyirenda played a pivotal role in the inception and conceptualization of the research study, lending his expertise to shape the study's overarching framework and research objectives. Furthermore, he made substantial contributions throughout the research process, actively participating in data collection, meticulously analyzing the gathered data, and making significant contributions to the drafting and refinement of the article.

Hanson Chishimba, on the other hand, brought valuable expertise to the project by taking the lead in the development of data collection instruments, demonstrating a keen eye for methodological rigor. In addition to this instrumental role, he played a central part in the meticulous analysis of the acquired data, employing advanced analytical techniques to derive meaningful insights. Moreover, his skillful structuring of the article, coupled with his dedication to the clarity and coherence of the narrative, significantly contributed to the overall quality and readability of the research output. Together, the collaborative efforts of Francis Nyirenda and Hanson Chishimba synergized to produce a well-rounded and rigorously conducted study.

Disclosure of Interest

The authors declare that there are no conflicts of interest pertaining to the research, authorship, or publication of this article. We affirm that the research conducted and the findings presented in this manuscript are devoid of any financial, personal, or professional relationships or affiliations that could potentially bias or
influence our objectivity in the research process, data analysis, or the presentation of results.

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Data Availability Statement

The data supporting the findings of this study is publicly available and can be accessed at the University of Zambia library. Additionally, datasets pertaining to the institutions that were investigated in this research are also accessible through the respective institutions’ data repositories or archives. Researchers interested in accessing and utilizing this data for further analysis or validation are encouraged to refer to the University of Zambia library’s data repository or contact the relevant institutions directly.

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Impact of the COVID-19 Pandemic on SME Debt in a Sub-Saharan Context: The Case of Cameroon

By Guetsop Sateu Fabrice Arnaud

Abstract- Following the lockdown imposed by the Cameroonian authorities after the contamination of some people by the Coronavirus, several enterprises in general and SMEs in particular have experienced great difficulties due to a partial or total cessation of their activities. The objective of this study is to evaluate the impact of the Covid-19 pandemic on the indebtedness of Cameroonian SMEs. Through statistical and econometric analyses carried out on a sample of 450 Cameroonian SMEs, the results obtained highlight the significant influence of the Covid-19 health crisis on the better development of Cameroonian SMEs' activities. This suggests that the Cameroonian government and/or financial partners should provide financial assistance to SMEs in order to alleviate the cash flow difficulties caused by the Covid-19 pandemic.

Keywords: pandemic; debt; covid-19; containment; SMEs.

GJMBR-C Classification: DDC Code: 614.5 LCC Code: RA644.S17

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Guetsop Sateu Fabrice Arnaud

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Keywords: pandemic; debt; covid-19; containment; SMEs.

I. Introduction

Since the first infections in Wuhan, China, Covid-19 has continued to spread around the world. According to simulations by the International Monetary Fund (IMF), global economic growth will be grossly insufficient and the world economy will be in negative territory as early as the first half of 2020. This global health crisis will lead to partial or total lockdowns, land, sea and air border closures, business closures and significant trade restrictions in some more developed to less developed countries, with serious negative consequences for their overall economic activity.

As Cameroon has not been spared by the covid-19 pandemic, many companies have been weakened. According to studies conducted by the Interpatronal Group of Cameroon (GICAM), on more than 250 companies surveyed between May 22 and June 22, 2020, i.e. 25% of large companies and 75% of SMEs, it appears that the incidence of the covid-19 pandemic has brutally affected 61.5% of companies and left about 10.8% of companies regardless of their size. A careful analysis of the consequences of this pandemic reveals that the most affected sectors are: accommodation and food services (88.9%), agri-food (80.0%), financial services and insurance (71.4%) and computer and telecommunication services (70.0%).

Difficulties in accessing finance remain one of the main obstacles to the creation, survival and growth of SMEs in general, and innovative SMEs in particular. The Covid-19 health crisis poses enormous difficulties for SMEs to be able to carry out their activities serenely. As a result, these SMEs and many entrepreneurs are facing a double shock: a dramatic fall in demand for goods and services, and a tightening of credit conditions that is severely affecting their cash flow.

While the financing structure, and more specifically the debt ratio of a company, is influenced by many factors, its size, growth, industry or collateral are examples of factors that can influence a company’s debt ratio (Laura, 2015). This makes it more difficult for smaller companies with less collateral to borrow, especially if the economic environment is not favorable. The more collateral a business has to provide to banks, the more likely it is to be able to take on debt.

Speaking of debt, Traoré (2005) theoretically defines it as all the aid requested by a government from partners (bilateral, multilateral, financial institutions, financial markets, etc.) to finance development actions that could not be covered by the national budget.

For Honoré and Royer (2003), the indebtedness of the enterprise corresponds to all the capital brought by its financial, industrial or commercial partners and which it uses for its investments in fixed assets and its working capital requirements (WCR). The analysis of indebtedness is based on distinctions between long and short term, limited or unlimited duration, operating or financial debt (Abor, 2007; Colot et al., 2010).

The objective of this study is to assess the impact of the Covid-19 pandemic on the indebtedness of Cameroonian SMEs. Thanks to statistical and econometric analyses conducted on a sample of 450 Cameroonian SMEs, the results obtained highlight the significant influence of the Covid-19 health crisis on the better development of the activities of Cameroonian SMEs.

In this article, we will first examine the literature review and the elaboration of the hypothesis, then the methodology used in this study and finally, we will comment and discuss the results obtained and end with a conclusion.
II. Covid-19 Pandemic and SME Debt: A Review of the Literature and Formulation of the Hypothesis

A health crisis is an epidemic that spreads over a large geographical area and affects a significant proportion of the population; among the many parameters that transform a disease into a pandemic, one must consider the incubation time before the first symptoms, the time before the contagious phase, the intensity of the contagiousness of the biological agent, the degree of immunity of the population and the mode of transmission (Nkoa, 2020).

To avoid contagion in Covid-19, several measures have been taken to this effect, namely: border closure; containment; barrier measures; wearing of masks; social distancing; working remotely through information and communication technologies; etc.

