



**COMPETITION AND CONSUMER PROTECTION COMMISSION**

**STUDY REPORT ON  
MSME's ACCESS TO MARKETS IN ZAMBIA**

**RESEARCH AND EDUCATION UNIT**

**December 2022**

## **TABLE OF CONTENTS**

|                                                                          |           |
|--------------------------------------------------------------------------|-----------|
| <b>ACKNOWLEDGEMENTS .....</b>                                            | <b>2</b>  |
| <b>ACRONYMS .....</b>                                                    | <b>3</b>  |
| <b>ABSTRACT.....</b>                                                     | <b>4</b>  |
| <b>CHAPTER 1 .....</b>                                                   | <b>5</b>  |
| <b>INTRODUCTION AND BACKGROUND .....</b>                                 | <b>5</b>  |
| <b>PROBLEM STATEMENT .....</b>                                           | <b>7</b>  |
| <b>RATIONALE.....</b>                                                    | <b>7</b>  |
| <b>OBJECTIVES .....</b>                                                  | <b>7</b>  |
| <b>SCOPE OF WORK .....</b>                                               | <b>8</b>  |
| <b>METHODOLOGY.....</b>                                                  | <b>8</b>  |
| <b>SAMPLING .....</b>                                                    | <b>9</b>  |
| <b>STUDY LIMITATIONS.....</b>                                            | <b>9</b>  |
| <b>CHAPTER 2: OVERVIEW OF MICRO, SMALL AND MEDIUM ENTERPRISES .....</b>  | <b>9</b>  |
| <b>CHALLENGES FACED BY MSMEs IN ZAMBIA.....</b>                          | <b>13</b> |
| <b>CHAPTER 3: PRESENTATION OF FINDINGS AND ANALYSIS .....</b>            | <b>16</b> |
| <b>Presentation of findings.....</b>                                     | <b>16</b> |
| <b>Firm level factors affecting access to markets .....</b>              | <b>22</b> |
| <b>Industry conduct and performance affecting access to markets.....</b> | <b>28</b> |
| <b>Regulatory and policies factors affecting access to markets.....</b>  | <b>35</b> |
| <b>CHAPTER 4.....</b>                                                    | <b>37</b> |
| <b>Analysis Of Findings.....</b>                                         | <b>37</b> |
| <b>Conclusion .....</b>                                                  | <b>42</b> |
| <b>Recommendations.....</b>                                              | <b>43</b> |
| <b>References.....</b>                                                   | <b>46</b> |

## **ACKNOWLEDGEMENTS**

This study on access to markets by MSMEs in Zambia was developed by the Competition and Consumer Protection Commission (the Commission). Overall appreciation goes to all the respondents that assisted the Commission in the process of data gathering and information support.

## **ACRONYMS**

|              |                                                      |
|--------------|------------------------------------------------------|
| <b>CCPC</b>  | Competition and Consumer Protection Commission       |
| <b>MSME</b>  | Micro Small and Medium Enterprises                   |
| <b>GDP</b>   | Gross Domestic Product                               |
| <b>ZRA</b>   | Zambia Revenue Authority                             |
| <b>WB</b>    | World Bank                                           |
| <b>PACRA</b> | Patents and Companies Registration Agency            |
| <b>ZDA</b>   | Zambia Development Agency                            |
| <b>MCTI</b>  | Ministry of Commerce Trade and Industry              |
| <b>UPND</b>  | United Party for National Development                |
| <b>MSMED</b> | Ministry of Small and Medium Enterprises Development |
| <b>ZIPAR</b> | Zambia Institute for Policy Analysis and Research    |
| <b>YDF</b>   | Youth Development Fund                               |

## **ABSTRACT**

*Micro, Small and Medium Enterprises are recognised as being an integral part of the economy. They are easier to set up and contribute significantly to employment creation and GDP growth. The Government of Zambia recognises this and has put in place intervention measures such as the introduction of the Micro, Small and Medium Enterprises Development Policy, the creation of the Ministry of Small and Medium Enterprises Development and the technical support to ensure their growth and sustainability by the Zambia Development Agency. Despite these interventions it appears MSMEs are not developing as they should over time and are not as competitive as they should be. A key aspect to the development of MSMEs is their ability to access markets i.e. formalisation and integration into the main economy. This study sought to understand what the MSME perspective is regarding their ability to access market sand sustain that access.*

## CHAPTER 1

### INTRODUCTION AND BACKGROUND

1. Globally, Micro, Small and Medium Enterprises (MSMEs) represent about 90% of businesses and provide more than 50% of employment; formal MSMEs contribute 40% towards the Gross Domestic Product (GDP) of emerging economies and the number is considerably higher when informal MSMEs are added<sup>1</sup>. MSMEs are very important economic players in developing countries as they contribute significantly to the total production, income and employment of a nation<sup>2</sup>.
2. Although MSMEs are integral to the economy, they are often beset by productivity and efficiency problems caused by factors such as limited access to finance<sup>3</sup>, human resources and limited technical and management knowledge<sup>4</sup>. Among these challenges, a critical factor is access to markets. Market access is one of the main constraints on MSME growth and development. The lack of market access for the goods and services offered by MSMEs makes it difficult for them to sell their products and to compete with big businesses that have good market linkages to off takers.

#### ***Government Policy***

3. To increase the capacity of MSMEs and integrate them into the main business streams, Government established the Ministry of Small and Medium Enterprise Development (SME), responsible for policy as well as the development, mentorship, and incubation of SMEs<sup>5</sup>. The Government intends to provide support to MSMEs and Cooperatives such as infrastructure development, access to markets and credit, products tailored for MSMEs and guarantee the borrowing of MSMEs through the Zambia Credit Guarantee Scheme<sup>6</sup>. Harnessing the competitiveness of MSMEs will require dealing with various issues such as the capacity of MSMEs to meet time, cost, quantity and quality requirements at any given moment, the capacity to link to customers, businesses and institutions and the capacity to make human, financial and innovation-driven investments to adapt to fast-changing markets.

#### ***Zambian MSMEs***

---

<sup>1</sup> <https://unctad.org/osgstatement/international-day-micro-small-and-medium-enterprises-msmes>

<sup>2</sup> Zambia Invest (2017), Zambia to Set Entrepreneurial Fund for SMEs.

