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ASSESSING THE CHALLENGES FACED BY ZAMBIAN START-UPS IN ACCESSING EXTERNAL CAPITAL FUNDING FROM BUSINESS ANGELS AND VENTURE CAPITALISTS

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under the guidance of

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Dedication

I dedicate this work to my lovely mother (Judith FunyinaKaminya Kaputula) and all my siblings for the care, love, encouragement, support and prayers that have been the most precious source of inspiration throughout my academic tribulations.

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The success of any thesis inevitably requires the effort of many other people and this work is no different. Therefore, failure to acknowledge the help/ support of many others who contributed to making this possible, would render this work incomplete.

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Finally, I would love to give thanks to almighty God for the good health and strength he has and continues to accord me. True to his word, he remains faithful.

(Philippians 1 vs 6)

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Abstract

Start-ups globally have become an important conduit of economic development. They are often delineated as efficient and prolific job creators, the seeds of big businesses and the fuel to an economic engine. Despite their ultra-contribution, they still face daunting hurdles in accessing external capital necessary to scale up. This paper investigates key challenges Zambian start-ups face in accessing external capital funding from business angels and venture capitalists. On the basis of extensive reviewed literature coupled with qualitatively semi-structured interviews, detailed data upon which inference is drawn is collected from both start-up owners and financiers in question. Using clustering approach, evidence strongly reveal six (6) major challenges that sorely precludes start-ups in Zambia from accessing external finance specifically from BAs and VCs. Scientific novelty and contribution of this paper is reflected in the fact that, there exists relatively a small number of research papers, especially in domestic (Zambian) literature addressing this issue. Therefore, the research and its findings contributes to better understanding of the financing challenges and how entrepreneurial ventures can re-strategize to overcome the issues raised in readiness for future financing rounds.

Keywords: start-ups, challenges, financing, BAs/ VCs, Zambia.

Introduction

Start-ups globally have become an important conduit of economic development. They are often delineated as efficient and prolific job creators, the seeds of big businesses and the fuel to an economic engine. Birch (1990) postulated that, "while fortune 500 firms lost 4 million jobs during the 1980s, small scale businesses added 16 million jobs in the same decade". Lerner (1994) also adds that, though large firms had historically accounted for majority of jobs created in the United States, the pattern was reversed in the 1980s and it is now small-scale businesses called start-ups at the helm of it.

Despite this phenomenological paradigm shift in world economies caused by start-ups, there still exists huge hurdles between start-ups and sources of funding (Berger and Udell, 1998), and Zambia is no exception in this regard. Inadequate capital is perceived as one of the major obstacles to any firm's growth and investment (Chandler and Hanks, 1998; Bhaird and Lucey, 2006; Musso and Schiavo, 2007; Gries and Naude, 2010). Capital is mainly referred to as the financial value of assets, account deposits, tangible machinery and production facilities, human labour, and other resources used in market provision of goods and services. Goodwin (2003), differentiates the forms of capital as: "financial, natural, human and social in kind". In spite of the form that capital takes, the common denominator still remains that, it can be monetized. Thus, financial capital remains an essential tool for any firm in any business industry.

Start-ups often struggle to survive, penetrate intended markets and even expand due to lack of financial capital in their first stages of operation or existence. Studies have shown that start-ups with adequate financial resources can invest more in new technology and innovation to easy their operations and be more effective/ cost efficient (Scherer, 1991). Furthermore, adequate capital would enable them to improve their products to gain competitive advantage over their rivals, do proper marketing, recruit high quality personnel and have high flexibility to overcome potential managerial and industrial threats. This would shield them from the high failure rate associated with start-ups.

To achieve the foregoing, there is need for the path-breaking financing of outside equity, that is, access to business angel (BA)/ venture capital (VC) funds among other many external finance sources. But that is easier said than done, and this is because, there exists a growing belief among financiers that start-ups are risk prone ventures with no experience, competitive advantage and assets to serve as collateral (Denis, 2004). Hence, making it more difficult for start-ups to access external funding, thereby limiting them, inter-alia market entry, survival, performance and even growth (Abor and Biekpe, 2006; Hernandez-Trillo, Pagan and Paxton, 2005; Musengi, 2003).

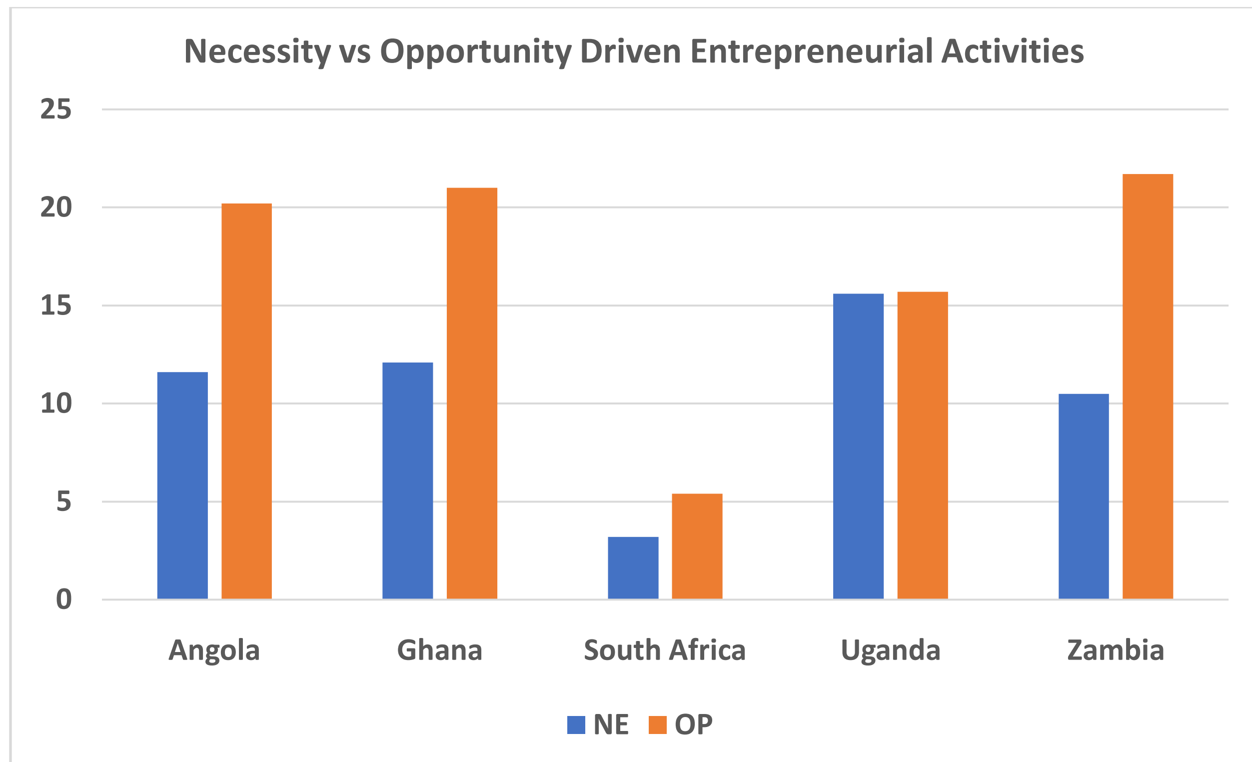
To bridge this gap, the study will endeavor to explore the challenges Zambian start-ups face in accessing external capital funding from BAs and VCs in an effort to determine the heterogeneity of start-ups and sources of funding, balance and optimality, so as to help create a level playing field where both parties can feel secure and worthwhile to invest.

Background of the study

Sub-Saharan Africa is said to be one of the regions with the highest number of early-stage entrepreneurial activities. According to Global Entrepreneurship Monitor (GEM), 39.9% of the Zambian and Nigerian adults are either starting a business or have run one for less than three and half years (Dodia, 2010). But researchers have attributed such statistics to the “Necessity theory” of entrepreneurship.

Entrepreneurs can either be necessity or opportunity driven. Williams (2009), dates the distinction between the two back to 1980s. Though the popularized use of these terms by both researchers and practitioners came into being when they were first adopted by GEM in 2001 (Reynolds et al., 2002). The term “necessity entrepreneur(s)” refers to people who are pushed into entrepreneurship as survival strategy by structural factors such as poverty and unemployment. According to this theory, people from the poorest developing countries do not consider starting a business until there is no option available for their personal and family survival. On the contrary, “opportunity-driven entrepreneurs” are said to be those who enter entrepreneurship out of choicein order to exploit some identified business opportunities, and are thus, driven by the amount of opportunities and innovation existing in the market.