According to Nterenwa and Lukundji (2020), financial leverage refers to the impact of the financial structure of the firm on the profitability of equity. Under certain conditions, the use of debt can increase the return on equity through a so-called “leverage” effect. It is therefore necessary to show the part of the return on equity that comes from the economic activity of the company (ROI) and the part that is attributable to the method of financing (financial leverage). Leverage can be defined as the positive impact that the judicious use of debt can have on the financial profitability of the company. The leverage effect is all the more important as the debt/equity ratio (called the Gearing ratio) amplifies the profitability differential (economic profitability-cost of debt) (Modigliani and Miller, 1958).

Indeed, it appears that in the long run, only sufficient economic profitability guarantees a satisfactory level of return on equity, because if the debts contracted to invest cost less (interest rate) than they yield (economic profitability), the financial profitability is impacted upwards. If a company can borrow capital at a cost of 6% and, thanks to this financing, its activity grows and it achieves a profitability of 9%, the leverage effect is positive (Modigliani and Miller, 1958).

If this is not the case, it is called a sledgehammer effect. The interest of the leverage effect is to highlight the origin of the profitability of equity, to know if it is a favorable financial construction or a true operational/economic performance born of a judicious exploitation of the production tool (Stiglitz, 1972; Modigliani and Miller, 1958). This being the case, it should not be forgotten that while debt can be a source of improvement in the profitability of equity capital, it can also be a source of weakening the solvency of the company, or even of jeopardizing the continuity of its operations.

As a reminder, the more guarantees a company provides to banks for access to credit, the more likely it is to be able to incur debt.

Indebtedness refers to a situation marked by an accumulation of debts (Imane, 2016). In the business world, debt is often directly related to investments made, which require a certain amount of long-term debt (Modigliani and Miller, 1958; Laura, 2015). Debt can be obtained through loans or bank credits (Stiglitz, 1972). SMEs rely heavily on debt despite measures to facilitate their access to capital markets.

Since the work of Modigliani and Miller (1958), there have been many theoretical debates and empirical works on the issue of debt. Arbitrage theory is one of the first lines of progress of this school, known as neoclassical. This theory puts forward the following idea: the firm substitutes equity for debt or debt for equity until the value of the firm is maximized.

A firm always seeks the level of debt that allows it to minimize its cost of capital, and thus maximize its value (Laura, 2015). This debt ratio is, according to the trade-off theory, the one that balances the fiscal benefits of any additional debt (perpetual rent from tax savings) with the costs of potential financial distress (bankruptcy costs caused by debt). We have: \[ EV = VNE + tD - VA, \]
where \( EV \) = Value of the indebted firm; \( VNE \) = Value of the non-indebted firm; \( tD \) = Tax savings and \( VA \) = Amount of bankruptcy costs.

The analysis of the impact of the Covid-19 health crisis on SME debt has so far received relatively little empirical attention. In this sense, many existing studies have first focused on the digital mechanisms in the management of the Covid-19 health crisis and the challenges to bridge the digital divide in the world (Thiam and Ndiaye, 2020); on the spillover effects of the health crisis (Oudda et al., 2020). The others address the health and/or financial crisis aspect either on credit rationing or on the behavior of financial intermediaries (Achibane and Chakir, 2019; Hervé, 2010; Aissata, 2012; Akilimali, et al., 2020).

Hence the almost total absence of studies on the impact of the Covid-19 health crisis on the indebtedness of Cameroonian SMEs. In view of this situation, which weighs on the activities of SMEs, this study will focus on the following question: what is the impact of the Covid-19 health crisis on the indebtedness of Cameroonian SMEs?

The objective of this study is to assess the impact of the Covid-19 pandemic on the indebtedness of Cameroonian SMEs. In order to answer our research question formulated above, we opted for a hypothetical-deductive approach, as it consists in formulating a research hypothesis in order to deduce its observable future consequences, as well as its past consequences, in order to highlight its validity. To answer our research question above, we used a research hypothesis.
Hypothesis: The covid-19 pandemic has a positive influence on the indebtedness of Cameroonian SMEs.

III. Covid-19 Pandemic and SME Debt: Empirical Validation in the Cameroonian Context

In this section, we will first describe the sampling, the data collection procedure, then define the variables selected for the study and finally specify the estimation method selected.

a) Sampling and Data Collection

The population of this study is composed of Cameroonian Small and Medium Enterprises (SMEs).

Table 1: Regional Ranking of the 450 SMEs in the Study Sample

<table>
<thead>
<tr>
<th>Regions</th>
<th>Littoral</th>
<th>Centre</th>
<th>West</th>
<th>Adamaoua</th>
<th>North</th>
<th>East</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires Administered</td>
<td>207</td>
<td>130</td>
<td>45</td>
<td>40</td>
<td>39</td>
<td>37</td>
<td>498</td>
</tr>
<tr>
<td>Questionnaires Received</td>
<td>203</td>
<td>117</td>
<td>42</td>
<td>36</td>
<td>37</td>
<td>35</td>
<td>470</td>
</tr>
<tr>
<td>Usable Questionnaires</td>
<td>201</td>
<td>110</td>
<td>40</td>
<td>34</td>
<td>33</td>
<td>32</td>
<td>450</td>
</tr>
</tbody>
</table>

Source: From the Author based on the Survey

For data collection, we used a research questionnaire administered to the managers of Cameroonian SMEs. We selected the regions of: Littoral; Centre; West; Adamaoua; North and East for the distribution of the research questionnaire. The survey started in May 2020 and ended in December of the same year. Out of the four hundred and ninety-eight (498) questionnaires randomly proposed to SME managers, only four hundred and seventy (470) were sent to us, i.e. a return rate of 94.37%. Of this number, twenty (20) questionnaires had to be discarded for various reasons (indecipherable, incomprehensible, etc.). It is clear that 95.74% of the questionnaires that arrived were usable. In sum, 450 SMEs belonging to the primary, secondary and tertiary sectors were validated in the framework of our study.

b) Definitions and Measures of Variables

We used some variables to analyze the link between the Covid-19 pandemic and the indebtedness of Cameroonian SMEs. Control variables were also introduced to test the relationship between the Covid-19 pandemic and these control variables.

i. The Endogenous Variable

The covid-19 pandemic is the dependent variable. The measure of this variable is evaluated through the speed of sales of SMEs. This variable is binary and takes the value 1 if the speed of sales of SMEs is increasing at the time of the covid-19 pandemic and 0 otherwise.

ii. The Exogenous Variable

The indebtedness ($X_1$) of SMEs is the independent variable. A quantitative variable, it expresses the weight of external capital committed by the firm’s creditors. For this study, and according to Cassar and Holmes (2003), the indebtedness of SMEs is measured by the short-term debts (STD) on the total of the balance sheet (STD/Total of the balance sheet).

iii. Control Variables

We retained three (03) control variables, namely: the age of the SME; the sector of activity; and the manager-shareholder/owner network.