<sup>3</sup> Harvie, C., S. Oum, & D. Narjoko. (2013). "Small and Medium Enterprises' Access to Finance: Evidence from Selected Asian Economies." *ERIA Discussion Paper*

<sup>4</sup> Asian Development Bank (ADB) (2015). *Integrating SMEs Into Global Value Chains: Challenges and Policy Actions in Asia*. Mandaluyong City: Asian Development Bank

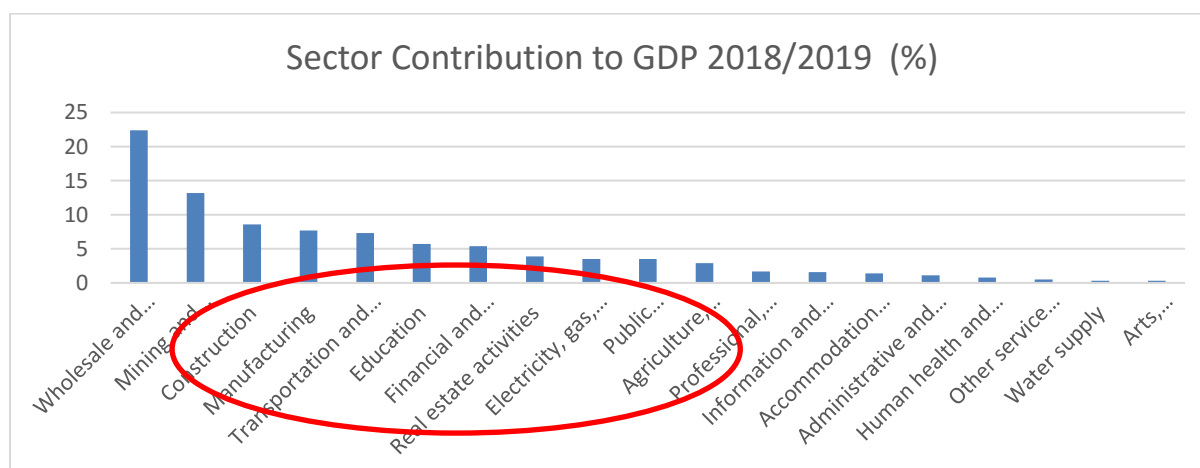
<sup>5</sup> <https://www.adb.org/sites/default/files/publication/182532/adbi-wp564.pdf>

<sup>6</sup> <https://www.lusakatimes.com/2021/11/05/ministry-of-small-and-medium-enterprises-in-stakeholder-support/>

4. MSMEs in Zambia play an important role in production, employment, and income generation. They represent 97% of all businesses in the country, 70% of gross domestic product (GDP) and 88% of employment. MSMEs also fill a key role in society, as they tend to employ a large share of the most vulnerable segments of the workforce. Raising the competitiveness of these enterprises would help reduce the youth unemployment rate and increase the number of women in employment.<sup>7</sup>
5. About 1.02 million informal MSMEs in Zambia, along with about 30,000 formal MSMEs are not registered with the Zambia Revenue Authority (ZRA) for tax purposes. A vast majority of these “businesses” are very small: only 15% of firms have revenues greater than 1 million Kwacha per month; less than 8% have revenues more than 2 million Kwacha. If one uses the 2-million-Kwacha threshold for taxation eligibility; only about 80,000 businesses would qualify for taxation. Majority of these businesses (70%) are farming operations; others are mostly in the retail sector<sup>8</sup>.

### **Sector Profile**

6. Zambia’s Gross Domestic Product (GDP) is dominated by 7 sectors collectively contributing slightly over 84% to GDP<sup>9</sup>. The largest contributors are the wholesale and retail, mining, construction, manufacturing, transportation, education, and financial services. The figure below provides a profile of the contributing sectors to GDP for the years 2018 and 2019.



7. The estimated number of MSMEs in Zambia is 1,050,000 with 97 percent operating as either micro or informally and accounting for 88 percent of the 4.1 million employed Zambians. Almost 93% of Zambian MSMEs are engaged in primary production (mainly agricultural) and trading activities, leaving a

<sup>7</sup> FSD Zambia, (2017). Access to Finance: SME perceptions of Financial Service Providers

<sup>8</sup> <https://www.theigc.org/wp-content/uploads/2012/06/Kedia-Shah-2012-Working-Paper.pdf>

<sup>9</sup> Quarterly Gross Domestic Product Estimates – 4<sup>th</sup> Quarter 2019-Zambia Statistics Agency

very small proportion in value-adding activities such as manufacturing and processing<sup>10</sup>. A large proportion of about 81 percent of the microenterprises are in rural areas with 70 percent involved in agriculture production. Collectively they account for 91 percent of employment creation in Zambia.

8. One of the enablers of the recent economic recovery has been the adoption of e-commerce. An increasing number of enterprises are now adopting the use of online facilities such as sales and marketing, payment processing and service delivery. These sectors and the digital transformation have opened opportunities for MSMEs to participate both in the real economy or as enablers in the digital space.

## **PROBLEM STATEMENT**

9. The Government and other stakeholders have introduced several strategies to assist MSMEs succeed particularly in accessing the markets. Such measures have included preferential treatment in procurement, reservation schemes, policy positions and access to loan facilities among others.
10. These efforts have been an attempt to link and provide MSMEs with access to essential infrastructure, facilities, and markets in order to integrate them into the main economy. Despite all the efforts by stakeholders, MSMEs formalization and integration into the main economy has been slow and only a few of them have gained reasonable market access. The majority remain superficially supported through laws and policies without corresponding enabling capacity to enter the mainstream economy and compete.

## **RATIONALE**

11. This study aimed to identify the competition issues that MSMEs encounter specifically from start up to take off. The study will interrogate the types, nature and sources of the competition concerns that affect the growth of MSMEs including policy and legal concerns.

## **OBJECTIVES**

12. The main objective of the study was to at understand factors that affected MSMEs' access to markets in Zambia. Specific interest was focused on understanding the sources, nature and types of competition, legal and regulatory factors that affected MSMEs access to markets particularly:
  - (i) Firm level factors that affected access to markets;

---

<sup>10</sup> International Trade Centre (ITC) Survey (2018)



- (ii) Industry conduct and performance that affected access to markets and
- (iii) Regulatory and policy factors that affected access to markets.

## **SCOPE OF WORK**

- 13. The study focused on the MSMEs which are in the major contributing sectors to Zambia's GDP. These sectors included wholesale and retail trade, mining, construction, manufacturing, transportation, education, and financial services. These sectors continued to provide high potential for MSME growth. Geographical scope – the study sampled MSMEs in all the ten (10) provinces of Zambia. Categorization of MSMEs was based on the definition as provided for under the Micro, Small and Medium Enterprises Development Policy of 2009. The nature of MSMEs – Effort was made to balance the sample between formal and informal MSMEs.

## **Legal Provisions and Contravention**

- 14. The Competition and Consumer Protection Commission ('the Commission') is mandated under Section 5 of the Competition and Consumer Protection Act No. 24 of 2010 (CCPA) to carry out various functions one being to undertake and publish general studies on the effectiveness of competition in individual sectors of the economy in Zambia and on matters of concern to consumers. Further, the CCPA mandates the Commission to act as a primary advocate for competition and effective consumer protection in Zambia.
- 15. This research is therefore in line with Section 5 of the Competition and Consumer Protection Act No. 24 of 2010.

