SUBMISSION TO PARLIAMENTARY COMMITTEE ON NATIONAL ECONOMY, TRADE AND LABOUR MATTERS ON THE ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN NATIONAL DEVELOPMENT IN ZAMBIA

BY

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I. INTRODUCTION

The Civil Society for Poverty Reduction (CSPR) is a civil society network that has been building the voice for poor in the fight against poverty. It was established in 2000, primarily to ensure that civil society effectively and meaningfully participates in the design, formulation and implementation of National Development Plans (NDPs) and further monitor the NDPs to ensure government provides a means by which Zambia can effectively strategize on reducing the escalating levels of poverty. Since the third quarter of 2000, and in response to an invitation from the Zambian Government, the civil society in Zambia has been participating in the process of formulating and monitoring the NDP for the country, and hence sought the need to form a network that would enhance the effectiveness of this participation. This move was mainly meant to:

1. Coordinate and collaborate civil society’s participation in the NDP and thus ensure wider participation from all stakeholders;
2. Disseminate and exchange information on issues of poverty reduction in general and the NDP in particular to local and international partners;
3. Be the representative voice of civil society in lobbying government to exercise greater responsibility and good governance and thus extend the necessary political will and commitment to poverty reduction activities; and
4. Strengthen lateral learning among civil society and therefore build financial and technical capacities among civil society and other stakeholders for them to fully engage in Pro-poor development.
CSPR Vision and Mission

OUR VISION FOR ZAMBIA

“A Zambia where citizens are empowered and have access to basic needs”

OUR VISION

“Leading well-resourced civil society network whose members participate in pro-poor development at all levels in Zambia”

OUR MISSION

“To promote pro-poor development through coordination of network member efforts, evidence based policy engagement and
II. STATE OF MSME IN ZAMBIA

Micro, Small and Medium Enterprises (MSMEs) cut across all sectors of Zambia’s economy and provide one of the most prolific sources of employment and wealth creation and are a breeding ground for industries. MSMEs are very instrument for the development of an economy through for example creation of employment, increasing tax base for the country, improving incomes for the low earners among other benefits. (MCTI, 2007; MOF, 2014). Considering the 2014 baseline survey of MSMEs in Zambia, about 97 percent of businesses are in the micro small and medium enterprises sector and the sector employs about 48 percent of the labour force and many of them are women accounting for 47 percent (Parker, 2014).

Past efforts to develop the sector included the enactment of the Small Industries Development (SID) Act of 1981 which saw the birth of the Small Enterprise Development Organization (SIDO). SIDO was established to cater for financing needs of small-scale companies as defined in the SID Act. In 1996, SIDO was transformed into Small Enterprises Development Board (SEDB) through the 1996 Small Enterprise Development (SED) Act and, in 2006 it was amalgamated into the Zambia Development Agency (ZDA Act No. 11 of 2006) as an MSE Division. This is further guided by the MSME policy of 2008 to enhance sector coordination and development of interventions.

Therefore, MSME promotion and development is currently under the Zambia Development Agency which is also responsible for monitoring the activities of MSMEs in the country. Key programs under ZDA include establishing strategic partnerships with different MSME development organizations and building their capacity so as to improve their operational proficiency (IFAD, 2013).

The contribution of MSMEs to employment, growth, and sustainable development is a widely acknowledged fact, however, there seems to be no clarity on SMEs operations in the country and with no adequate documentation on their activities which makes it difficult to clearly portray their actual level of contribution to the country’s economic development. According to UNDP (2004), MSME have the highest capital: employment ratio and are a source of income for a broader layer of the population. The development of MSMEs is viewed as one sustainable way of reducing the levels of poverty and improving the quality of life of households through wealth and job creation.
MSMEs are believed to deepen the manufacturing sector, foster competitiveness and help in achieving a more equitable distribution of the benefits of economic growth thereby helping in alleviating problems associated with uneven income distribution. MSMEs achieve this by generating more employment for limited capital investment, acting as ‘seed bed’ for the development of entrepreneurial talent, playing an important role of training citizens to run enterprise, supplying the lower income groups with affordable consumer goods and services. MSMEs also act as buffers in times of economic recession.

a. Current Binding Constraints

MSME sector in Zambia continues to face numerous challenges that hinder its effective growth and contribution. Some of the challenges include:

I. Limited access to markets,

II. Limited access to appropriate technology, machinery and equipment

III. Limited access to suitable business financing solutions

IV. Inadequate business infrastructure such as roads and telecommunication facilities In addition to the constraints identified by MCTI, the MSME sector also faces the following constraints;

V. Limited technical and management skills

VI. Inadequate and unsuitable operating premises that can facilitate enterprise growth.

VII. Inadequate regulatory systems

VIII. Excessive competition from unregulated importation of cheap products
III. GROWTH OPPORTUNITIES OF MSMEs IN ZAMBIA

The growth opportunity for MSMEs in Zambia is vast given that over 80% of the labor force is in the informal sector and majority of these are actually in the MSMEs sector. International experience has shown that MSME are becoming major contributors to economic growth. In India, MSMEs are said to contribute 70% towards Gross Domestic Product (GDP) and to account for over 90% of all industrial units. In Central Asia, Kyrgyzstan, there are 36 MSMEs for every 1000 citizens contributing 44% of GDP.

From such examples, Zambia as a country should priorities the development of MSMEs since it is evident MSMEs growth can be a good source of jobs creation, for the government among other benefits which include economic buffering in times of economic stress due to fluctuating commodity prices.

Therefore, there is urgent need to operationalize the MSME policy to ensure that the policy framework is supportive of the small business sector. At the moment this is lacking, public pronouncements sometime give the impression that all is well. A supportive framework is one that, for example, deliberately provides for MSME accelerating set of incentives which include access to financing at affordable interest rates, both for short and medium-term needs. A supportive environment also means that small businesses will have access to affordable and reliable energy and communication facilities to run their small businesses more efficiently and profitably. In addition, a supportive business environment means that deliberate measures will be taken to assist small businesses acquire the skills they need to operate their businesses more profitably as well as have access to necessary information in a timely manner. Such skills will include management skills to plan, coordinate, evaluate, monitor and exercise quality control. This also means that owners and managers of small and medium businesses will be assisted to acquire skills and get exposed to best practices of supervising and motivating their employees for optimum productivity and performance of their businesses.

Specifically, government should look at addressing the key binding constraints as listed above and the measures should aim at consolidating the provisions of the 7NDP and MSMEs policy. This should be done through a multispectral approach to respond to the national priority areas which include Mining, Tourism, Manufacturing, and Agriculture.
In countries like India, Malaysia and others, where small businesses have succeeded and assumed the role of being engines of economic development, governments in these countries, have gone out of their way, not only to provide attractive incentives to the private sector operators to consider it worth their while to offer a whole range of business development services (BDS) to small businesses, but in a number of cases governments themselves have directly providing some of the services small businesses require. For example, both India and Malaysia have set up special funds for accessing venture capital by small businesses at concessionary rates. Here in Zambia we are beginning to see some movement in this direction with the establishment of funds for accessing by small businesses in tourism, timber and, with the help of the EU, in mining. But these measures, although welcome, are not bold enough and are too meagre. Besides they are discriminatory in the sense that they only apply to some sectors and not to all sectors where small businesses operate.

What else is needed to grow small businesses in Zambia? Institutions are important for the establishment of any sustainable programme. For small businesses to grow and prosper on a sustainable basis in Zambia, strong intermediary institutions are therefore needed. Given the nature of the small business sector in Zambia, it is perhaps asking too much to expect strong and sustainable intermediary institutions in support of the growth and development of small businesses to emerge organically without external intervention. The sector is too disorganized and weak for that to happen. Some intervention is therefore a must. Such institutions are critical to the effective organisation of small and medium businesses into key components of a private sector that has capacity to drive the economy of a country forward. Strong intermediary institutions will mobilise resources for the implementation of various business development services necessary for the growth of small businesses and to give them a voice with which to lobby government and other stakeholders.

In this respect, it is pleasing to note that a European Union facility at the Ministry of Commerce Trade and Industry is about to be launched which among other things, will provide capacity building services to intermediary institutions for small and medium businesses in Zambia.

In addition, small businesses in Zambia need appropriate and up to date technology to operate their businesses more efficiently and grow. Acquiring the right kind of technology is often not cheap. Assistance in some form will in most cases be required. Of immediate relevance is the need and importance of accessing ICT.
The above is not by any means exhaustive. For small and medium businesses in Zambia to grow, several other deliberate support measures are required to produce the desired results.