- The age of the SME ($X_2$), is a quantitative variable and is measured by the Neperian Logarithm of the age of the SME expressed in number of years (Mhamid et al., 2011).
- The sector of activity ($X_3$), is a dichotomous variable that takes the value of 1 if the SME operates in a high-tech sector and 0 otherwise (Amal and Faten, 2010).
- The manager-shareholder/owner network ($X_4$), is a dichotomous variable that takes the value of 1 if the manager belongs to the same religious, cultural and professional networks as the owner or shareholders and 0 otherwise (Moungou and Niyonsaba, 2015).

The official definition of the SME in the Cameroonian context comes from Law n°2015/010 of 16 July 2015 modifying and completing certain provisions of Law n°2010/001 of 13 April 2010 on the promotion of SMEs. This text sets out references that make it possible to divide enterprises into different groups: Very Small Enterprise (VSE); Small Enterprise (SE) and Medium Enterprise (ME). According to these references, the SME group includes enterprises with a permanent workforce of between 21 and 100 people and an annual turnover excluding tax of no more than three (03) billion CFA francs.
Table 2: Presentation of the Variables Selected for the Study

<table>
<thead>
<tr>
<th>Variables</th>
<th>Abbreviations</th>
<th>Measures of Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Covid-19 Pandemic</td>
<td>Y</td>
<td>Variable is binary taking the value 1 if the speed of sale of SMEs is increasing at the time of the covid-19 pandemic and 0 otherwise.</td>
</tr>
<tr>
<td>SME Debt</td>
<td>X1</td>
<td>The indebtedness of SMEs is measured by short-term debt (STD) to total assets (STD/Total assets).</td>
</tr>
<tr>
<td>The Age of the SME</td>
<td>X2</td>
<td>Quantitative variable measured by the Neperian Logarithm of the age of the SME expressed in number of years.</td>
</tr>
<tr>
<td>The Sector of Activity</td>
<td>X3</td>
<td>Quantitative variable measured by the Neperian Logarithm of the age of the SME expressed in number of years.</td>
</tr>
<tr>
<td>X4 = The Manager-shareholder/owner network</td>
<td>X4</td>
<td>Quantitative variable measured by the Neperian Logarithm of the age of the SME expressed in number of years.</td>
</tr>
</tbody>
</table>

Source: From the Author based on the Literature

c) Econometric Model

For our study, we used the logistic regression model. The choice of this model is justified by the fact that the variable Y to be predicted is dichotomous (1 or 0) and not continuous. The most distinctive point of this regression is the fact that the relationship between the predictor variables, \( X_1, X_2, X_3, \ldots, X_n \) and the variable Y to be predicted is non-linear. Logistic regression analysis allows the prediction of group membership probability using the maximum likelihood method, as it provides better estimators when the distribution of disturbances is known. The use of SPSS version 20 and Stata/SE version 15.1 will be useful for the analysis of the collected data. Thus, the following research model is selected.

Model: Test of the relationship between the covid-19 pandemic; SME debt and control variables.

As our logistic regression model has several predictors, it is therefore formulated as follows:

\[
P(Y) = \frac{e^{\left(\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4\right)}}{1 + e^{\left(\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4\right)}}
\]

or

\[
P(Y) = \frac{1}{1 + e^{-\left(\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4\right)}}
\]

Where:

- \( P(Y) \) is the probability that Y happens;
- e is the base of natural logarithms;
- Y = The covid-19 pandemic; \( \alpha_0 \) = The constant;
- \( X_1 \) = The indebtedness; \( X_2 \) = Age of the SME; \( X_3 \) = The sector of activity; \( X_4 \) = The manager-shareholder/owner network.

The coefficients \( \alpha_0, \alpha_1, \alpha_2, \alpha_3, \alpha_4 \) represent the constant and the linear combination of the predictors.

d) Presentation and Interpretation of Results

The objective here is to present, on one hand, the correlation matrix between the dependent variable and the exogenous variables, and on the other hand, the results of the logistic regression between the dependent variable and the exogenous variables.

Table 3: Correlation Matrix between Study Variables

<table>
<thead>
<tr>
<th></th>
<th>Y</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Y</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.680**</td>
<td>.056</td>
<td>.569**</td>
<td>.518**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td><strong>X1</strong></td>
<td>Correlation Coefficient</td>
<td>.680**</td>
<td>1.000</td>
<td>.024</td>
<td>.787**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td><strong>X2</strong></td>
<td>Correlation Coefficient</td>
<td>.056</td>
<td>.024</td>
<td>1.000</td>
<td>.055</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.235</td>
<td>.618</td>
<td>.241</td>
<td>.064</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td><strong>X3</strong></td>
<td>Correlation Coefficient</td>
<td>.569**</td>
<td>.787**</td>
<td>.055</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.241</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
</tbody>
</table>

Spearman's Rho
The table above shows that there is a positive and significant correlation at 1% level between the Covid-19 health crisis and the indebtedness of Cameroonian SMEs. Similarly, there is a positive and significant correlation at 1% level between the sector of activity and the Covid-19 health crisis, and a positive and significant correlation at 1% level with the manager-shareholder/owner network.

**Table 4: Logistic Regression Results**

| Coef. | Std. Err. | z   | P>|z| | [95% Conf. Interval] |
|-------|-----------|-----|------|---------------------|
| x1    | 3.22012   | .5617775 | 5.73 | 0.000               |
| x2    | .0345872  | .0405794 | 0.85 | 0.394               |
| x3    | .6373508  | .4693068 | 1.36 | 0.174               |
| x4    | .5789432  | .3678293 | 1.57 | 0.116               |
| _cons | -3.013282 | .4645408 | -6.49 | 0.000               |

According to the results obtained above, the LAMBDA likelihood ratio statistic is equal to 224.09. The associated critical probability is 0. The model is therefore globally significant, as there is indeed a relationship between one or more explanatory variables and the explained variable.