## **METHODOLOGY**

- 16. The study utilised both primary and secondary data. Primary data was collected from MSMEs established between the years 2011 to 2021. Primary data from MSMEs was also collected using a combination of a structured questionnaire and interviews.
- 17. Stakeholders specifically, regulators, Government ministries and other government institutions that had a bearing on the incubation, development, and growth of MSMEs were engaged during the study process.
- 18. Several studies have been done on the Zambian MSMEs which provided useful background information to the study. These studies included those done by the World Bank Group (WBG) and the Government of Zambia which detailed and profiled the Zambian MSMEs.

## **SAMPLING**

19. A total of 500 questionnaires were administered to MSMEs operating in the selected sectors within Zambia using the simple random sampling approach. The data collected data was coded and analysed using Microsoft Excel. Respondents were drawn from ten (10) districts of Zambia that included Lusaka, Chipata, Solwezi, Mongu, Kabwe, Mansa, Kasama, Chinsali, Kitwe and Livingstone districts. Out of 500 administered questionnaires, 101 respondents completed and submitted the study questionnaire.

## **STUDY LIMITATIONS**

18. The major limitation for this study was the lack of responses from most of the MSMEs that were sampled to participate in the study with a 80 percent non-response rate. This was due in part to the unavailability of the business owners to respond to the questionnaires. However, to compensate for this, the study also used secondary data to draw inferences on the study.

## **CHAPTER 2: OVERVIEW OF MICRO, SMALL AND MEDIUM ENTERPRISES**

### **DEFINITION AND CLASSIFICATION OF MICRO SMALL AND MEDIUM ENTERPRISES (MSMES) IN ZAMBIA**

19. The study defined and classified Micro, Small and Medium enterprises based on a review of different pieces of legislation and policies.
20. *Micro enterprise* – is defined as any business enterprise whose amount of total investment, excluding land, and buildings and annual turnover does not exceed a numerical value prescribed by the President and which employs up to ten people<sup>11</sup>.
21. *Small enterprise* – is defined as any business enterprise whose amount of total investment, excluding land, and building and annual turnover does not exceed a numerical value prescribed by the President and which employs up to thirty persons<sup>12</sup>.
22. *Small private company* – as defined by the Companies Act No. 10 of 2017<sup>13</sup> is any business enterprise whose total investment, excluding land and buildings, annual turnover and the number of persons employed by the enterprise, does not exceed the prescribed numerical value.

---

<sup>11</sup> The Citizen Economic Empowerment Act No. 9 of 2006 - Microsoft Word - Citizens.doc (fao.org)

<sup>12</sup> Ibid

<sup>13</sup> The Companies Act No. 10 of 2017 - F:\Companies Act 2 2017.pmd (ilo.org)

23. *Small business enterprise* – as defined by the Zambia Development Agency Act No. 11 Of 2006<sup>14</sup> is any business enterprise whose total investment, excluding land and buildings, and annual turnover and the number of persons employed by the enterprise does not exceed the numerical value or number prescribed.

### **Classification of Micro, Small and Medium Enterprises<sup>15</sup>**

24. The Micro, Small and Medium Enterprise Development Policy of 2008 gives a comprehensive description of the classification of MSMEs in Zambia. According to the Policy, the MSMEs in Zambia are defined based on the following business variables:

- Total fixed Investments
- Sales Turnover
- Number of employees
- Legal status

25. Below are the policy based classifications of Micro, Small, and Medium Enterprises in Zambia.

#### ***Micro Enterprises***

26. A micro enterprise is any business enterprise registered with the Registrar of Companies:
- i). Whose total investment excluding land and buildings shall be up to K80,000;
  - ii). Whose annual turnover shall be up to K150,000;
  - iii). Employing up to ten (10) persons.

#### ***Small Enterprises***

27. A small enterprise is any business enterprise registered with the Registrar of Companies:
- i). Whose total investment, excluding land and building
    - In the case of manufacturing and processing enterprises, shall be between K80,000 – K200,000 in plant and machinery.
    - In the case of trading and service providing enterprises shall be up to K150,000.
  - ii). Whose annual turnover shall be between K150,000 – K300,000

---

<sup>14</sup> The Zambia Development Agency Act No. 11 Of 2006 - The Zambia Development Bill (fao.org)

<sup>15</sup> Micro, Small and Medium Enterprise Development Policy, (2008) - <https://www.boz.zm/Micro-Small-and-Medium-Enterprise-Development-Policy-2008.pdf>

iii). Employing between 11 – 50 persons.

### ***Medium Enterprises***

28. A medium enterprise is any business enterprise larger than a small enterprise registered with the Registrar of companies:

- i). Whose total investment, excluding land and building:
  - In the case of manufacturing and processing enterprises, shall be between K201,000 – K500,000 in plant and machinery,
  - In the case of trading and service providing shall be between K151,000 – K300,000.
- ii). Whose annual turnover shall be between K300,000 – K800,000.
- iii). Employing between 51 – 100 persons

29. To qualify as micro, small, or medium enterprise under the above-mentioned categories, the legal status and total investment criteria must be met together with at least one other criterion. Table 2 below summarizes the classifications of MSMEs in Zambia;

***Table 2: Classifications of MSMEs in Zambia***

| <b>Category</b>           | <b>Micro Enterprise</b> | <b>Small Enterprise</b> | <b>Medium Enterprise</b> |
|---------------------------|-------------------------|-------------------------|--------------------------|
| Total Investment (Assets) | K1 – K80,000            | K80,001 – K200,000      | K200,001 – K500,000      |
| Annual Sales Turnover     | K1 – K150,000           | K150,001 – K300,000     | K300,001 – K800,000      |
| Workers                   | 1 – 10 employees        | 11 – 50 employees       | 51 – 100 employees       |

### **Legislative and Regulatory Framework of MSMEs in Zambia**

30. There are several laws with supported regulations that border on the development of MSMEs in Zambia. Among them include:

- 1) ***The Zambia Development Agency Act No. 11 of 2006*** – The Zambia Development Agency (ZDA) Act of 2006 is the main legal provision for development of the MSME sector in Zambia and is the principal legislation under which the MSME Development Policy shall operate.
- 2) ***The Citizen Economic Empowerment Act No. 9 of 2006*** – provides for economic empowerment of citizens through the practice of enterprise and provision of the empowerment fund.

- 3) ***The Companies Act No. 10 of 2017*** – provides for legalization of business operations in Zambia through registration of companies, trademarks, industrial designs, and patents.
- 4) ***The Banking and Financial Services Act No. 7 of 2017*** – regulates provision of banking and financial services
- 5) ***The Income Tax Act, Cap 323*** – governs taxation of profits of limited companies and incomes of enterprises under the Business Name Registration set up.
- 6) ***Competition and Consumer Protection Act No. 24 of 2010*** – promotes a competitive business environment for all businesses and safeguards consumer welfare.