For example and without going into details, preferential procurement by government, which is the biggest buyer in any economy, of certain goods and services from small businesses is an incentive that has successfully been implemented in a number of countries. Other measures that would help small businesses grow in Zambia have to do with the removal of administrative barriers and delays of all kinds to business operations. For example, an efficient and affordable judicial system of settling small claims would go a long way to improve the performance of small businesses and help them grow. In this respect Zambia needs to speed up the implementation of the provisions of the Small Claims Court Act which was passed some tens years ago and is yet to be made fully operational.

IV. STRATEGIES THAT CAN BE PUT IN PLACE FOR MSMEs TO PARTICIPATE IN NATIONAL DEVELOPMENT

It is vital to understand how SMEs can function economically and with efficacy to increase their chances of survival in the competitive business environment. Governments can play a pivotal role in setting policies to protect MSMEs by for example securing markets for the goods and services produced and offered by these companies, setting up of specialized financial institutions that deal with micro financing. This is a big area that the government of Zambia should explore to make it possible for the operation of MSMEs in the country.

There is need to reveal the current standing of the MSMEs in the country and how the situation can be made better given the advantages that can be realized from this market. Clearly, MSMEs in the Zambian economies have been the backbone of social economic development and this is the same for many other Sub Saharan African economies. They have played a big role in Jobs creation for example in the informal sector which has the majority of MSMEs for example in Kenya, SMEs employ more than 5.1 million people, in South Africa, SMEs employ 50-60 percent of the work force (Kromberg, 2005; Tshuma &Jari, 2013). The Informal sector which harbors most of the MSMEs alongside the formal sector and in most situations the incomes realized in the informal sector is spent in the formal sector and this is to say that they contribute a lot in the social economic development of countries.
A favourable business environment is vital for MSMEs to thrive, but you will find that some of the advanced African economies do not make it easy for MSMEs to operate as- the business environment is hostile for example high taxes, inflation, unstable exchange rates which all impact profits and this has happened greatly in Zambia, South Africa among other African countries (World bank, 2006; Olawale & Garwe, 2010). More so, most African economies are poor and corrupt and such practices makes the operation of MSMEs very difficult and this leads them to become noncompliant and to try and circumnavigate the regulatory requirements and this is why according to World bank (2005), 70 percent of MSMEs confirm that corruption hinders so much their operations as opposed 60 percent for bigger organizations.

In comparison, a study by (Mader, and Winkler, 2013) revealed that 83 percent of the Ethiopians live in the villages employed in the Agriculture sector. This fetches them little income as they mostly grow for consumption. The same study reveals that Ethiopia has more than 73,000 MSMEs and employs more than 551,075 persons; however the survival of SMEs in Ethiopia remains a big challenge due to poor political will, poor attitude towards SMEs and generally poor business environment (Devereux, 2010; Mader, and Winkler, 2013).

Such a study on MSMEs in Zambia would give an indication on the state of this market and what the stake holders would do to remove the obstacles that may be hindering this market from thriving and thus allow the state to harness the advantages of the sector growth.

With reference to the Nigerian economy, it keeps growing amidst challenges, its informal sector which is composed of a lot of MSMEs has also been growing, but with a lot of challenges mainly due to all the vices associated with harsh business environment for MSMEs in the country (Okezie, Ihugba, Alex Odii, Njoku, 2014). The challenges that are being faced by entrepreneurs in Sub Saharan African countries cannot be underestimated and in most cases, they are the same across the continent.

Specifically, the following policy measures should be enhanced or put in place where absent:

I. Access to appropriate business financing that effectively facilitates enterprise establishment, growth and expansion; Finance is a critical input in the creation, development and expansion any enterprise. MSMEs have difficulties in accessing appropriate business finance to suit their growth requirements. It addition, the cost of finance is relatively high and is sometimes beyond the reach of most MSMEs. The terms
and conditions for accessing business finance are also very demanding. The problems of MSMEs access to finance are on both the supply side and the demand side.

II. Inculcate a culture of entrepreneurship among citizens and facilitate development of entrepreneurship and enterprise management skills critical to the growth of MSMEs; The culture of Entrepreneurship and business practice still is not well developed among Zambian citizens. This has resulted in low levels of entrepreneurial ability and business management competency among most MSMEs. These low levels of entrepreneurial skill and management competency have limited the ability of most MSMEs to grow beyond establishment phase. Therefore, for MSMEs in the sector to achieve sustainable qualitative growth and for citizens to be oriented towards business there is need to build entrepreneurial capacity through a deliberate entrepreneurship development system.