As the data are individual and not aggregated, the pseudo-R² does not need to be close to 1 (or 100%) to be excellent. Its value of 37.89% is already satisfactory.

Our regression model as discussed above is as follows:

\[
P(Y) = \frac{1}{1 + e^{-(3.013282 + 3.22012 X_1 + 0.0345872 X_2 + 0.6373508 X_3 + 0.5789432 X_4)}}
\]

\(e\) is the base of natural logarithms; \(Y\) = The covid-19 pandemic; \(\alpha_0\) = The constant; \(X_1\) = The indebtedness; \(X_2\) = Age of the SME; \(X_3\) = The sector of activity; \(X_4\) = The manager-shareholder/owner network.

We conducted a binary logistic regression on the impact of the Covid-19 health crisis on the indebtedness of Cameroonian SMEs. The results of this regression show that the Covid-19 health crisis has a positive and significant influence on the indebtedness.
of Cameroonian SMEs, hence the validation of our research hypothesis: “the Covid-19 pandemic has a positive influence on the indebtedness of Cameroonian SMEs”.

The results of this study remind us that the Covid-19 health crisis caused a number of problems that prevented businesses from operating effectively. These problems include: border closures; containment; barrier measures; wearing masks; social distancing; working remotely through information and communication technologies; etc.

Our results are in line with those found by Ntererwa and Lukundji (2020), who show that the advent of the Covid-19 health crisis led SME owners-managers to go into debt to cope with the various fluctuations in their business.

These results show that despite the Covid-19 health crisis, Cameroonian SMEs have encountered enormous difficulties in repaying their debts to financial institutions, which are unfortunately not contractual.

Following this Covid-19 health crisis situation, the SMEs that were forced to respect the barrier measures by closing down their activities, notably: bars, restaurants, party halls, etc., and having the credit outstanding, showed us that they had been forced to liquidate some of their assets to repay the credit in order to avoid the strong repression.

As for the other variables (the age of the SME; the sector of activity; and the manager-shareholder /owner network), we note that the Covid-19 health crisis does not significantly influence them.

IV. Conclusion

The objective of this study was to assess the impact of the Covid-19 pandemic on the indebtedness of Cameroonian SMEs. Through statistical and econometric analyses carried out on a sample of 450 Cameroonian SMEs, the results obtained show a positive and significant influence of the Covid-19 health crisis on the better development of Cameroonian SMEs' activities. Hence the acceptance of our research hypothesis.

The results of this study reveal that the Covid-19 health crisis was the cause of several problems that prevented businesses from operating as they should, namely: border closure; containment; barrier measures; wearing of masks; social distancing; etc.

Through this study we can suggest to financial institutions, after having noted the delay in the repayment of credits granted to SMEs, to use certain strategies to make them more solvent.

Through this study we can suggest that financial institutions, after having noticed the delay in the repayment of credits granted to SMEs, should use certain strategies to make them more creditworthy.

If, despite this, nothing is paid, they should take more effective collection measures, such as sending reminders or using external collection services. If there is still no proof of good faith, these financial institutions must take more binding legal measures.

In terms of managerial implications, it would be interesting for the government to provide more subsidies to SMEs during the Covid-19 health crisis. For example, the state should consider a policy of supporting SMEs by exempting them from taxes due to the Covid-19 health crisis. The Cameroonian government should also respond to certain measures aimed at supporting sales and combating the depletion of SMEs' working capital, then improve SMEs' access to liquidity, and finally help SMEs to maintain their level of activity.

Bibliographical References


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The Practice of Reflecting Leasing Transactions in Financial Statements

By Aliyev Adalat Zeynal

Azerbaijan State University of Economics

Summary- The subject of the article is the analysis of the practice of reflecting leasing operations in financial statements. The object of the study is the existing system in Azerbaijan of accounting for financial lease agreements between the parties to the lease agreement on accounting accounts. At the same time, serious attention is paid to the activities of Azerbaijani leasing organizations engaged in financial leasing. The theoretical and practical basis of the study was the fundamental concepts and approaches presented in the works of both domestic and foreign authors, scientists in the field of legal and accounting regulation of transactions under lease agreements, legislative and regulatory acts of the Republic of Azerbaijan. Statistical and analytical materials, periodicals, monographs, dissertations, Internet publications of official sites were used as a research database. The practical significance of the study lies in the development of practical provisions and recommendations for accounting and reporting by the lessee of operations under financial lease agreements, aimed at solving the problems of ensuring the reliability of financial statements and adapting them to international accounting standards.

Keywords: leasing, international financial reporting standards, reporting change, accounting operations.

GJMBR-C Classification: JEL Code: F65

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The Practice of Reflecting Leasing Transactions in Financial Statements

Aliyev Adalat Zeynal

Summary: The subject of the article is the analysis of the practice of reflecting leasing operations in financial statements. The object of the study is the existing system in Azerbaijan of accounting for financial lease agreements between the parties to the lease agreement on accounting accounts. At the same time, serious attention is paid to the activities of Azerbaijani leasing organizations engaged in financial leasing. The theoretical and practical basis of the study was the fundamental concepts and approaches to the theoretical and practical basis of the activities of Azerbaijani leasing organizations engaged in financial leasing. The theoretical and practical basis of the study was the fundamental concepts and approaches presented in the works of both domestic and foreign authors, scientists in the field of legal and accounting regulation of transactions under lease agreements, legislative and regulatory acts of the Republic of Azerbaijan. Statistical and analytical materials, periodicals, monographs, dissertations, Internet publications of official sites were used as a research database. The practical significance of the study lies in the development of practical provisions and recommendations for accounting and reporting by the lessee of operations under financial lease agreements, aimed at solving the problems of ensuring the reliability of financial statements and adapting them to international accounting standards. It proposes an algorithm for adjusting transactions under financial lease agreements in the Azerbaijani accounting registers of the lessee, which meets the requirements of IFRS. The main proposals mentioned in the article are recommended as a methodological support that allows organizations engaged in financial leasing to optimize their financial reporting costs in accordance with IFRS.