## **GOVERNMENT MEASURES TO PROMOTE THE DEVELOPMENT OF MSMEs IN ZAMBIA**

31. In order streamline efforts that promote the development of MSMEs in Zambia, the Government developed the Micro, Small and Medium Enterprise Development Policy in 2008. The MSME Development Policy gives guidance and direction on all activities and development strategies related to MSMEs.
32. The MSME Development Policy identified the Ministry of Commerce Trade and Industry (MCTI) as the lead government body that fosters matters relating to MSME development. In pursuance of the goal of the MSME Development Policy, MCTI has the ultimate responsibility of providing an enabling economic environment that is conducive for growth of the MSME sector by putting in place the requisite Institutional framework. The main role of MCTI is to develop relevant policies related to MSMEs development and to provide policy level direction on all matters related to MSME development.
33. Subsequent, to winning the General Elections and forming Government in August 2021, the United Party for National Development (UPND) Government created the Ministry of Small and Medium Enterprise Development (MSMED) to promote the development and growth of cooperatives, and Small and Medium Enterprises in a bid to create jobs and wealth across the country.
34. Primarily, the Zambia Development Agency (ZDA), a statutory body under the Ministry of Commerce, Trade, and Industry (MCTI) is responsible for promoting and facilitating the development and growth of local enterprises especially the Micro, Small and Medium Enterprises (MSMEs) in the country, to create wealth, employment and to accelerate industrialization and economic diversification.
35. The promotion of MSME development by ZDA to enhance competitiveness and business development is conducted through business clinics and product

development; MSME training, coaching, and mentoring through incubation and business acceleration; MSME access to markets through joint ventures (JVs), partnerships and chain store market linkages and MSME access to finance through bankable business plans, grants and proposal preparation.

36. In addition, the Citizens Economic Empowerment Commission (CEEC) a statutory body under the Ministry of Small and Medium Enterprises Development (MSMED) promotes broad based and equitable economic empowerment of citizens that are marginalized or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors such as race, sex, educational background, status and disability. The CEEC is therefore, a vehicle that Government uses to enable citizen's participation in key economic activities through the provision of affordable finance for businesses.

### **CHALLENGES FACED BY MSMEs IN ZAMBIA**

37. The current economic situation presents opportunities which if taken advantage of, can lead to a vibrant MSME sector. These opportunities include implementation of macroeconomic reforms by Government which have resulted in substantial reduction in inflation rates, a competitive private sector, liberalized trade policies and removal of foreign exchange restrictions. In addition, there are abundant natural resources which can be exploited through various value addition activities to give Zambia a competitive advantage.
38. However, despite Government efforts to promote MSME development through the various initiatives discussed above, MSMEs still face many business constraints and challenges which hinder growth and limit their ability to contribute effectively to national economic development. Some of the constraints and challenges faced by MSMEs as outlined in the MSMEs Development Policy include:
- Limited access to markets,
  - Limited access to appropriate technology, machinery, and equipment
  - Limited access to suitable business financing solutions
  - Inadequate business infrastructure such as roads and telecommunication facilities
39. In 2018, the Zambia Institute of Policy Analysis and Research (ZIPAR) undertook an evaluation of the Youth Development Fund (YDF) in all the ten (10) provinces of Zambia, involving youths (mostly MSMEs) who benefited from empowerment funds provided by the Government of the Republic of Zambia. The report indicated that the main challenges faced by the youths in

business were lack of finance to run and expand their businesses, permanent operating premises, appropriate business management skills and access to markets. Other challenges included lack of affordable sources for raw materials and transport.

40. According to the evaluation by ZIPAR, it was found that despite the call for MSMEs to formalize their operations, they are limited by burdensome business registration and licensing procedures. This manifests in the number of licenses that must be obtained from various Ministries and Government agencies, some of which are duplicated. Further, MSMEs are faced with other challenges such as inadequate infrastructure and energy, taxation problems, labour challenges among others which make it difficult for them to accomplish their full potential.

### **COMPETITION LAW AND MARKET ACCESS FOR MSMES**

41. Competition policy and law strives to achieve a level playing field for all businesses large and small with the goal of achieving consumer welfare. In Zambia, competition law has additional policy objectives that include enhancing economic efficiency, promoting economic development, expanding entrepreneurship, and specifically promoting and protecting MSMEs.
42. Competition law and policy ensures that markets function competitively and are conducive to business growth, including that of MSMEs, particularly when they are enforced by independent competition authorities. The achievement of a level playing field is an important factor in facilitating market access. However, market access for MSMEs into both domestic and international markets can be hampered by institutional and legal hurdles (such as particular registration or licensing requirements), specific industrial policies and by a lack of awareness, promotion and implementation of competition policies and laws<sup>16</sup>.
43. While many developed economies focus on considerations of efficiency in enforcing their competition regimes, competition authorities of developing countries such as Zambia have more flexibility to have regard for the challenges of facing small enterprises<sup>17</sup>. This could include ensuring that competition policy and law is inclusive of MSMEs.
44. There are three internationally recognized pillars of competition law that can play a role in helping MSMEs operate effectively in the marketplace<sup>18</sup>:

---

<sup>16</sup> UNCTAD, (2022). The COVID-19 pandemic impact on micro, small and medium sized enterprises: market access challenges and competition policy. United Nations - [https://unctad.org/system/files/official-document/ditcclp2021d3\\_en.pdf](https://unctad.org/system/files/official-document/ditcclp2021d3_en.pdf)

<sup>17</sup> Ibid

<sup>18</sup> Op cit.

- i). prohibitions against anti-competitive agreements (such as bid rigging in public procurement)
- ii). prohibitions against abuse of a dominant market position (such as strategic withholding of supplies); and
- iii). the prevention of market distortions created by anti-competitive mergers and acquisitions (such as those that lead to large entities with significant market power).

45. In developing countries, markets can be particularly vulnerable to anti-competitive and abusive practices arising naturally from local market structures and conditions. These typically include inadequate business infrastructure, regulatory constraints, pronounced information asymmetries in product and credit markets, and lack of public transparency. Together, these factors have a particularly large impact on MSMEs in both the formal and informal sectors<sup>19</sup>.
46. Visibility of market access issues for MSMEs can also be difficult in developing economies as significant economic activity remains informal. The informality makes regulation and monitoring difficult, while corruption weakens the enforcement of competition law.
47. Given the possible competition issues that exist and affect the development of MSMEs in Zambia as presented above, the study sought to investigate the competition concerns that could be hindering MSMEs from achieving their full growth potential both locally and internationally.