III. MSMEs access to more lucrative local and export markets; MSMEs have limited capacity to identify and effectively reach both local and export markets. This is due in part to limited access to information on what market opportunities are available, and limited knowledge and skills on how to reach these markets.

IV. Improve access by MSMEs in rural and urban areas to business development support in key business areas that facilitate enterprise stability and growth; MSMEs require guidance and hand holding to grow into independent established business entities. This support is more effective when delivered in a well-coordinated holistic manner that can create positive impact on enterprise performance. Currently however, the Sector has limited access to comprehensive integrated business development support.

V. Strengthen the capacity of MSME representative organisations to articulate MSMEs needs and interests, and to mobilise MSMEs for active participation in economic development; Business associations and other MSMEs grouping have an important role to play in lobbying and advocating for the interests of MSMEs with government and other stakeholders and for mobilising MSMEs into a formidable force for national development. In Zambia most existing MSME business associations are weak and have with limited
capacity to effectively play their role. There is therefore need for measures for institutional strengthening of associations at various levels to be put in place in order to promote the growth and stability of the MSME sector.

VI. Stimulate localised economic activity and develop appropriate MSME business infrastructure in both urban and rural areas; Local Economic development plays a critical role in the development of urban and peri-urban areas. Local economic development contributes to the growth of the local economies in terms of absorbing local labour force, slowing urban migration, contributing to national income growth, effective and efficient utilization of local resources through value addition, and promoting a more equitable distribution of income. In addition, Local Economic Development facilitates development of local infrastructure. Local Economic development is a regional development strategy that places emphasis on development of local competitive advantage.

VII. Improve innovation and level of technology and technical know-how among MSMEs; Innovation is essential for maintaining competitiveness of an enterprise and of its products/services. Most MSMEs however have limitations in this area and have no access to new innovative production processes. In additions, innovations among MSMEs are not well documented and protected. Further, MSMEs have limitations in accessing new technologies which can help improve product quality and productivity
V. CHALLENGES FACED BY MSMEs in ZAMBIA

The presentation has detailed a number of challenges being faced by the MSMEs in which include poor credit facilities which hinders Prospective entrepreneurs to easily access credit funding for their MSMEs and those that are available charge higher interest rates of about more than 30 percent, in addition to loan collateral which MSMEs may not have (Okezie, Ihugba, Alex Odii, Njoku, 2014, Obiajuru, 2012, Agency Reporter, 2012).

There is a lot of corruption which makes it hard to obtain trading permits, contracts, goods and services from government and there are lots of kickbacks and bribes involved in the industry and this makes it unattractive for MSMEs growth. In Zambia for example, government policies on MSMEs are inconsistent and they are formed without the involvement of MSMEs entrepreneurs and in most cases, they become unrealistic at the implementation stage. There is need to set consistent laws that are realistic with the prevailing business environment in the country.

Taxation in Zambia has been a major hindrance in the operations of MSMEs as in some cases there is multiple taxation and such taxes have an effect on increasing cost of conducting business and ultimately the traders have to pass on the charge to the consumer and this may make some goods and services unaffordable by an ordinary consumer as the country has over 100 types of taxes and levies by both the state and the local government.

The infrastructure for doing business in Zambia is bad in form of bad buildings, poor roads, erratic power supply among others all make cost of doing business to be high and if the right MSMEs policies are not made by the government, then it may not fully benefit from the essence of having MSMEs play a vital role in the social economic development of a country. There are a number of other challenges that MSMEs in Zambia face i.e. lack of proper environment that has business information readily available, little formal education possessed by some entrepreneurs, poor security to guarantee secure business environment (Arizona, 2009) etc. have made it difficult for MSMEs operations in Zambia. These challenges may not be peculiar to Zambia alone as these could be some of the challenges also in countries like, South Africa, and Zimbabwe among others. There is need for clear indication of the MSMEs sub sector standing in Zambia and strategies to smoothen the operations of the sub sector players for the benefit of the country.
The government of Zambia has to appreciate the essence of this sector and encourage local SMEs to invest in the sector and for them to learn from the big players in the sector in form of knowledge transfer. The government can give subsided micro loans to entrepreneurs willing to venture into the MSME sector industry. This is good for the state as the local industry expertise will be developed and this could also become its comparative advantage. Clearly investment in the MSMEs subsector creates a lot of employment opportunities in the economy with its associated advantages. The actual number of MSMEs in the country could not be easily ascertained as such data is not available at the central statistics office of Zambia and at Zambia development agency