Keywords: leasing, international financial reporting standards, reporting change, accounting operations.

I. Introduction

In last few decades we witnessed major changes in the international capital markets, the financial products that major financial institutions and banks provided, have been multiplied in order to attract investors and satisfy the loanes. The major financial institutions have expanded their activities offering new services and products. This was the main reason that the worldwide economic crisis begun. Leasing was one of those new products that banks offered in order to help businesses to renew or buy equipment such as real estate, machinery, professional vehicles etc. Leasing was a product that market needed in order to solve a major problem, this problem was that the business, without the use of leasing should cover a major part of the total cost of the investment. Many banks have successfully responded to the new conditions of the market and started lending in order to expand their activities. Consequently banking sector has a major contribution to a country’s development. Via banking institutions businesses cover a wide range of their needs. Financing programs that are issued by banks are used to cover the needs of various enterprises in order to proceed with their investment activity or even support their productive activities. Banks adjust their long term lending according to the needs of the companies that invest in the acquirement or the renewal of their fixed equipment. Concerning the needs that arise from the standard production activity, banks also provide the appropriate funding adjusted to each company. The question that arises at this point is how can a business decide which type of financing is suitable for its needs? Leasing or loan? And if the choice is lease, what type of lease would serves the best in the interest of the business? Through accounting examples there will be a comparison between leasing and loan in the financial statements of companies. The past few years, banking system has suffered the consequences that have derived from the economic crisis that occurs in the country. The alternative ways of funding that are considered to be more efficient than the traditional methods and are provided by banking sector in Greece, have also been affected.

In this uncertain environment, is there any way for banks to predict their needs in the leasing market in order for them to be better prepared?

The most widespread of the alternative methods of financing provided by banks is leasing, the concept of which will be analyzed throughout this dissertation as well as the utility that it provides to a company as an alternative way of financing. We will also attempt to predict the future penetration of leasing in the various fields of use, using linear regressions, something that could be of great interest for banks’ executives and administration in order to redesign the structure of institution and individual departments in order to be

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consistent with the commands of the economic conditions.

a) Introduction in Leasing

The only common definition existing for lease, on a European level, is the one provided by the international accounting standard for leases IAS 17, where lease is defined as “an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time”. Leasing is an international term that is used to describe the transfer of the right to use a fixed asset from the lessor to the lessee for a certain payment for a specific number of years in the form of lease. Lessor is the owner of an asset that is leased under an agreement, while the lessee is the person who rents the asset from the lessor and is legally bound towards the lessor to uphold specific obligations that are defined in the leasing agreement and by the law. In general, leasing is a form of medium to long term funding of businesses and professionals in order for them to acquire fixed assets such as building and machinery that are of great significance to the continuing of their professional activities. The institution of leasing has been introduced in the Greek market in two stages. During the first stage, through the law 1665/86 was introduced the portable property leasing, which covers the need to lease any mobile asset that can be used for professional usage. During the second stage through the laws 2367/95 and 2682/99 the institution of leasing was expanded to the lease of real estate that is also used for professional usage.

b) Types of Leasing

The IAS 17 effectively accounts for the economic substance of the two major types of leasing that are:

Economics lease that transfers substantially all the risks and rewards incidental to ownership of an asset with title that may or may not be transferred eventually. Operationallease that is a lease other than finance lease. The first indication that proves weather a lease is finance or operating is to assess the risk and rewards of ownership have been transferred to the lessee.

c) Commercial Leasing

In a commercial lease, the lessor capitalizes the total amount of quality or attributes and then the lessee, who needs the equipment or machinery, uses it in exchange for fixed payments. This particular type of lease is also known as a full-payment agreement, in which there is a complete transfer of all risks and benefits associated with the asset from the lessor to the lessee. Ownership of the asset passes to the lessee at the end of its life. Typically, the term of the contract extends over most of the economic life of the asset. In this type of lease, the lessor plays the role of financier only. Large business equipment is a public example of a finance lease. When the contract period ends, it is often possible to continue the lease at a reduced rate or even to purchase the leased asset at a reduced price. Under IAS 17, a lease can be considered commercial if one or more of the following conditions exist.

- Ownership passes to the lessee at the end of the lease term, as it does in lease-purchase transactions.
- The lessee has an option to purchase the asset at a bargain price, such that the option is almost certain to be exercised.
- The lease term, which may even include a secondary term, is for most of the life of the asset.
- As of the lease commencement date, the present value of the minimum lease payments (MLP), including any down payment, is at least substantially all of the fair value of the asset (at least 90%).
- The leased asset is specific in nature, such that only a resident can use it without the need for significant modifications.
- The lessee pays compensation to the lessor if the lease is terminated.
- Gains or losses from fluctuations in the fair value of the asset are borne by the lessee.
- The lease is not subject to cancellation or is cancelled only with a penalty to the lessee.
- The lessee has the option to keep the lease for a secondary period at a rent that is substantially less than the market rent, such as a nominal rent.

If at any time the terms of the lease change, resulting in a different classification at the start of the lease, the lease is cancelled and the revised lease is treated as a new lease.

d) Operational Leasing

In an operational lease, the term is much shorter than the full economic life of the asset. The lessee does not bear the full burden of all the risks associated with the investment and is not responsible for financing its full value, but neither does the lessee acquire all the benefits derived from the asset. The leaseholder bears ownership along with all of the risks and benefits and depends on many different lessees to recoup the value of the investment. In this type of lease, the lessor provides not only financing, but also any other additional services that will be necessitated by the use of the asset. This form of lease is commonly used by companies that need to update or replace equipment frequently, such as music systems, vehicle fleets, and aircraft fleets. Assets in operating leases usually have a resale value.

When the lessor enters into an operating lease, the lessor continues to recognize the leased asset. The leased asset is recorded on the statement of commercial position and depreciated in the normal manner. Lease income is recognized in the income statement on a straight-line basis over the lease term. If a difference arises between the amounts accrued and paid, it is adjusted as a receivable or deferred income. If the lessor is a manufacturer or dealer, a gain on sale should not be recognized at the inception of an operating lease because the risks and rewards are not transferred to the lessee, it is not treated as a sale.