Considering the above, Zambia still boasts of a high number of opportunity-driven vis-a-vie necessity-driven entrepreneurs GEM report (2010) indicated. GEM started collecting data on entrepreneurial activities around the world in 1999, mainly from developed countries, but over time the number of participating developing countries has increased. In 2010, a total number of 59 countries participated in the survey, with 13 of them characterized as ‘factor-driven’ (four of which are Sub-Saharan African countries: Angola, Ghana, Uganda and Zambia) and 24 characterized as ‘efficiency-driven’ (one Sub-Saharan African country: South Africa) (Kelley, Bosman and Amoros, 2011). The survey revealed that many less developed countries have much higher levels of entrepreneurial activities compared to developed countries.***Figure 1*** below shows the relationship between necessity and opportunity entrepreneurial activities for five sub-Sahara African countries, using data from the 2010 GEM report. Interesting enough, while Angola (63.5%), Ghana (62.7%) and South Africa (62.8%) have a similar pattern in the distribution of necessity and opportunity driven entrepreneurial activities, with an average of 63% being opportunity-driven, over two-thirds (66.7%) of the Zambian entrepreneurial activities are opportunity driven. This percentage is also in line with the average (67.7%) of all 59 GEM countries that participated in the survey.



	Angola	Ghana	South Africa	Uganda	Zambia	All GEM
Necessity	11.6	12.5	3.2	15.6	10.5	4.0
Opportunity	20.2	21.0	5.4	15.7	21.7	8.0

Figure 1: *Necessity vs opportunity(data source: GEM report, 2010)*

This growing pace has persisted in the last six years with most of the start-ups being born but cannot scale-up due to inadequate capital. Furthermore, massive recognition of the start-ups' role towards Zambia's economic growth has been observed. For instance, The Government of the Republic of Zambia (GRZ) acknowledges that a vibrant and productive entrepreneurial sector is key to promoting growth and prosperity in the country. This acknowledgment is articulated in the Seventh National Development Plan, which underscores the importance of stimulating innovation and entrepreneurial activities through financial support (Economics Association of Zambia, 2017). Moreover, the sound macroeconomic policies coupled with political stability that Zambia has enjoyed since its genesis has also played a pivotal role in stimulating business creation, investment and realization of economic expansion in recent years. Nevertheless, while these factors are necessary for the creation of a sound business environment, they are not sufficient for scaling up and fast growth of start-ups.

In going forward, there is need to bring down the wall to external finance, but that cannot be done without the knowledge of the wall itself. Moreover, the seeming lack of finance is not only retarding start-up expansion but also national economic growth. The recent high level external debt acquisition by government pushed the rates of interest up and crowded the private sector out

of financial markets (International Monetary Fund, 2015). This is because the costs and requirements to access bank loans have been way too high that only a negligible number of start-ups (i.e. less than 1%) can manage. Furthermore, the minimum annual turnover that firms need to qualify for start-up loans excludes over 90 percent of Zambia's SMEs (Gondwe, 2012).Thus, traditional banks are not really an option for start-ups.

Problem statement

Zambia's entrepreneurial sector is dualistic, consisting a small number of large enterprises and a significantly large portion of start-ups which are mainly informal enterprises facing daunting hurdles in gaining access to external capital for possible scale up. While large enterprises drive the economy, they only account for a small percentage of employed Zambians, leaving the majority in the informal sector (Central Statistical Office, 2005-Labour Force Survey). Arguably, one would say, it is due to the undeveloped state of the nation that such an imbalance phenomenon is being recorded. Considerably, that could be true to a certain extent, but studies have also shown that even in developed industrial economies, it is the said start-ups rather than the multinationals that are the largest employer of workers (Mullineux, 1997). For example, "small scale businesses in the United States numbered 23 million in 2003 and employed half of private sector's workforce in addition to producing nearly half of the nation's private sector's output" (Charles, 2006).

Insofar as the field has attracted spontaneous increase of interest from scholars, with others having conclusively come up with what they term "standard constraints" inhibiting start-ups' access to finance. One big question that arises is, do the said constraints hold even in the case of Zambia? Perhaps not, but there is only one way to prove otherwise, and thus, conducting research on the subject matter.

Moreover, there is little or no specific study that has explicitly explained the challenges Zambian start-ups face in accessing external capital funding from BAs and VCs. Thus, developing even more keen interest to explore this subject.

Objective of the study

To assess the challenges Zambian start-ups face in accessing external capital funding from Business Angels and Venture Capitalists.

In pursuit of the above objective, the seriate research question will be administered:

What key challenges do Zambian start-ups face in accessing external capital funding from BAs and VCs?

Supportively, two sub-questions below will be coined to yield a more eloquent discovery that does not only fill the void in literature but conjointly be an awakening tool for practitioners.

i. *At what stage of business can Zambian start-ups attract capital funding from BAs and VCs?*
ii. *Are the requirements set by BAs and VCs to fund a venture too high for Zambian start-ups?*

Significance of the study

It has already been acknowledged worldwide that the small-scale business sector is the backbone of many economies. Japan, India, China, and the Asian tiger economies have all built their strong production base on this sector. About 88% of the Japanese economy is based on this sector (Economist Intelligence Unit, 2010). Aside from the above, literature has also recognized and shown the importance of start-up financing despite the many challenges involved. Winborg and Landstrom (2000), undraped the major challenges small businesses face in securing long-term external finance and pointed out bootstrapping as one way of avoiding over reliance on external finance. Additionally, Verheul, Ingrid, and Thurik (2001) observed how financial institutions can chip in to alleviate the problem of firm financing in the Netherlands though with special attention to gender. While Freear, Sohl, and Wetzel (1996) described the characteristics of BA investors in relation to start-ups they are likely to bet their money on. Nonetheless, a literature gap at country level with specific clock-watching on start-up financing from both BAs and VCs exists. Moreover, the studies mentioned solely focused on the American/ European context. Thus, leaving more leverage to map-quest the African context and Zambia in particular.

Furthermore, the developed economies of Europe and North America financially battered in the 2009 economic crisis partly due to that, corporations dominated the domestic economies such that a crisis in a corporation became a crisis for the nation (Lerner, 2010; Shane, 2011; Klapper and Love, 2011). This phenomenon triggered most cities and country entrepreneurs to embrace a start-up spirit with the hope of becoming the next Silicon Valley. Having learnt the lesson, developing countries like Zambia with only comparative advantage in copper mining but no requisite infrastructure and technology to attract big businesses in large numbers, should take advantage of promoting start-ups to avoid over dependence on mining if the economy is to be diversified. However, this does not necessarily mean abandoning other developmental projects just in pursuit for entrepreneurship, but entails special measures meant for encouraging and exposing innovative start-ups to potential investors both local and foreign. Furthermore, start-ups funding challenge requires to possibly focus more attention on rapid and sustainable way of attracting timely finance by way of sensitizing, educating and creating platforms that induce potential investors. The question that one would ask then is, how?

In providing the answer, the study does not only aim to fill the void in literature but also provide requisite insights for start-up owners, investors and policy makers. Additionally, a more thorough understanding of this topic will help policy makers define better funding programs and policies for start-ups. While on the other hand, practitioners will be able to understand which funding strategies BAs and VCs use and be able to cope with them or possibly determine alternative sources of funding.

The remainder of this paper is structured as follows; section 2 provides an overview of relevant literature regarding the topic at hand while section 3 explains methodological tools used to assess the challenges. Section 4 avails results, discussion and a detailed recommendation based on the findings. Finally, section 5 concludes the findings, show study limitations and possible area (s) for further research.

Literature Review

Much literature and theory has revealed and described the need for start-up financing: meaning, there’s a good number of start-ups if given access to finance can profitably scale up but their ability to access finance remains an enormous impediment. This is because, such firms are typically not yet profitable and lack tangible assets, hence debt financing is usually not even an option. In view of this, we review wide-ranging literature on challenges faced by start-ups in accessing external capital funding from BAs and VCs. First off, selected definitions with regards to start-ups are given, followed by a brief monograph of start-up firms in Zambia. Theories of capital structure will be next before a concise explanation of sources of funding for new ventures. This paves way for discussing the importance of BA/ VC-funding to start-ups before finalizing with the common challenges small firms face in accessing external finance.

Definition of start-ups

The topology of start-up firms has kept on changing over time, thereby creating the need for redefining based on size, annual turnover, sector and legal institutions of a country in which the firm operates. Assenting to this view is Ward (2005) who laments that, there exists no universal definition for start-ups since the definition depends to a large extent on who is and where it is being defined.

According to Graham (2012), “A start-up is a company designed to grow fast”. He further says that, “being newly founded does not in itself make a firm a start-up. Nor is it necessary for a start-up to work on technology, or take venture funding, or have some sort of exit. But the only essential element is “fast growth”, and everything else associated with start-ups stems from growth”.