---

<sup>19</sup> International Labor Organization (2019) Small Matters: Global Evidence On The Contribution To Employment By The Self-Employed, Micro-Enterprises and SMEs, Geneva: ILO.

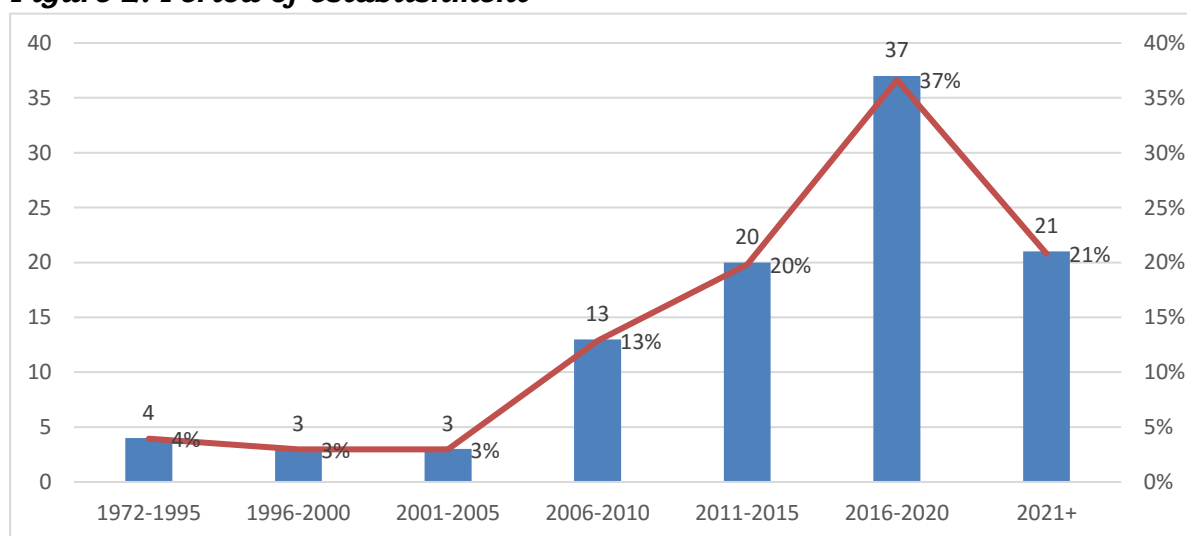


## CHAPTER 3: PRESENTATION OF FINDINGS AND ANALYSIS

### Presentation of findings

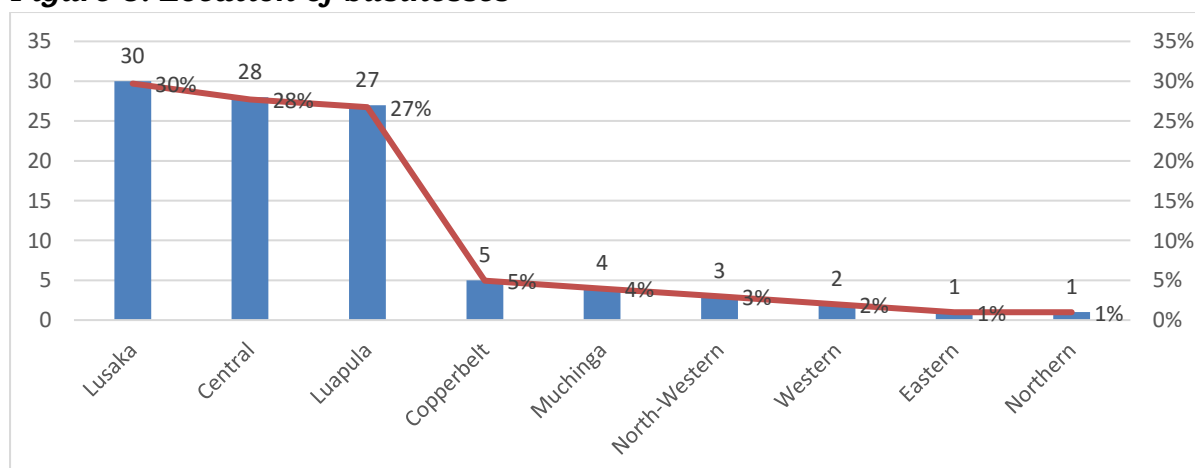
48. Based on figure 2 below, most of the businesses (91%) that were sampled in the study were established between the period 2006 – 2022. Specifically, a significant proportion of the businesses were established between the period 2016 – 2022 (37%), followed by the period 2021 going forward (21%), then the period 2011 – 2015 (20%) and finally 2006 – 2010. The remaining 9 percent of the businesses were established in the period 1972 – 2005.

**Figure 2: Period of establishment**



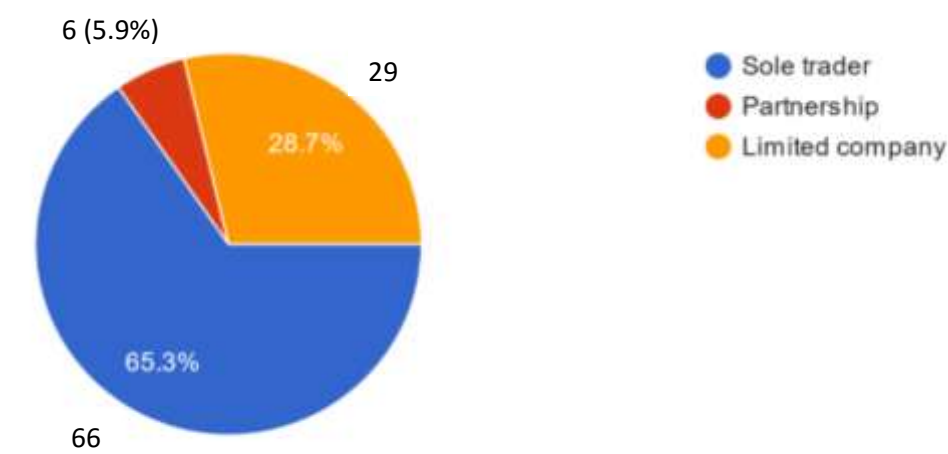
49. Most of the businesses (85%) that were sampled in the study were located in Lusaka (30%), Central (28%) and Luapula (27%) provinces. The remaining 15 percent of the businesses are in Copperbelt, Muchinga, North-Western, Western, Eastern and Northern provinces respectively (See figure 3 below).