A reverse lease is a form of lease agreement in which the owner of an asset sells it to another party, usually a financial institution or leasing company, and then immediately enters into a lease of the asset with the buyer for a specified term. The seller, while losing ownership of the asset, retains the right to use it for the agreed-upon term of the lease. On the other hand, the buyer has a guaranteed immediate and long-term income on the asset from the lease payments. This type of lease is usually used when the entrepreneur wants to purchase capital that has been tied up in long-term equipment. Reverse leasing is used as an alternative to loans when the value of the payments is lower than the cost of the loan or even when the company wants to show less debt on its balance sheet (off-balance sheet financing). Reverse leasing transactions are often used for commercial vehicles, commercial real estate and other types of property.

Vendor leasing, also known as asset leasing, is a type of lease based on the creation of an economic agreement between retailers who supply stationary and mobile equipment and their business customers. It requires the retailer to make a deal with a funding source, such as a leasing company, so that the seller can offer leases to customers. By offering financing, the seller makes a cash sale while obtaining financing from a commercial institution. Through leasing, the vendor fully or partially replaces the leasing company because the vendor can be responsible for signing contracts and collecting rents. Depending on the deal, the supplier may also collect the lease payments and pass them on to the financing institution, or the customer may pay the financing company directly. The financing company usually handles the customer’s credit check and operational administration. The seller then presents the financing option to the customer, and if the customer accepts it, the seller receives the money from the financing company. Through the vendor, leasing companies are able to fulfill their orders and get the financing they need to do so without having to apply for a bank loan first. There is a huge variety of equipment that can be used through vendor leasing, such as trucks and cars, computers, forklifts, medical printers, and there is the option of signing or repurchasing under warranty from the vendor. Vendor leasing helps drive vendor sales and creates a stronger vendor-customer relationship. Lessee and lessor accounting depends on the classification of the lease, whether it is a finance lease or an operating lease.

In this type of lease, the lessor borrows the amount of financing needed to purchase the asset. Unlike other types of leases where there are two parties involved (lessee and lessor), a leveraged lease has another party. The third party plays the role of a lender who helps with the financing needed to purchase the asset to be leased. The lessor plays the same role as in the previous types of leases. The loan is secured by a mortgage on the asset as well as the legal transfer of the lease and payments. In addition, the lessor can guarantee repayment of the debt. In some lease terms, the lessee issues bills of exchange that are guaranteed from the lessor. This guarantee reduces the risk in which the byers of the bills of exchange (borrowers) are exposed reducing therefore the cost of borrowing.

e) Purpose of Leasing
Leasing constitutes an alternative and flexible way of financing business activity compared to the traditional ways of medium-long term bank loans. Therefore, leasing constitutes a mechanism that provides the business the chance to acquire, complete, renew or expand its productive equipment avoiding the use of the company’s capital. Leasing as a form of finance has advantages for the lessor, the lessee and for the national economy as well. The lessee is being financed with the total amount of the investment from the leasing company without the need of disbursement and the participation of the lessor. The procedures are quick and simple while the tax and other motives that the investor has been able to achieve through the various development laws are not jeopardized. Leasing does not require additional safeguards such as mortgages or permutations. As the time schedule of payments is concerned, it is appeared to be very flexible, something that is very important especially for the businesses, which present seasonality in cash, flows. A very important aspect for the company is the tax deduction of the total amount of the lease that is combined to the shorter duration of the contract from the useful life of the equipment. Moreover, the business is protected from the technological depreciation of the equipment while the liquidity of the lessee is increased with the use of sale and leaseback possibility. Through leasing procedure the lessee is able to obtain capital equipment without charging the credit limit that is preserved in the banks and without the use of own equity. In addition, the lessee is given the possibility of preserving his liquidity, as he does not have to use his own capital in order to acquire the asset.

According to international experience, the cost of leasing is usually slightly higher than the cost of the equivalent banking lending. Therefore, the choice...
between leasing or using bank loan should be based in analyzing each case separately, as data (cost of capital, depreciation e. c. t) differ in each case. The interest rate used differs between leasing companies and between times periods. Additionally, interest rate changes according to the conditions that exist in the market consequently having an effect on the lease payments. Therefore, the lease payment is not stable or independent from the changes in bank interest rates. As the commercial institution (lessor) is concerned, has to face less danger than the issue of a loan, given the fact that the lessor preserves the ownership of the fixed asset as opposed to the lessee, who in case of danger has to deal with the cost and delay in order to acquire the possession of the assets that has financed. Therefore, leasing company obtains insurance of tangible nature due to the right of high ownership, which provides a high mean of protection and in the same time a significant advantage over the rest of the collateral types. Leasing as a new mean of finance has expanded the banking clientele and is offering new chances of business activities.

f) Leasing Development and Influence in the Economy of Azerbaijan

In the Azerbaijan market, the asset finance and equipment leasing are controlled by the banking sector, since banks are in charge of leasing companies and there are no captive lessors. Every bank that has a leasing department is a member of the Association of Azerbaijan Leasing Companies (AGLC), which in turn is a member of Leaseurope. Over the past few years, Azerbaijan’s economy has been severely damaged by the global economic crisis, a leading banking system under pressure and major restructuring that will inevitably lead to fewer leasing companies. Until 2002, leasing was mainly used to finance moveables all types of equipment except naval vessels but including aircraft. In 2002, the legislation was changed to include real estate, from then until 2007, Azerbaijan’s leasing market experienced steady growth, but that was when the first signs appeared, an impending crisis appeared.

During 2007 and 2011, new business declined each year, but during 2009-2010, leasing companies were still supported by their parent banks. Commercial leasing in Azerbaijan was not seriously affected in 2008, when the economic crisis in the United States and Europe was evident, and it worsened in 2009 and 2010 appeared, but in 2011 there was a serious decrease in the commercial leasing market. The ongoing uncertainty and instability in the Azerbaijani economy has a negative impact on the investment initiatives of both lessors and lessees. These conditions are best expected to change after the recapitalization of the banks, which will provide liquidity in their leasing subsidiaries and in turn drain it. to the market that helps the economy progress.