Steve Blank (2013) defines start-ups as “organizations formed to search for repeatable and scalable business models”. While Ewing Marion Kauffman Foundation defines start-ups as “employer firms less than a year old in operation employing at least one person besides the founder(s)” (Morelix et al., 2015). NESTA who amplifies on the definition by Steve Blank, asserts that, “start-ups are young, innovative, growth-oriented businesses (employee/ revenue/ customers) in search of a sustainable and scalable business model” (Dee, 2015).

Clearly from the definitions above, there's no single definition any two entrepreneurs or investors agree on. But what comes out clear is that, start-ups are determined by their age, size, growth, revenue, profitability or stability. Therefore, this study defines a start-up as: any innovative firm, usually small and initially financed by a handful of founder(s) that offers a product or service currently not being offered on the market or that founders believe is being offered in an inferior manner with a reputable business model that is growth-oriented regardless of the industry.

Start-up ventures in Zambia

Starting with a distinction that is obvious but often overlooked, not every newly founded business venture is a start-up (Graham, 2012). Hundreds of businesses are setup every year in Zambia, but only a tiny fraction are start-ups. Most of them are service businesses that is: restaurants, barbershops, fruit, and vegetable sellers etc. These are not start-ups, because most of them can be said to be necessity driven, with exception of few unusual cases.

In the Zambian context, start-ups fall in the category of Micro Small Scale and Medium Enterprises (MSMEs), and according to the Small Enterprises Act Number 29 of the laws of Zambia, MSMEs are two-fold and their definition is based on the following variables:

- Total fixed investments
- Sales turnover
- Number of employees
- Legal status

The first fold which includes micro and small enterprises is said to be any business registered with the Patents and Company Registration Agency (PACRA), whose:

I. total investment excluding land and buildings is between Eighty and Two Hundred Thousand Kwacha (K80, 000 - K200, 000)
II. annual turnover falls in the range of One hundred and Fifty to Three Hundred Thousand Kwacha (K150,000 – K300, 000)
III. Employees does not exceed ten (10) persons.

The other fold, specifying medium sized enterprises does not seem to have a concise definition as most firms under this umbrella are considered to be in the growth transition phase (GRZ, 1996). Note that: proper classification of enterprises is prerequisite for successful targeting of support programmes and incentive provision.

Theories of capital structure

Firm financing decisions have been associated with theories of capital structure. A manifold number of theories have been put forward to construe capital structure of firms, setting one's sight mostly on ingrained firms. In this section, we consider and explain the most relevant and start-up applicable theories:

The life-cycle theory

States that, "financing decisions and alternatives for firms vary according to their stage of development". Therefore, firms seek different types of funding in accordance to their particular stage of business development (Berger and Udell, 1998). ***Figure 2*** shows the sources of finance at each developmental stage in the growth life-cycle of a firm.

Firm growth/ financing life cycle

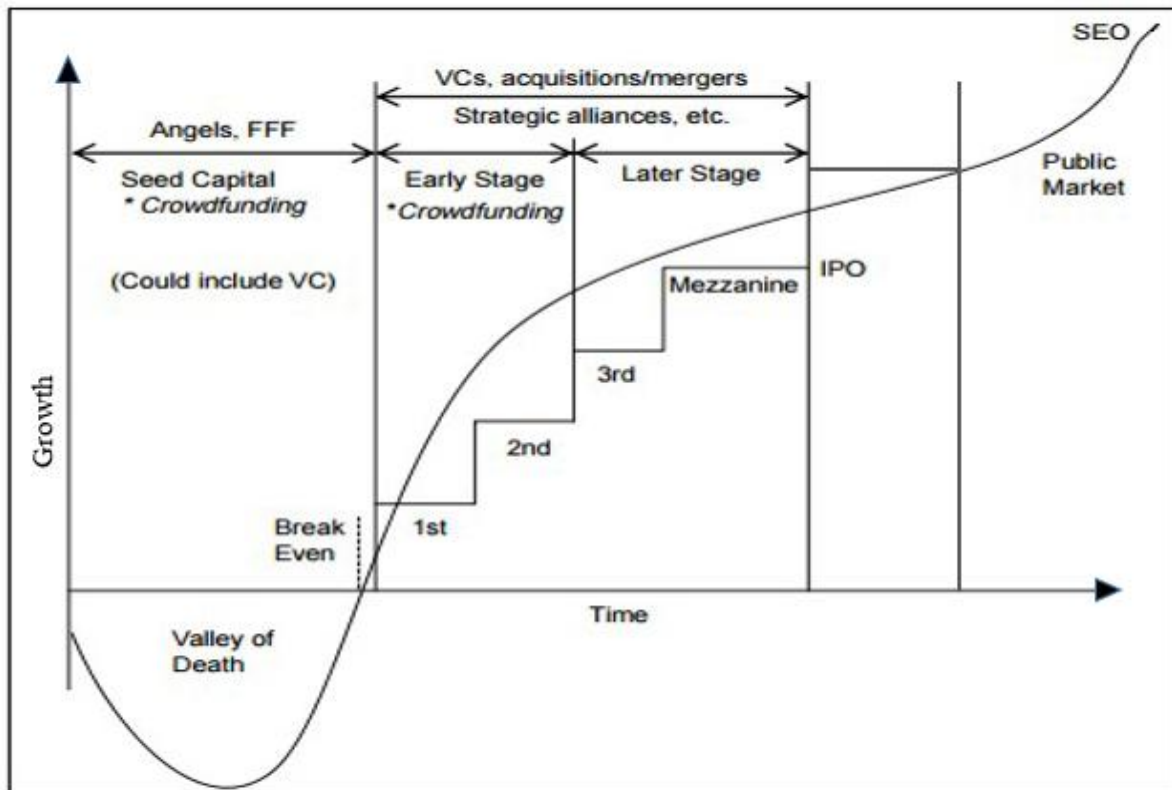


Figure 2: *Firm growth/ financing life cycle (Source: Cumming and Johan, 2009)*

The life-cycle theory applies to young firms. In support of this fact, Walker (1989) concludes that small firms change their capital structure as they develop from new firms to developed, established and finally mature firms. Therefore, this theory plus walker's conclusion, blends well in the firm stage development model shown in figure 2 above.

Furthermore, the capital structure of small firms is time and industry-dependent, which influence the total level of debt as well as its maturity structure. The proportion of funds from insiders (entrepreneurs' wealth, business associates, family, friends and fools) rises during the early stages of the firms' life cycle, while the proportion from external financing (business angels, venture capitalists, private investors, and banks) decreases. This pattern eventually reverse as the firm matures (Fluck, Holtz-Eakin and Rosen, 1998).

The pecking order theory

Myers (1984) conjectured this theory. It states that "firms have a tendency to rely on internal sources of finance, and if external sources are needed, firms prefer debt to equity financing" (Myers and Majluf, 1984).

In simple terms, theorize this, "there are three sources of funding available to firms: retained earnings, debt, and equity.Retained earnings have no adverse selection problem. Debt has a

minor adverse selection problem while equity is subject to a serious adverse selection problem.From the insider's perspective, retained earnings are a better source of finance than debt, and debt is a better deal than equity financing. While from the investor's point of view, equity is strictly riskier than debt. Moreover, both debt and equity have an adverse selection risk premium. However, equity's risk premium is higher than that of debt. Therefore, an investor will demand a higher rate of return on equity than on debt. Accordingly, the firm will fund all projects using retained earnings if possible. But if there exists inadequate amount of retained earnings, which is most likely, then debt financing will be used. Thus, for a firm in normal operations, equity will not be used and the financing deficit will match the net debt issues. Though in reality, firm operations and the associated accounting structures are more complex than the standard pecking order theory representation". The intuition of this illustration is that, firms have a preference for less risky and cheaper sources of finance.

While several authors have concluded that traditional pecking order theory is start-up or SME-friendly,hot debates of customary pen articles are still on-going on this subject. For example, Garmaise (2001) argues that the pecking order theory is reversed for new and small ventures, where external investors like BAs, VCs and banks have greater expertise in evaluating the quality of the project than the entrepreneur, and therefore entrepreneurs prefer external equity to debt financing.

In spite of scholarly support this theory has attained, it still suffers from the problem of asymmetric information associated with it which complicates access to start-up capital (Nofsinger and Wang, 2011). Start-up founders or firm managers usually possess better information about the firm than investors. Thus, leading to moral hazard (de Meza and Webb, 1987), adverse selection (Akerlof, 1970) and risk shifting incentives which are characteristics of information asymmetry.When asymmetric information is so high, a greater risk is perceived by investors who then tend to demand a higher premium, which results in a high cost of capital. Additionally, traditional financial institutions like banks tend to reduce their exposure to this information asymmetry problem by financing a smaller portion of debt and limiting loan size. Though, small firms tend to compensate this fact with leasing and trade credit (Michaelas, Chittenden and Poutziouris, 1999; Huyghebaert and Van de Gucht, 2007), but their capacity to do so is somewhat limited.