**Legal and Policy Frame work**

Zambia recognized the need to diversify her economy and reduce over-dependency on mining exports. The preferred strategy was production of non-traditional export products and creation of Micro, Small and Medium Enterprises. This approach encouraged firms to produce for the domestic market, however, the capacity to grow and to export was still very limited.

Through an Act of Parliament, Government established the Small Industries Development Organisation (SIDO) to promote the Micro, Small and Medium Enterprise sector. SIDO was established to cater for financing needs of small-scale companies as defined in the SID Act. In 1996, SIDO was transformed into Small Enterprises Development Board (SEDB) through the 1996 Small Enterprise Development (SED) Act and, in 2006 it was amalgamated into the Zambia Development Agency (ZDA Act No. 11 of 2006) as an MSE Division.

It is anticipated that the challenges facing the MSME sector shall be resolved through strengthening of the capacity of MSME Division of the Zambia Development Agency, establishment of an independent National Council for Micro, Small and Medium Enterprise Development and the implementation of the provisions of the MSME Policy.

This Policy provides for the active support and participation of all key stakeholders in MSME development. The hallmark of the MSME Policy is partnership and an enabling environment.

An appropriate and facilitative regulatory framework is a prerequisite to the successful implementation of the MSME Policy. The Zambia Development Agency (ZDA) Act of 2006 is the main legal provision for development of the MSME sector in Zambia and is the principle legislation under which the MSME Development Policy should operate.
However, other pieces of legislation have a bearing on the successful implementation of the MSME Development Policy. These include:

- The Companies Act, Cap 388 which provides for legalisation of business operations in Zambia through registration of companies, trademarks, industrial designs and patents.
- The CEE Act of 2006 which provides for economic empowerment of citizens through the practice of enterprise and provision of the empowerment fund.
- The Banking and Financial Services Act, Cap 287 which regulates provision of banking and financial services.
- The Income Tax Act, Cap 323 which governs taxation of profits of limited companies and incomes of enterprises under the Business Name Registration set up.

There is therefore need to ensure that these laws are synchronized to ensure harmonized implementation of interventions and incentives provisions. The implementations of the various strategies of the MSME Development Policy may involve programmes which are beyond the mandate of the Ministry of Commerce Trade and Industry. In the event that certain legislation impedes effective implementation of the MSME Policy, the Ministry of Commerce Trade and Industry shall work proactively to remove any such impediments by collaborating closely with relevant Institutions to ensure that appropriate reforms are made to the legislation in question.
VI. CONCLUSION AND RECOMMENDATIONS

The government of Zambia has been instrumental in setting enabling business environment for SMEs to operate. It has set out initiatives through the small industries development organization (SIDO) which was renamed which later was known as small enterprise development board – SEDB (Kingombe, 2004; APF, 2014; ZDA, 2015). These initiatives and others are very instrumental in creating a good environment for SMEs and such should be encouraged and supported by the government. Over 90 percent of the SMEs operate in the informal sector according to the research findings. This is not healthy as planning for enterprises by the government becomes a challenge. Government can introduce a program that compels SMEs to register. The government can for instance introduce free registration with patents and companies’ registration agency (PACRA), tax holidays, tax exemptions for SMEs employing at least 3-5 employees etc. Such initiatives can become acceptable by the SMEs sub sector players. Considering the data on SMEs for the period 1993-2006, SMEs had created total employment of 214,527 in different SMEs. Agriculture sector provided 36.7 percent followed by manufacturing with 34.3 percent. Initiatives by the sector players to prop up SMEs in a country would develop the Zambian economy at a fast pace. It would be difficult to attain the growth of the sector without dedicated initiatives for providing micro finance facilities to entrepreneurs. Business startups do require seed capital and this can be provided through grants, personal savings and or loans.

The sector needs to be made attractive for the micro finance institutions; this could mean that government should allow MFIs operations to be governed by the forces of demand and supply in a market economy.
References