In Azerbaijan leasing is particularly preferred in financing oil, liquid gas and real estate, since it presents the highest amounts since 2005 that are followed by a very steep decrease from 2007 until 2011. Machinery, having much less volume than oil, liquid gas and real estate, comes in second place, also having decreasing trend from 2006 until 2011, with a small increase in 2008. The percentages of equipment and other types of leasing are not very widespread in Azerbaijan, since they are presenting the lowest figures since 2005 with a small increase in 2008 that is followed by a decrease until 2011.

II. Methodology

As contemplating on other papers mentioned above, we believe that there is a linear relation between some factors such as profitability, growth rate, profit volatility etc., and the total leasing activity. Our inspiration is that, although Greek economy is struggling in an unstable and uncertain economic environment, we will be able to provide banking sector with a tool that predicts the future needs for leasing in the different fields of use, in order for them to be prepared for the market needs. Linear models are based on the relation y=ax + b, where y is the predicted values and x are the independent variables, b is the steady term which shows the starting point of the graphical presentation and is directly connected to the magnitude of each model.

III. Conclusions

In Azerbaijan, the entrance of leasing activity took place later on than the rest of the European community, but the growth rates for the years 2001 to 2008 were even higher than the rates in Germany and Great Britain. This can be explained by the huge expand of lease in the oil, liquid gas and real estate sector and the reliefs in transfer taxes that were provided. Azerbaijan has been suffering for almost three years now, from an economic crisis that affects every prospect of economic activity. As a result, leasing activity has also been affected. We believe that the decrease of the leasing percentages in the market reflects equally the total shrunk of Azerbaijan economy. In the third chapter of our thesis, we try to provide the information necessary for an entrepreneur in order for him to decide if leasing is the appropriate way of financing of his business. In the fourth chapter of our thesis, we examine with the data available from Bank of Azerbaijan and from Association of Azerbaijan Leasing Companies, and with the tools of linear regression, to see if there is any connection between the total economic activity of the country for each year and the amount of money concerning leasing sector in the country. Linear regression is a simple model to predict future behavior.
of the market. The preciseness and value of the model itself has a direct connection with the number of independent variables of the model and the quality characteristics of them. Our single independent variable, which was the previous years, represents the total economic activity in leasing sector and we demonstrate that there is good fit using the data for the years 2007 to 2011, having linear relation with a decreasing trend. The results we present are decreased as expected and comply with the total economic conditions in Azerbaijan. There are also other tools in order to examine and work with the available data, such as Markov chains. Another very useful tool commonly used in this area from leasing companies in order to estimate the risk of loses for an investment using leasing is the simplex method with tables. These two methods need data with various quality data. Adding more variables in the model and refining it for further accuracy could be a future work.

We could say that results that derive from regressions as the one we have used can help banks and commercial institutions to better reorganize and structure their leasing departments in order to keep up with the demands of the market. We strongly believe that for the year 2012 the leasing market will continue to shrink down to minimum level, as companies will have neither the sufficient funds to continue the leasing nor the need to expand their activities. This will affect the market with a decrease of the prices in equipment (including real estate) which will trigger actions from investors to lease again equipment in new lower prices. Consequently, this state of the market will set the minimum level of leasing activity for every sector. In some cases, as we saw in machinery leasing, this can be predicted. Finally, we believe that these conditions could be reversed by giving motivation in entrepreneurs of other sectors of the Azerbaijan economy third party financing, technology performance financing and energy service companies, the last is expected to have great growth in the next few years.

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We accept the manuscript submissions in any standard (generic) format.

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- Findings
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3. Final approval of the version of the paper to be published.

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Acknowledgments

Contributors to the research other than authors credited should be mentioned in Acknowledgments. The source of funding for the research can be included. Suppliers of resources may be mentioned along with their addresses.

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Preparing your Manuscript

Authors can submit papers and articles in an acceptable file format: MS Word (doc, docx), LaTeX (.tex, .zip or .rar including all of your files), Adobe PDF (.pdf), rich text format (.rtf), simple text document (.txt), Open Document Text (.odt), and Apple Pages (.pages). Our professional layout editors will format the entire paper according to our official guidelines. This is one of the highlights of publishing with Global Journals—authors should not be concerned about the formatting of their paper. Global Journals accepts articles and manuscripts in every major language, be it Spanish, Chinese, Japanese, Portuguese, Russian, French, German, Dutch, Italian, Greek, or any other national language, but the title, subtitle, and abstract should be in English. This will facilitate indexing and the pre-peer review process.

The following is the official style and template developed for publication of a research paper. Authors are not required to follow this style during the submission of the paper. It is just for reference purposes.
**Manuscript Style Instruction (Optional)**

- Microsoft Word Document Setting Instructions.
- Font type of all text should be Swis721 Lt BT.
- Page size: 8.27” x 11””, left margin: 0.65, right margin: 0.65, bottom margin: 0.75.
- Paper title should be in one column of font size 24.
- Author name in font size of 11 in one column.
- Abstract: font size 9 with the word “Abstract” in bold italics.
- Main text: font size 10 with two justified columns.
- Two columns with equal column width of 3.38 and spacing of 0.2.
- First character must be three lines drop-capped.
- The paragraph before spacing of 1 pt and after of 0 pt.
- Line spacing of 1 pt.
- Large images must be in one column.
- The names of first main headings (Heading 1) must be in Roman font, capital letters, and font size of 10.
- The names of second main headings (Heading 2) must not include numbers and must be in italics with a font size of 10.

**Structure and Format of Manuscript**

The recommended size of an original research paper is under 15,000 words and review papers under 7,000 words. Research articles should be less than 10,000 words. Research papers are usually longer than review papers. Review papers are reports of significant research (typically less than 7,000 words, including tables, figures, and references)

A research paper must include:

a) A title which should be relevant to the theme of the paper.
b) A summary, known as an abstract (less than 150 words), containing the major results and conclusions.
c) Up to 10 keywords that precisely identify the paper’s subject, purpose, and focus.
d) An introduction, giving fundamental background objectives.
e) Resources and techniques with sufficient complete experimental details (wherever possible by reference) to permit repetition, sources of information must be given, and numerical methods must be specified by reference.
f) Results which should be presented concisely by well-designed tables and figures.
g) Suitable statistical data should also be given.
h) All data must have been gathered with attention to numerical detail in the planning stage.