The trade-off theory

This theory argues that, "firms identify their optimal leverage by weighing the costs and benefits of an additional dollar debt, and therefore deciding between debt and equity in order to maximize the value of the company through financial structure" (Castanias, 1983; Shyam-Sunder and Myers, 1999; Fama and French, 2002; Damodaran, 2004). The benefits of debt include, tax deductibility of interest and the reduction of free cash flow problems, while the costs include potential bankruptcy and agency conflicts between stockholders and bondholders. At the leverage optimum, the benefit of the last dollar debt just offsets the cost. Thus, start-ups are more

likely to go for debt financing as it is a favorable way of beefing up their capital as opposed to losing part of firm control through equity financing.

Sources of finance for new ventures

Ingrained firms may broach/ surge their debt or equity if an urgent need for external finance rises. To execute this, there exists a variety of financial market instruments that firms can use. Most commonly, debt is raised through short or long-term bank loans, treasury bills/ bond loans, and leasing. While equity is through current/ new shareholders, private equity investors and going public (IPO). But this is not the case with start-ups or small ventures as the former is only available for established or publicly traded companies (Ang, 2000).

Huyghebaert and Van de Gucht (2007), attributes the challenges that new ventures face in raising capital to no prior financial or operating track-record. Additionally, Walker (1989) and Casser (2004), alludes that, lack of industry reputation by start-ups pose unique challenges nearly at every stage of firm development. Despite these obstacles blurring the debt and equity categorization for start-ups and consequently narrowing their funding base, there still exists a number of choices new ventures can use to thrive in funding their investments.

To finance their ventures at very early stages, entrepreneurs use their personal savings and raise additional funds from family, friends and fools (FFF) (Paul, Whittam and Wyper, 2007). Usually at this stage, the finances of the firm are intertwined with those of the entrepreneur (Coleman, 2008) such that in an event of venture bankruptcy, the entrepreneur can go bankrupt too (Ang, 1992). Furthermore, most bank loans that are granted at this stage, are mostly in the name of the entrepreneur, mainly using his personal assets as collateral (Colombo and Grilli, 2007). But since most start-ups are usually ignited by young people, who in many cases do not own property, it makes it even harder to access a bank loan. Robb and Robinson (2010), reveal that owner-backed bank loans and business credit cards are the primary source of financing for start-up firms during their first year of existence, though informal investors are also important.

Bootstrapping is another way out to small venture financing crisis. It is mainly a reactionary measure to financial constraints. Winborg and Landstrom (2000), defines bootstrapping as “the use of highly creative and innovative methods for meeting the need for resources without relying on long-term finance from debt holders and/ or new owners”. This highly financial leverage act usually cherished by cash-constrained firms involves a range of creative activities like: withholding the entrepreneur’s whole salary, obtaining capital via entrepreneur’s assignments in other businesses, borrowing or renting equipment, buying used equipment, customers paying in advance, bartering instead of buying/ selling goods and services, deliberately delaying tax and supplier payments, agreeing with suppliers to pay after selling and obtaining subsidies from municipalities and government (Winborg and Landstrom, 2000; Auken, 2003; Ebben and Johnson, 2006) among others. In the context of Zambia, government subsidies to MSMEs are given through the empowerment fund of the Citizens Economic Empowerment Commission

(CEEC). However, this is highly competitive and may be detrimental to firm performance especially in periods of economic crisis or a global crunch (Ebben, 2009). Furthermore, even though evidence refutes the commonly held assertion that start-ups lack access to formal capital markets, still finding investment funds to expand a start-up remains the biggest obstacle entrepreneurs face (Berger, Cowan and Frame, 2011). Thus, resorting to reliance on bootstrapping as a financing option with the hope of scaling up the business one day. However, bootstrapping remains a necessary but an insufficient source to fund the growth of a firm.

Over time, retained profits and internal cash flows have also become a band-aid source of finance for small firms (Damodaran, 2004; Paul, Whittam and Wyper, 2007). However, several studies have shown the inefficiency of this kind of funding hence, resorting to external sources to mend the additional firm financing needs (Carpenter and Petersen, 2002).

As traditional sources of capital keep on closing the financial window especially for cash-constrained firms (Kahle and Stulz, 2013), the possibility of raising money from the crowd appeared as a magical cash machine for small firms (Tice, 2014). This popular press celebrated alternative source of funding is called crowdfunding. Forbes (2012), defines crowdfunding as "the practice of funding a project (s) or a venture by raising many small amounts of money from a large number of people, typically via the internet". This possibility received explosive growth fueled by the 2008/2009 economic crisis, and since then, it has exponentially been used to finance start-ups. Despite this exponential growth, its funding ratio to the needs and number of start-ups looking for funding still remains a drop in the ocean. Moreover, the costs and rules of raising money via this platform deters many small ventures from using it.

As most countries tailor institutions aimed at encouraging formation of new businesses among youths, new methods of financing these businesses are also on the rise though not in equivalent proportion. The recent one is "seed accelerators". Lopac (2007), describes seed accelerators as "organizations that present an opportunity for all start-up companies and entrepreneurial teams willing to learn and succeed in the start-up world through financial injections and mentoring". Furthermore, Christiansen (2009), documents that the reason for initiating seed accelerators is the possibility and the need for creating a new ecosystem aimed at increasing the number of start-ups through investment programs. Seed accelerators are slightly different from business incubators in a way they function. A very good example is "BiD Network" in Kampala, Uganda. "The network bridges the gap for entrepreneurs who cannot access finance to grow their business by matchmaking them with specific investors (...…....), said the financial officer-Martha Muhairwe".

The largest source of external funding for start-up companies in many countries are business angels. According to Vasilescu (2009), BAs are the most important link between starting a company and developing it to a point where it is ready to be on the capital market. These investors are often wealthy experienced business people or affluent professionals, such as,

doctors, lawyers, politicians and so forth, who mainly invest their money in start-ups or emerging companies (Mason and Harrison 1994;Lerner, 2000). Their tendency to invest in early stage risk-prone ventures is not a recent phenomenon. One famous historical example is the decision by Queen Isabella of Spain to fund Christopher Columbus' voyage of discovery. Furthermore, their interest in financing young innovative firms at their early stages of growth points out why angels still remains the cornerstone and imperative source of finance for entrepreneurial ventures. Moreover, angels do not just provide entrepreneurs with finance but also managerial support and guidance needed for the firm's survival. However, it is worth mentioning that, angel investors do not operate in a structured market, but represent an informal sector of investors.

Another key external source of finance that support entrepreneurial talent/ appetite by spinning innovative ideas and basic science into products and services which are expected to envy the world are venture capitalists. Lerner, Leamon and Hardymon (2012), defines VCs as private equity investors or organizations who provide capital to promising start-up ventures that wish to expand but do not have access to equity markets. Mostly, venture capital is from professionally managed limited partnerships or private equity firms who seek a greater return by investing in roseate high growth young businesses. Additionally, Robbie and Wright (1998) document that venture capital include a range of finance from early stage through to a later stage private equity for management buy-in and buy-outs. This conforms to Teker's et al (2016) assertion that venture capital funds can build small firms into mature companies.

However, venture capital investments differ from traditional bank loans in that, venture capital fund proprietors seek for corresponding equity in a firm while banks charge interest rates within a determined time period. Furthermore, venture capital is unaffected by the firm's cash flow and creates no costs while the exact opposite is true for bank loans (Rakar, 2006).

Importance of BA or VC-funding to start-ups

The gigantic value that has put BAs/ VCs at the centre of entrepreneurs is their attribute of "smart funding" which includes provision of skills, mentorship, business network, strategic advice and of course financial resources in helping to bring innovative products to market. While their primary motive (just like any other investor) is to realize positive returns from investment, they have also gone an extra mile of being the link between starting a company and growing it to maturity (Vasilescu, 2009).

BAs as earlier defined are simply net worth individuals who invest their money mostly in emerging entrepreneurial ventures. They typically come to the aid of start-ups at a critical stage in time (seed-stage) - where nine out of every ten start-ups are bound to fail or fall in the "valley of death" (Griffith, 2014). The implication in their approach to provision of capital is assuming the full risk of a start-up. Moreover, they concerned less about quick returns and exit options but put much emphasis on due diligence, active involvement, closely supporting the business and

bringing their expertly experience and knowledge to ensure success. Furthermore, they seek to exit over a time period of 3-8 years. This has made their funding more valuable and story changing in the lives of many entrepreneurs.