**Figure 3: Location of businesses**



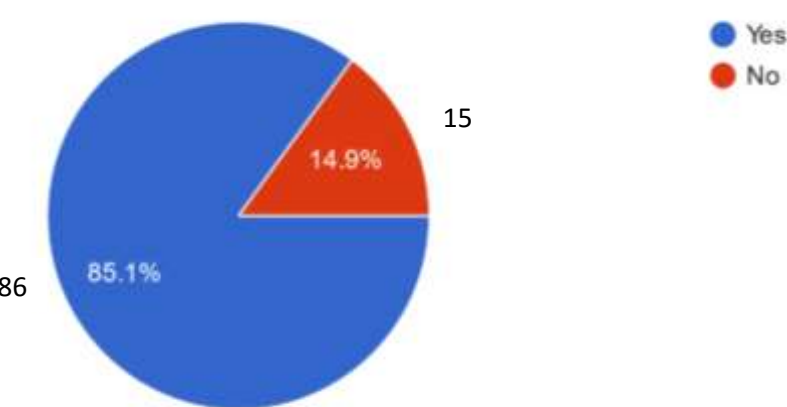
50. The study categorized the sampled businesses into three types of business establishments that included sole trader, partnership, and limited company. Based on figure 4 below, most businesses (66, 65.3%) operate as sole trader businesses, followed by limited companies (29, 28.7%) and the least being partnerships (6, 6%).

**Figure 4: Type of business establishment**



51. The study sought to establish whether the sampled businesses were operating formally or informally. Most of the businesses (86, 85.1%) as presented in figure 5 below, submitted that they were registered and operating formally while the remaining businesses (15, 14.9%) were not registered and were operating informally.

**Figure 5: State of business registration**

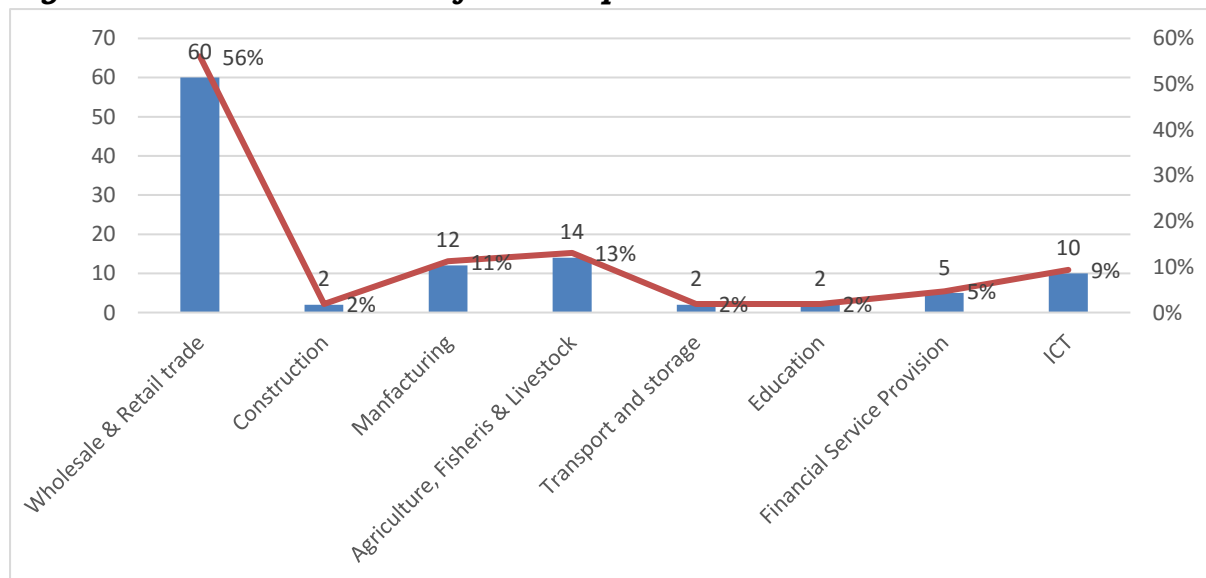


52. The few businesses (15, 14.9%) that were not registered as presented in figure 5 above, gave the following reasons as to why they were not formalized:

- 1) Still undergoing registration process
- 2) Registration costs are high
- 3) Lack of information from PACRA

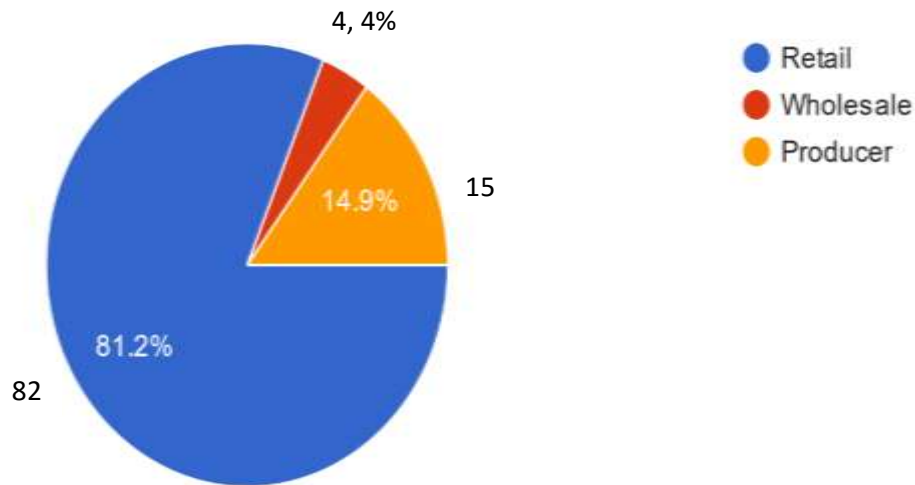
53. The study categorized the businesses into eight (8) economic sectors based on their trade. According to figure 6 below, most of the sampled businesses (89%) were concentrated in four (4) economic sectors of which most of the businesses were engaged in wholesale and retail trade (60, 56%), followed by agriculture, Fishers and livestock (14, 13%), then manufacturing (12, 11%) and finally ICT (10, 9%). The remaining businesses (11, 11%) were operating in the financial services, construction, transport and storage and education sectors respectively.

**Figure 6: Economic sectors of the sampled businesses**



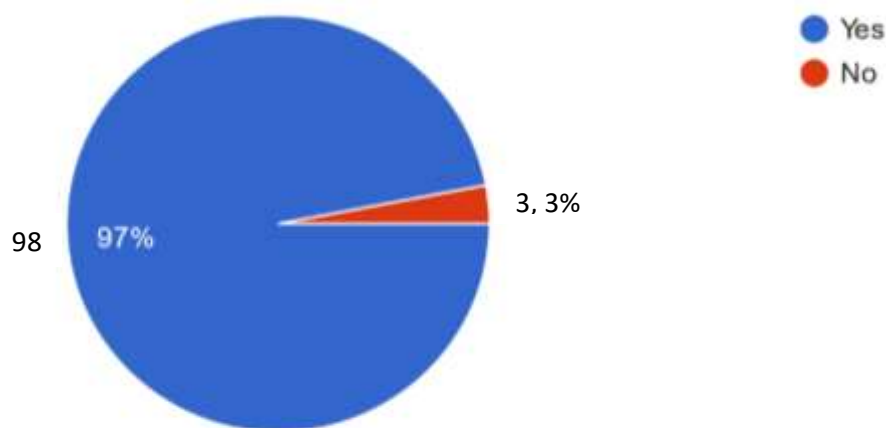
54. As seen in figure 7 below, the study sought to establish the market level in which the sampled businesses operated. Most businesses (82, 81.2%) indicated that they operate at retail level, followed by producer level (15, 14.9%) and the least being wholesale level (4, 3.9%) respectively.