Design has been recognized to be essential to experiments for a considerable time, and the editor has decided that any paper that appears not to have adequate numerical treatments of the data will be returned un refereed.

i) Discussion should cover implications and consequences and not just recapitulate the results; conclusions should also be summarized.
j) There should be brief acknowledgments.
k) There ought to be references in the conventional format. Global Journals recommends APA format.

Authors should carefully consider the preparation of papers to ensure that they communicate effectively. Papers are much more likely to be accepted if they are carefully designed and laid out, contain few or no errors, are summarizing, and follow instructions. They will also be published with much fewer delays than those that require much technical and editorial correction.

The Editorial Board reserves the right to make literary corrections and suggestions to improve brevity.
Format Structure

It is necessary that authors take care in submitting a manuscript that is written in simple language and adheres to published guidelines.

All manuscripts submitted to Global Journals should include:

Title
The title page must carry an informative title that reflects the content, a running title (less than 45 characters together with spaces), names of the authors and co-authors, and the place(s) where the work was carried out.

Author details
The full postal address of any related author(s) must be specified.

Abstract
The abstract is the foundation of the research paper. It should be clear and concise and must contain the objective of the paper and inferences drawn. It is advised to not include big mathematical equations or complicated jargon.

Many researchers searching for information online will use search engines such as Google, Yahoo or others. By optimizing your paper for search engines, you will amplify the chance of someone finding it. In turn, this will make it more likely to be viewed and cited in further works. Global Journals has compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Keywords
A major lynchpin of research work for the writing of research papers is the keyword search, which one will employ to find both library and internet resources. Up to eleven keywords or very brief phrases have to be given to help data retrieval, mining, and indexing.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy: planning of a list of possible keywords and phrases to try.

Choice of the main keywords is the first tool of writing a research paper. Research paper writing is an art. Keyword search should be as strategic as possible.

One should start brainstorming lists of potential keywords before even beginning searching. Think about the most important concepts related to research work. Ask, “What words would a source have to include to be truly valuable in a research paper?” Then consider synonyms for the important words.

It may take the discovery of only one important paper to steer in the right keyword direction because, in most databases, the keywords under which a research paper is abstracted are listed with the paper.

Numerical Methods
Numerical methods used should be transparent and, where appropriate, supported by references.

Abbreviations
Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

Formulas and equations
Authors are advised to submit any mathematical equation using either MathJax, KaTeX, or LaTeX, or in a very high-quality image.

Tables, Figures, and Figure Legends
Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.
Figures

Figures are supposed to be submitted as separate files. Always include a citation in the text for each figure using Arabic numbers, e.g., Fig. 4. Artwork must be submitted online in vector electronic form or by emailing it.

Preparation of Electronic Figures for Publication

Although low-quality images are sufficient for review purposes, print publication requires high-quality images to prevent the final product being blurred or fuzzy. Submit (possibly by e-mail) EPS (line art) or TIFF (halftone/photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Avoid using pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings). Please give the data for figures in black and white or submit a Color Work Agreement form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution at final image size ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs): >350 dpi; figures containing both halftone and line images: >650 dpi.

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Tips for writing a good quality Management Research Paper

Techniques for writing a good quality management and business research paper:

1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

3. Ask your guides: If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can’t clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

4. Use of computer is recommended: As you are doing research in the field of management and business then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.
6. **Bookmarks are useful:** When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

7. **Revise what you wrote:** When you write anything, always read it, summarize it, and then finalize it.

8. **Make every effort:** Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. **Produce good diagrams of your own:** Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. **Use proper verb tense:** Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. **Pick a good study spot:** Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. **Know what you know:** Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. **Use good grammar:** Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice. Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

14. **Arrangement of information:** Each section of the main body should start with an opening sentence, and there should be a changeover at the end of the section. Give only valid and powerful arguments for your topic. You may also maintain your arguments with records.

15. **Never start at the last minute:** Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

16. **Multitasking in research is not good:** Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

17. **Never copy others’ work:** Never copy others’ work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

18. **Go to seminars:** Attend seminars if the topic is relevant to your research area. Utilize all your resources.

19. **Refresh your mind after intervals:** Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

20. **Think technically:** Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

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21. *Adding unnecessary information:* Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

22. *Report concluded results:* Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

23. *Upon conclusion:* Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print for the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects of your research.

**INFORMAL GUIDELINES OF RESEARCH PAPER WRITING**

*Key points to remember:*

- Submit all work in its final form.
- Write your paper in the form which is presented in the guidelines using the template.
- Please note the criteria peer reviewers will use for grading the final paper.

*Final points:*

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

*The introduction:* This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

*The discussion section:*

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

Writing a research paper is not an easy job, no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record-keeping are the only means to make straightforward progression.

*General style:*

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

*To make a paper clear:* Adhere to recommended page limits.

*Mistakes to avoid:*

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.
Title page:

Choose a revealing title. It should be short and include the name(s) and address(es) of all authors. It should not have acronyms or abbreviations or exceed two printed lines.

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

An abstract is a brief, distinct paragraph summary of finished work or work in development. In a minute or less, a reviewer can be taught the foundation behind the study, common approaches to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study with the subsequent elements in any summary. Try to limit the initial two items to no more than one line each.

Reason for writing the article—theory, overall issue, purpose.

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- Single section and succinct.
- An outline of the job done is always written in past tense.
- Concentrate on shortening results—limit background information to a verdict or two.
- Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- Explain the value (significance) of the study.
- Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- Briefly explain the study's tentative purpose and how it meets the declared objectives.
Approach:
Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):
This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

Materials:
*Materials may be reported in part of a section or else they may be recognized along with your measures.*

Methods:
- Report the method and not the particulars of each process that engaged the same methodology.
- Describe the method entirely.
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures.
- Simplify—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

Approach:
It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

What to keep away from:
- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings—save it for the argument.
- Leave out information that is immaterial to a third party.

Results:
The principle of a results segment is to present and demonstrate your conclusion. Create this part as entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.
Content:
- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or manuscript.

What to stay away from:
- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:
As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

Figures and tables:
If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:
The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."

Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.
- You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.
Approach:

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