VCs also remain a pillar source of external finance and continue to play an active role in the lives of many start-ups. Robbie and Wright (1998) define venture capitalists as “professional investors of long-term, unquoted, risk equity finance in new firms where the primary reward is eventual capital gain supplemented by dividends”. Several authors have documented the importance of VCs. Davila, Foster and Gupta (2000), asserts that using venture capital funds can lead to faster firm growth. This was proved after analyzing 470 Silicon Valley start-ups, in which they found that start-ups that were using venture capital funds as a financing source grew faster than those that were using other forms of finance. Their assertion was confirmed by Hellman and Puri’s (2000) research in which among other things proved that, innovative firms use venture capital funds more often than imitating firms. Furthermore, Jensen (1993) postulated that, VCs do not only act as a source of finance but also help in recruiting top firm managers, providing strategic advice, mentorship and above all certifying company value to the market.

While the two investors seem to be no different, they differ in many ways: 1) VCs mainly consist of full time professionals who raise money from pension funds, insurance companies, banks and other financial institutions to invest in entrepreneurial ventures (Mason and Harrison, 1999), and the opposite is true for BAs as they usually invest their monies. Below is ***figure 3*** showing the different features and similarities of BAs and VCs.

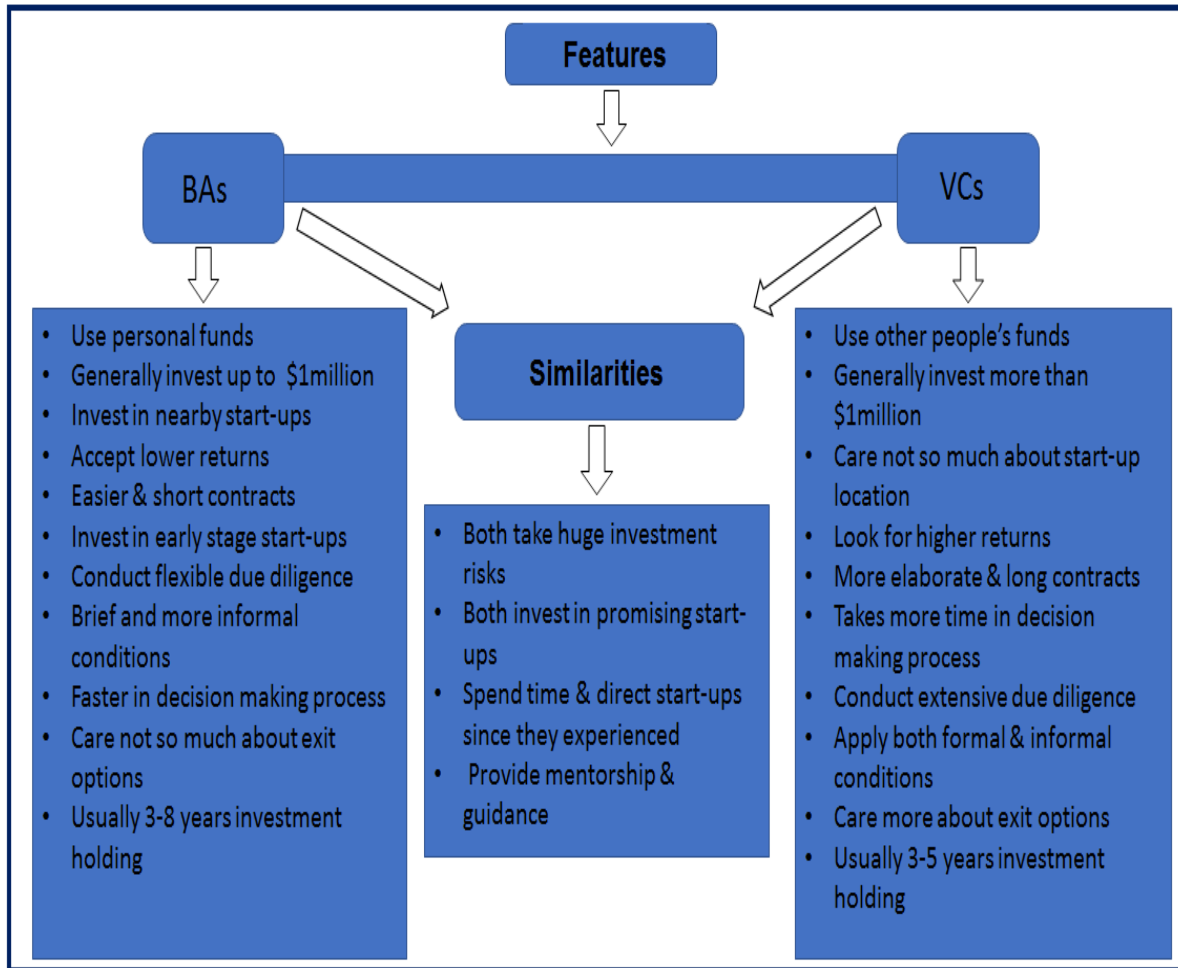


Figure 3: *Features & similarities of BAs & VCs (model source: author)*

Constraints faced by start-ups in accessing finance

Wetzel's (1983) academic review on angels and informal risk capital indicates that start-ups encounter problems when raising capital especially in their early stages of growth. Confirming to this, is Korosteleva and Mickiewicz (2011) whose study states that, "the biggest obstacle to launching or expanding a start-up is finding investment funds" and thus, one major challenge for most entrepreneurs.

According to Graham (2012), it is imperative when starting a business venture not to be pointed off to the side, otherwise you can't succeed. He says, "growth is what you have to be after as a start-up owner and everything else will tend to fall in place". Suffice to this, investors are on search of ventures with a high growth rate and ready to make market or industry impact, failure to which slims their funding chances

Another common trait of these investors is investing in start-ups that are in close geographic proximity to where they live. This is because, it relieves them of the movement costs and ensure close monitoring of the firm as they are actively involved (Avdeitchikova and Mansson, 2008).

Thus, start-ups in towns or countries far away from BAs or VCs find it hard to get the necessary funding helpful to their venture.

Moreover, start-ups are inherently uncertain, BAs and VCs often need to act on partial information about ventures. Given the diffuse and unreliable data that often surrounds new ventures, investor screening process is usually tight and signals quality. Inexperienced start-up owner (s) or team (Smith, 2011), poor paper work preparation, unconvincing pitch presentation during investor meetings, little or no business network connections and lack of endorsements from trusted third parties are all recipes of financial access denial. In fact, Kotha and George (2012) showed that start-up owners with past experience can raise more funds from both formal and informal investors compared to inexperienced or new entrants. Furthermore, Nofsinger and Wang (2009) laments that, experience plays a critical role in accessing finance from informal investors as it can offset the importance of investor protection.

Also, Dean and Giglierano (1990) showed that BAs and VCs seek to reduce funding risk by conducting extensive due diligence. Despite their biases, these investors are well studied, experienced and well-regarded business assessors (Riquelme and Richards, 1992; Shepherd and Zacharakis, 2002). Thus, their strict scrutiny of each business plan element with special focus on financial turnover, breakeven point, payback period in case of debt and exit option among others has proved to be a thorn in the flesh of many start-ups (Mason et al, 2004). This is because, most of them are run by young people with little or no knowledge of how to write an eye catching or investor convincing business plan. Additionally, informal investors focus their investment at a particular stage in the growth life cycle of a firm (Ang, 2000). Mainly at a stage where a firm has proved market feasibility of their product or services. Hence, venture stage level may make investors a bit hesitant with regards to firm financing especially if the firm does not show market viability of its produces.

Relationship trust is another impeding factor to finance accessibility. Collewaert (2014) investigates how the degree of trust in entrepreneur-investor relationship affects further firm assessments. His findings in the 54-case study for venture investments, supports a more positive start-up evaluation if investors perceive high trust. Moreover, information quality given by entrepreneurs may have a negative impact on financial accessibility especially if it’s asymmetric in nature. Collewaert concludes that, trust and quality of exchanged information may peril or heighten the entrepreneur-investor benefits.

In addition to the foregoing, several studies link firm assets to external financial accessibility (Cosh, Cumming and Hughes, 2009). Lack of significant assets to be used as collateral may deter start-ups from access to investor funds. Moreover, most entrepreneurs due to prestige, ownership status and power to decide on firm strategy desire to maintain full control of their business (Huyghebaert and Van De Gucht, 2007; Coleman, 2008) by either refraining from BA/ VC funds or opting for debt as opposed to equity. However, debt financing is no option for most start-ups as it attracts high rates of interest, hence making it even more expensive (Binks et al., 1992).

Methodology

This chapter explains the methods employed in this study, the process, techniques, sample size and the target population used in collecting data upon which inference is drawn. It further explains the data analytical methods used to answer the raised research question.