**Figure 7: Market level of sampled businesses**



55. As presented in figure 8 below, the study sought to establish whether the sampled businesses were presently operational or not. Most of the businesses (97%, 98 businesses) submitted that they were operational while only 3 percent (3 businesses) indicated that they were no longer operational as at the time the study was being conducted.

**Figure 8: State of business operation**

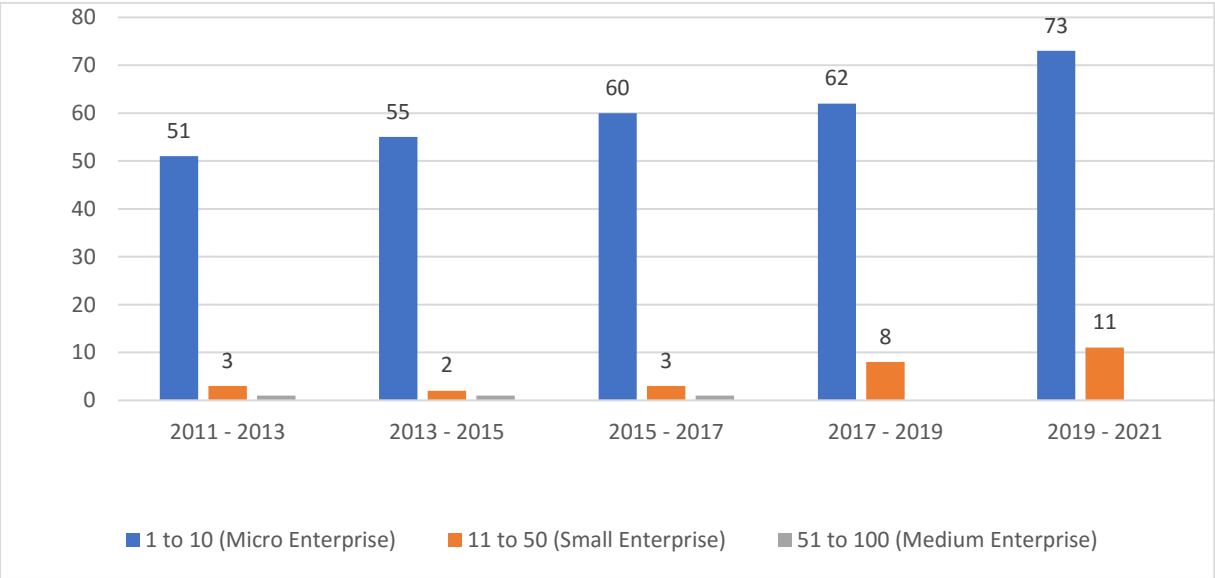


56. The few businesses (3%) that were not operational as presented in figure 8 above, gave the following reasons as to why they were not operational:

- 1) Business was closed during the Covid-19 Pandemic
- 2) Business still under establishment

57. The study sought to assess the number of employees the sampled businesses have had through the period 2011 – 2021. Based on figure 9 below, it was observed that the vast majority of businesses maintained between 1 – 10 employees during the entire period under review (2011 – 2021). It was observed that while there was a gradual increase in the number of enterprises with employees between 1 – 10 during the period under review, the number of enterprises with employees between 11 to 50 had nearly tripled in the same period of time. It was further observed that in the period 2011 – 2017, some businesses had between 51 – 100 employees, however, there was a reduction in the number of employees for the subsequent period 2017 – 2021 as no business had several employees above 50.

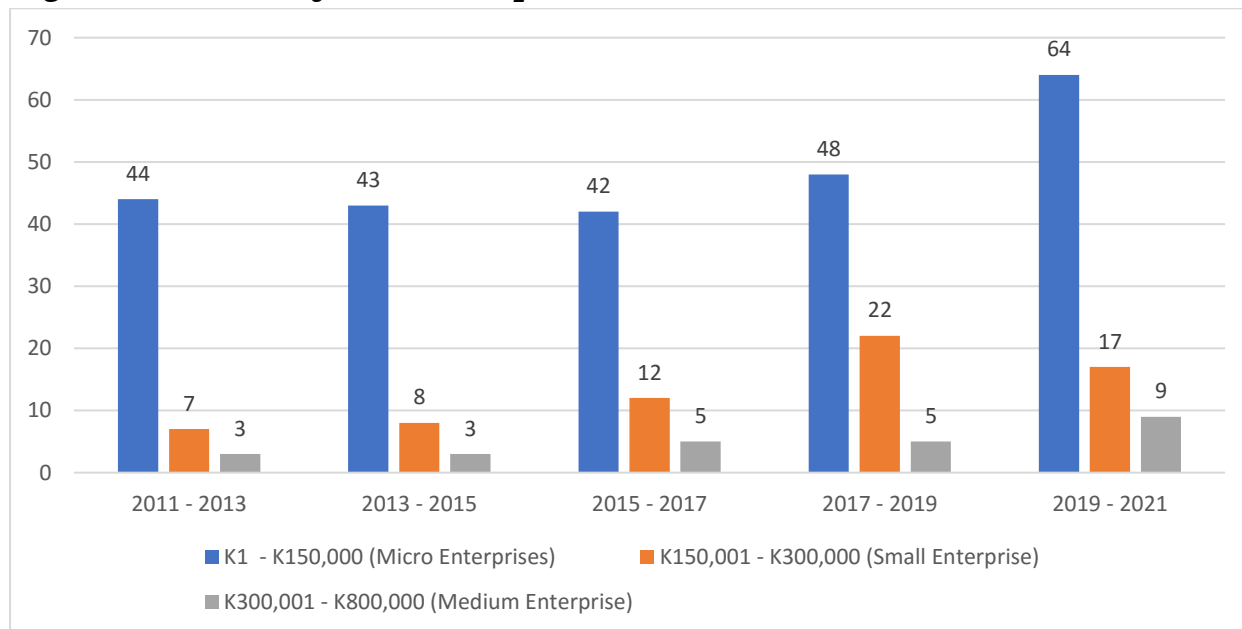
**Figure 9: Number of employees**



58. The study sought to assess the performance of the businesses based on their annual turnover for the entire period under review (2011 – 2021). Based on figure 10 below, it was observed that most businesses maintained an annual turnover of below K150,000 during the period 2011 – 2021. However, it was also observed that over the period under consideration the number of