Methods

To accomplish the objective of this study, a qualitative research method will be adopted. This will enable getting a clear understanding of what boarders on start-ups, BAs and VCs. The chosen method will involve an inductive approach, with the view of providing adequately grounded solutions based on collected data (Saunders et. al., 2015). This will help firms develop strategies that can lead to attracting not only BAs and VCs but also other interested external investors.

Sampling plan

With most registered start-ups being located in Lusaka, Zambia's capital city and partly along the line of railway, it is therefore assumed that most start-ups are launched in the biggest and most populated cities of Zambia (i.e. Lusaka, Kitwe, Ndola, Kabwe and Livingstone). In cognizant of this, a case study approach is adopted so as to focus on start-ups mainly from Lusaka, as the selection of the research site is most important (Yin, 1994).

Sample & data collection

The sample size targeted includes ten (10) interviewees of which half are start-ups and the other half is a combination of both BAs and VCs. The interviews with start-up owners were done via skype while those with BAs/ VCs were done both in person (face-to-face) and skype for the locals. Each interview lasted not less than 50 minutes long and all 10 interviews were successfully done using the "interview guide questions" in the appendix. The method of sampling employed in arriving at the five (5) start-ups was: 1) only opportunity-driven founded start-ups were considered. This is because, this kind of start-ups are driven by entrepreneurs with the desire to scale-up, hence, the need for external capital as opposed to necessity-driven ones. 2) Bongo Hive, the only renowned Zambian business incubator located in Lusaka helped in identifying credible start-ups with viable business models capable of attracting external funding. The incubator has a wider base and has held a number of mentorship workshops and showcasing events for start-ups within Zambia in an effort to make them investor ready. Therefore, it is the researcher's belief that the incubator possesses vast experience relevant to guide which start-ups are suitable and willing to participate in the study (Morse, 1998). Other sources of data include information from desk research, published journals and articles on Zambian entrepreneurial activities as well as government policies released through quarterly economic outlook publications by the ministry of commerce trade and industry.

Analysis

After reviewing relevant literature, a mixture of analytical strategies is used to analyze gathered information. This involves theoretical propositions and case study description as reference to contrast or affirm the interview outcomes (Yin, 2003). In this regard, models that have been used in other studies like descriptive statistics are employed with new information and insights gathered with respect to Zambia. A good example is a Ghanaian study on SMEs by Ackah and Vuvor (2011) were a descriptive statistic model was used to assess SME-tradition bank challenge in loan accessibility.

Results & Discussion

The aim of this research is to identify the challenges start-ups in Zambia face in accessing external capital funding from BAs and VCs. With the help of Bongo Hive, Zambia's only renowned business incubator, five prominent start-ups based in Lusaka, Zambia's capital were identified and successfully interviewed. This sample was considered representative and assumed to give a reflective picture of what is obtaining on the ground, taking into account the fact that, most opportunity-driven entrepreneurs are located in the urban areas of Zambia. Additionally, a combination of five BAs and VCs in a proportionate ratio of 3:2 respectively were also interviewed, bringing the total interviewed sample to ten. Therefore, this section draws your attention to the findings of the study. Moreover, the findings are discussed in greater detail based on data obtained from interviews and recent online publications on Zambia's entrepreneurial sector. Finally, recommendation based on findings and in-depth literature on the subject is provided. Which may turn out to be of great help not only to start-ups in need of finance momently, but generally contribute towards better entrepreneurial ecosystem in Zambia if well implemented.

Start-up challenges (results)

Start-ups globally are faced with daunting challenges, but one crucial and very critical challenge is lack of access to external capital funding. True to literature, the response received from all individual interviews conducted during data collection, shows a 100% record in affirmative to start-up finance accessibility challenge. All interviewees who participated in this study were among other fact-finding questions asked to state the major challenges start-ups face with regards to financial accessibility from BAs and VCs. Many reasons just like in any other semi-structured interview were given and a clustering approach was used to single out those that were frequently cited. Note that, in nearly 99.9% of the conducted interviews, respondents were asked to attach a reason to why and how a stated reason (challenge) was hindering start-up access to finance from the investors in question. By collectively analyzing given feedback backed with proper argumentation and applying descriptive statistics, below is a snapshot of the findings given in ***figure 4*** right before a detailed explanation of each trial. Collectively, the challenges answers the research question raised in the first chapter of this study.

Figure 4: *Entrepreneurial finance key challenges (findings' summary)*

Few local/ immature BA-VC ecosystem - observing the response gotten from the respondents, there is a strong confirmation of few existing local BAs and VCs. Actually, when asked if there existed Zambians eager to invest in potential start-ups, 60% said, *"yes though they are very few and don't want to be known by the entrepreneurial ecosystem for fear of being flooded"*. 20% also said yes but stated that *"they are in the diaspora and one has to have strong connections to convince them of their money"* while the other 20% doubted if at all there existed Zambians who could be identified as investors in question with keen interest to supporting start-ups. Additionally, 70% of the respondents believe the BA-VC ecosystem in Zambia is still immature, as people capable of investing disassociate themselves with anything to do with start-ups because they consider them too risky to invest in. Furthermore, 30% alluded that, *"most Zambians capable of investing are still dreaming of building many houses to earn rentals and are too much inclined to mining activities despite the poor performance in copper prices in the last 10 years"*.

Poor packaging of business story - majority of the respondents suggest that, failure by entrepreneurs to build a story that is investor convincing and eye catching is what is blocking most start-ups from getting funded. All questions relating to what these investors look for when funding a start-up received a 20 - 80% feedback. 80% revealed that, investors in question look for; knowledge driven entrepreneurs, complementally team expertise, entrepreneurial past experience, reputable business model, and financial plan with a clear roadmap of how the set targets will be achieved. While the other 20% stated that, "*most entrepreneurs are not yet well abreast with factors to consider and polish up when approaching financiers".* Further remarks were, *"there exists great entrepreneurial talent and many have excellent ideas/ projects but failure to castigate the very ideas/ projects on paper is what hinders start-ups access to finance"*. Lack of acquaintance with what ought to be done to make a project/ idea investor ready couldn't remain unquoted.

Bizarre of business culture - from the total number of respondents, 65% attributed this to foreign investors. They said, *"most investors that start-ups pitch their ideas/ projects to are from European countries and they really do not seem to understand the Zambian business culture and*

its complexities". This has created sort of a misunderstanding barrier between what investors want and how it actually works. When asked to elaborate more on the misunderstanding, the response from all start-ups interviewed was, *"BAs and VCs from the western world insist so much on the western way of doing business, which to some extent may not hold here due to many different factors"*. Additionally, it was further stated that, *"investors be it local or foreign mainly pre-judge entrepreneurs even before they unpack their idea or project story to them"*. This was or still is highly attributed to a negative perception most people have on start-ups.

Lack of idea/ project-showcasing platforms - immature BA-VC ecosystem coupled with lack of platforms graced by potential financiers is another challenge that came out quite prominent. 85% of the respondents indicated that, there barely existed platforms where entrepreneurs can pitch or sell their start-ups for possible funding. It was cited that, *"even in a rare case where such an event is held, information is not evenly distributed and thus, most entrepreneurs end up being unaware"*. The three (3) start-ups that had obtained external funding before revealed that: "*it was through my personal network that I met a Danish VC who funded us with three hundred thousand US dollars ($300, 000) seed finance"*, while the other one stated that, *"using my personal connections, I bumped into a team of Zambians living in the diaspora who have formed a venture fund organization and funded me with thirty thousand US dollars ($30, 000) for 17.5% equity"*, and the last one stated that, *"it was through Nyamuka Zambia business competition that we won one hundred and fifty thousand kwacha (K150, 000)"*.

Information asymmetry – dishonesty - response confirmed start-up runners being in possession of much more information regarding their firms which they do not disclose in totality to investors (note: this may lead to moral hazard). Furthermore, sugar coating of business story and lack of honest are other factors that were mentioned by over 50% of the respondents. Nearly all BAs and VCs interviewed stated that, *"entrepreneurs mostly do not tell the truth concerning their business and what's on the ground. In many cases, they give an impression that all is well when actually not"*. Additionally, it was stated that, *"most of them (entrepreneurs) do not stick to their promises and lack consistent communication, which makes it difficult for we (investors) to trust them for future financing rounds"*.

High interest rates in case of debt financing - response proved a good number of cases in which start-ups seek for debt financing from BAs or VCs as opposed to selling part of company's equity or getting into partnership. Though 40% of the respondents argued that, interest rate is charged in line with the level of risk, market conditions and the prevailing market rate, 60% stated that it's way too high for start-ups. When asked the trending rate in instances of debt finance and what they regard as fair rate, all start-ups interviewed revealed that, *"in case of debt finance, BAs and VCs tend to behave like traditional banks and charge rates in the range of 30-40%but the only advantage is that, they are flexible on the issues of collateral, offer enough room or time for paying back and are not too strict"*. A comment on the fair rate received mixed feelings within the range of 2-12%.

Financing stage & requirements

In pursuit of the main research objective, two sub-questions were hypothesized as read in the first chapter. This was a helping tool for the researcher to establish if the stage at which a start-up

was or is in its life cycle mattered a great deal, hence contributing to finance access challenges. Furthermore, it was in the study's interest to find out if the requirements set by the investors in question were too high, thus, being another mountain to climb for firm financial accessibility.

With regards to start-up stage, nearly half the respondents argued that, firm stage is not really a big issue even though it's among the things investors look for. Citing one of the interviewed BA who stated that, *"the stage doesn't really matter as BAs/ VCs have shown in the past a tendency of investing even at minus one stage (i.e. funding entrepreneurs with ideas just) but what matters the most is proving the viability of the business one is looking the money for and showing how profitable it is"*. However, others argued that, most BAs and VCs are risk averse and mainly want to invest in start-ups that have survived their first 2 years of operation. Furthermore, it was brought to the researcher's attention that, showing market sustainability by a firm and how its business model leads to scaling up mattered a great deal than the life cycle stage. Supporting the above reasoning is the following statement, *"generallyBAs and VCsare mainly interested in scale ups, this is because their motivation lies in the future value of the firm and not the present. Because they very much keep in mind that once the value of the firm increases, their share or equity value increases too"*.

On key requirements, much feedback came from start-ups interviewed. However, few comments on it were also made by both investors. They (BAs/ VCs) stated that, *"its standard procedure of any investor to conduct due diligence of a company s/he is trying to invest in. But at the same time, we are cognizant of the fact that very few start-ups (especially in Africa) can meet the benchmark if the bar is set way too high. So, what we normally do is look at key elements, i.e. start-up team, business plan, entrepreneur's motivation, annual turnover, financial plan, how long the firm has been in business, its market share, purpose of the money being sought for, and if it tallies with the set targets"*.

From the start-ups point of view, when asked if due diligence elements are a milestone to reckon with, their collective response was, *"not really……., its us the Zambian start-ups who are in most cases not equal to the task, because to tell you the truth no investor can give you money without conducting proper due diligence unless s/he is a philanthropist. Moreover, in most cases they ask for very basic things just to test and determine the seriousness and authenticity of the entrepreneur"*. Two (2) follow up questions to fish out the nitty gritties were asked. One was to see if firm industry plays a crucial part in sourcing for finance while the other was to determine if start-ups prefer a fresh pair of eyes in the name of partners or would like to keep total firm control. The former received the following feedback*, "well… it depends, some are generic while others are not, but in most cases start-ups avoid dealing with generic investors for the shear fact that one needs to start explaining to them even things that are no brainer. But overall, the industry matters less if an entrepreneur has done his/ her ground work nicely before approaching an investor"*. While the latter had this in response, *"it's not about total control, what we normally look for are expertise who come in as partners/ investors to complement our*

skills and link us to the investor market for possible future financing rounds as opposed to just giving us funding then wait for a return after a certain period, no!......".

Discussion

This section interprets in greater detail the findings presented above and aligns them to reviewed literature. This way, a more robust understanding of the issues raised will be enhanced, that will give practitioners a wide lens perspective on the barriers and enable them to turn thee into opportunities that provides a win-win situation for all parties.

First off, it is to the satisfaction of this study the response gotten from the considered sample even though a large sample size would have been preferred. Moreover, Saunders et al (2015) encourages drawing inference on grounded data and the premise were viewed supplying detailed evidence for the truth of the conclusion. Actually, Bai and Ng (2007)recommends choosing fewer, but informative predictors (in this case interviewees). Furthermore, the engagement of "Bongo Hive" in sample screening increased the relevance of findings as this aligns with Yin's (1994) comment on the importance of sample size and research site identification.

From the inception of data collection, findings showed some information affirming scholarly literature while some pointing out unique challenges. Scherer (1991), Chandler and Hanks (1998), Bhaird and Lucey (2006), Musso and Schiavo (2007), and Gries and Naude (2010) all showed how inadequate capital is indeed a hindrance to any firm's growth. It is thus, incumbent upon firms especially start-ups to know how to deal with the finance challenge and the complexities that come with sourcing it externally. While Winborg and Landstrom (2000), Auken (2003) and Ebben and Johnson (2006) proposed "bootstrapping" as a way of avoiding or solving external funding over reliance by SMEs, their proposal seems to have sunk in a pool of already existing impediments that SMEs face when it comes to financial capital acquisition.
This study has availed among others, six key challenges that Zambian start-ups face in accessing external capital funding from BAs and VCs as pictured by the entrepreneurial finance key challenge summary in figure 4.

First of all, respondents indicate (d) lack of enough local BAs and VCs coupled with immature start-up-investor ecosystem as one of the barricades. "This makes also the few foreign investors that come on board at times question the vivacity of start-ups if locals that live next door can hem-&-haw in taking up investment opportunities" said one respondent. According to Avdeitchikova and Mansson (2008), both financiers have shown a common trait of investing in start-ups close to where they live, possibly for easier monitoring. Also affirming to this, is Freear, Sohl and Wetzel's (1996) study, where features of BAs in relation to financing small businesses were epitomized. Considering this factor, Zambian entrepreneurs face a hard time convincing financiers especially those coming from afar on why they should be entrusted with their finances. Furthermore, lack of alternative sources of funding such as "crowdfunding platforms" talked about by Tice (2014) handcuffs entrepreneurs where to look for should there

rise a need for external finance. Moreover, the few financiers willing to support are faced with an influx of applications, thus, making one's chances of being funded extremely slim. Therefore, the foregoing and many other reasons show the negative impact the absence of BAs and VCs has on start-ups in an entrepreneurial community with regards to financial access. Actually, Vasilescu (2009) and Teker et al (2016) assertion on how the presence of many BAs/ VCs can be a link between starting a business and growing it to maturity confirms the atop claim.

Start-ups' only source of strength in all funding negotiations lies in having a well-documented business plan accompanied by an enthusiastic yet reality embracing pitch.

Contrarily, poor packaging of business story came to light in this study. As stated in the results, majority of the respondents suggested failure of entrepreneurs to castigate their ideas/ projects on paper as a major hindrance. In line with Dean and Giglierano's (1990) study, which attests that, BAs and VCs reduce risk by conducting proper due diligence and one of the first requirements they look for, also according to Mason et al (2004) is a well-articulated business plan that includes sound financial projections. This is because, no investor would rely on a word of mouth no matter how attractive the idea or project may seem to be. Just like Castanias (1983), Shyam-Sunder and Myers, (1999), Fama and French (2002), and Damodaran (2004) supports the trade-off theory argument that, firms identify an optimal leverage by first weighing the pros and cons of an additional dollar debt, so do BAs and VCs when looking at a start-up project to bet their money on. Moreover, foreign investors whom the third challenge was mainly attributed to, would also arguably say that, "a business plan acts as a guide for their investment decisions". Thus, entrepreneurs ought to provide a convincing document, failure to which their finance application is bound to denial. More especially when dealing with financiers that have been exposed to more cunning proposals before.

Unlike Ang (2000) who stated that informal investors focus their investment at a particular stage, received response show this as no challenge at all. However, "having a business that is not viable is what was perceived to be a challenge. Therefore, a nice business story would probably avert some of the challenges that Walker (1989), Casser (2004), and Huyghebaert and Van de Gucht (2007) talked about.

Additionally, even though it was fervidly stated that, there exists great entrepreneurial talent, excellent ideas/ projects worth investment trial in Zambia, still lack of investor-start-up showcasing platforms remains a challenge in supporting this pathway. The seemingly lack or null existent of interactive platforms poses a great threat to start-up growth. Moreover, this is highly evidenced by challenge four, where two (2) out of three (3) start-ups who've gotten external funding before is through their personal network. Perhaps what is needed is a "BiD Network" type of facility (Muhairwe, 2017), where a strong collaboration bond between municipalities and the private sector exists to team up in building an incubator with an "accelerator model" that helps in bridging the networking gap.

Alike Nofsinger and Wang (2011) who argued that, despite the pecking order theory being start-up friendly, it still suffers from asymmetric information. So was the indication in the findings of this study. Respondents stated that, "there is too much diffuse information giving among entrepreneurs with regards to their firms just to impress the investor". According to De Meza and Webb (1987), this may amount to moral hazard which is a feature of information asymmetry. Furthermore, "a well to do venture picture is painted when actually the opposite is what's obtaining on the ground". This creates deception/ dishonest and once the truth is uncovered, even a slim chance of being funded that existed slips away and the relationship for possible future financing rounds gets sour. This exactly confirms what Collwaert (2014) said "perils entrepreneur-investor benefits" if discovered in his 54-case study for venture investment support. His investigation reveal that, trust and quality of information exchanged affects further firm assessments.

Moreover, part of our findings confirms Myers (1984) theory, which states that, firms prefer debt financing to equity. However, very few start-ups can manage this form of financing due to high rates of interest as revealed by the results. Also in line with Binks et al (1992) and Denis (2004), start-ups have no collateral to back debt financing. Thus, very few financiers are willing to offer debt to start-ups. Therefore, it would actually be in the interest of start-ups if equity is pursued as opposed to the former, and this way access to finance would be a little bit easier.

Recommendation

Based on the findings, the study wishes to put forth the following recommendations:

Zero-sum or tax reduction policy: this is a deliberate policy that government through its policy makers should formulate aimed at incentivizing/ stimulating local people to invest in start-ups. Results show that very few Zambians capable of investing are doing so. It's probably due to negative perception they have on start-ups, unaware of SME investments or fear of losing money once invested because of the high failure rate associated with start-ups as Griffith (2014) puts it.
Specifically speaking, what this proposed policy entails is taxing not or less any local monies directed to or returns made on start-up investment se for a certain time frame. This will encourage more capable people and increase the number of local financiers. But at the same time boost the spirit of entrepreneurship among university/ college graduates as more funds become available. Note that, the entrepreneurial ecosystem in Zambia will remain stunted if no incentives are put in place to promote it.

Build incubators/ accelerators: municipalities should become a beacon in helping the formation of more business incubators/ accelerators. As earlier mentioned in chapter 3, there exists only one renowned business incubator (Bongo Hive). This has and continues to limit young entrepreneurs from shaping their ideas to reach investment standards. Because, they lack mentors to guide them on the due process and the various elements necessary to make a project investor ready. Moreover, incubators/ accelerators do not only provide technical know-how and mentorship but also act as link to investor market. This according to Ellison (2003), Hackett

(2004) and Bruneel (2012) has the power to bring ideas/ projects to fruition by helping start-ups overcome the issues raised in this paper.

Moreover, forming more incubators/ accelerators will contribute mostly to curbing challenge 2 and 4 which to me seems to have been the main bottlenecks. This is so because most start-up runners will be mentored. Furthermore, extensive networking events can be organized by incubators and this can create a platform where start-ups have the opportunity to meet financiers and sell their firms. This is actually within the support of literature as Mosey and Wright (2007) affirms to it.

Creating start-up competitions: through the competition of business projects exists e.g. Nyamuka Zambia business competition, it's not done on a yearly basis. Thus, more of such events can be organized especially by using citizen economic empowerment funds as opposed to giving subsidies. This will promote and stimulate seriousness among entrepreneurs as they have to pitch their ideas/ projects for possible funding. Moreover, it will create and strengthen relationship among entrepreneurs themselves which will enable them to learn from one another. Furthermore, such a platform will serve as tool for awareness since results have shown that there exists lack of awareness/ evenly distribution of information among entrepreneurs in rare cases where such events are held. This approach has highly been proven worthwhile in promoting start-ups in other parts of the world (e.g. United States, United Kingdom).

Conclusion

The aim of this paper was to assess the challenges Zambian start-ups face in accessing external capital funding from BAs and VCs. This route of financiers was sought for owing to that, over 90% of Zambia's SMEs are excluded from access to bank loans (Gondwe, 2012). Thus, having thee as priority-one financing option though that does not happen without challenges. Using semi-structured interviews to attain the objective, we investigated: "the key challenges start-ups face in accessing BA/ VC-funding". Moreover, to ensure a more detailed/ eloquent discovery, a further investigation on, "firm development stage" and "BA-VC requirements" was part of the study to see if they were amidst the key bottlenecks that stood or stands in the way of start-ups when it comes to financial access.

Results show six (6) key challenges that were frequently cited as hefty glitches to BA-VC-funding by start-ups. Moreover, there was no clear indication of alternative sources as those that seems to be, were termed too expensive for start-ups. Comparing the findings to reviewed literature, we find that our results agree with other authors on, poor writing of business plans due to lack of experience and skills. Also on, lack of transparency and honesty in communications which perils future trust as revealed by Collewaert (2014), while high rates of interest in cases of debt financing couldn't go unconfirmed. Furthermore, lack of idea/ project showcasing platforms, business culture misunderstanding mainly attributed to foreign investors and few local people willing to invest in start-ups coupled with immature BA-VC ecosystem were among other factors that severely affect start-ups' access to finance. On the contrary, our findings reveal that, start-up development stage and due diligence elements set by BAs or VCs do not really act as a hindrance (s), for they are considered standard benchmarks for every firm wishing to attract external finance.

Limitations & further research

Due to time and resource constraints, a relatively small sample size was interviewed. Additionally, it would have been much better to have included start-ups from other parts of the country in our sample. But due to nonexistent of a start-up data base, it was literally impossible to identify them for possible inclusion. Furthermore, Zambia is pretty behind in technology and research. Hence, posing another challenge to finding relevant information online more especially on start-ups and the entrepreneurial sector in general. Despite the above limiting factors, it is the researcher's belief that the challenges that boarders on start-ups, BAs and VCs with regards to financial access were fully assessed. However, future research can focus on determining quantitatively the degree to which each identified challenge affects start-ups' access to finance.

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Appendix

The "interview guide" below was used in collecting data from respondents engaged in the study. Note that: questions were not being asked directly as framed, but the researcher was cautious of the party (i.e. start-up or BA/ VC) being interviewed. Thus, framing or twisting them in an intriguing way that enables respondents to freely bring out facts based on their side of business without the interviewer's influence. The reason for doing so was to ask questions that correctly suits the purpose and avoid by all means possible leading questions.

	Question	Purpose
1	Interviewee introduction, firm description/ what it does and how long it has been in business	To set the ball rolling by getting details of the interviewee with regards to his background and how s/he found firm, knowing the line of business/ the industry it operates in. Also see the time a firm has been operating from is its inception.
2	How did you fund starting capital? Has the firm been in need of external capital before, if so, from who (source) and why that option? Was the money given? If not what blocked the funding from coming your way?	Aim to assess if the firm has asked for external funding before, see if s/he is aware of the two sources (BAs & VCs) and get the reasons for why the funding option was opted for. An understanding of what blocked the funding in a case where the firm was not granted the request.
3	What was/ is the firm purpose for external funds? How much was/ is the amount and what was/ is requested in return for the funding by the funders?	To see if the reason for demanding external finance can attract or interest funders, see if the amount request for is in line with the needs of the firm and also see what requirements firms need to meet to obtain the funding
4	Do you (personally) or does your firm has any contacts of local BAs/VCs, if so, how many? Are they eager to invest in any potential venture as soon as they identify it?	This question underpins the interviewee to reveal if there is a good number of local compared to foreign investors willing to fund potential start-ups. Also, to see if they have that eagerness of investing in future promising ventures.
5	How would you like the relationship between your firm and the funders (BAs/VCs) to be? Would you like them to be partners or behave like traditional banks where you can only get debt and pay back at a later date?	The relationship helps to tell if firm owners are willing to let go part of their equity to investors or they still want to have 100% control of their business.
6	In a case of debt financing, what rate do they charge and do you think it's a fair charge taking into account all the economic conditions?	To see if the rates of interest are too high for start-ups, hence resulting to non-contracting of such debt offered by investors.
7	Do you think a start-up venture can attract funding from BAs/VCs at any developmental stage, so long as it has a promising future market share?	Aims at seeing if the start-up team has the knowledge of the stage at which they can catch the attention of these early stage funders. Because if they are miss-informed, then they may have a challenge of miss-timing the funding source.
8	BAs/ VCs conduct due diligence before they provide funding to identified ventures by screening start-up team, experience, skills, motivation, business plan, financial plan, breakeven point, payback period and exit options. Do you think they screen too much information that start-ups cannot possess?	The quest here is to dig deep and find out if the requirements by BAs/ VCs are too high for start-ups to meet. It further reveals if most elements of the due diligence process are in itself a challenge towards financial accessibility.
9	Do you think there are specific industries in Zambia which attracts more funding from this type (BA/ VC) of investors?	Assess if industry is a determining factor hindering firm accessibility to finance. Furthermore, to see if this type of investors are industry inclined or not.
10	Do you think legal institutions are strict or porous for informal investors? Are the investors are protected? Is there a thin or thick institutional line between local and foreign informal investors?	I aim to find out if the Zambian institutions are flexible to favor this type of investment. If investors are protected and if there are incentives aimed at encouraging and attracting both local and foreign investors respectively to fund start-ups
11	In your opinion, what are the key factors that hinder start-up access to external finance	See the commonalities in the reasons given by both start-ups and BAs/ VCs