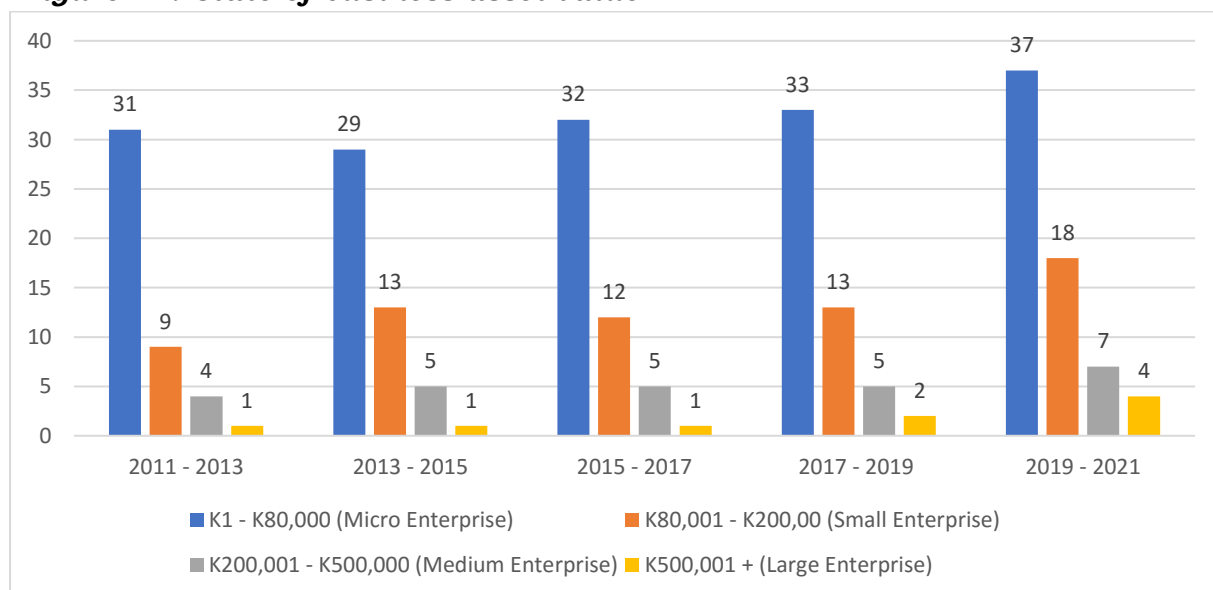
enterprises with an annual turnover between K150,000 and 300,000 more than doubled while the number of businesses with an annual turnover below 150,000 gradually increased as did the number of enterprises with an annual turnover between K300,001 and K800,000.

**Figure 10: State of business operation**



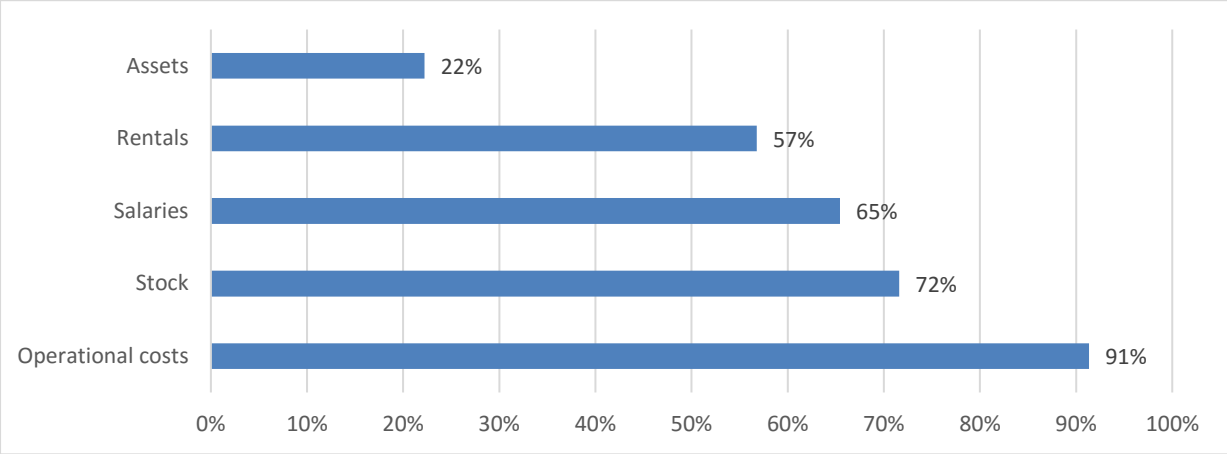
59. The study sought to assess the value of assets the businesses had for the period 2011 – 2021. Based on figure 11 below, it was observed that majority of the businesses maintained an equipment/asset value of below K80,000 during the period 2011 – 2021. It was also observed that a number of businesses at each asset value level had gradually increased during the period under review which indicated an increase in the value of assets available to the businesses.

**Figure 11: State of business asset value**



60. The study sought to assess the five (5) main cost functions of the businesses that took part in the study. Eighty-one (81) businesses presented their top five cost variables. From the statistics presented in figure 12 below, it was observed that most businesses (91%) indicated operational costs as being the most prevalent variable for their business. This was followed by stock (72%), then salaries (65%), rentals (57%) and the least variable being assets (22%) respectively.

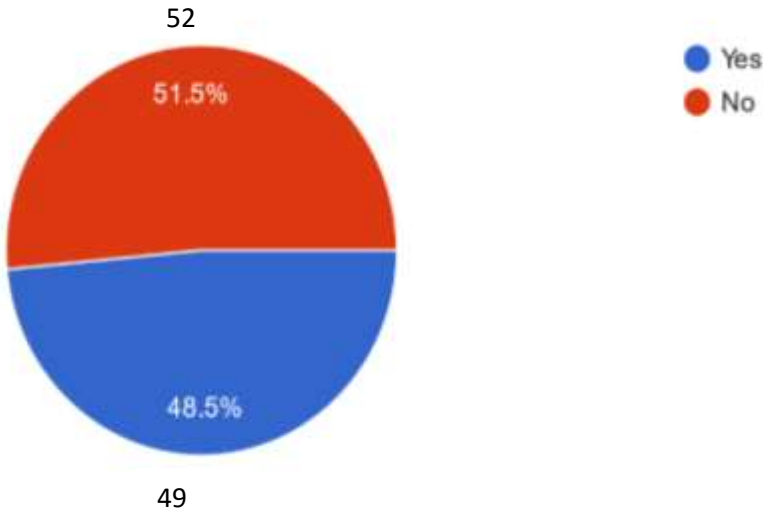
**Figure 12: Cost function of business**



**Firm level factors affecting access to markets**

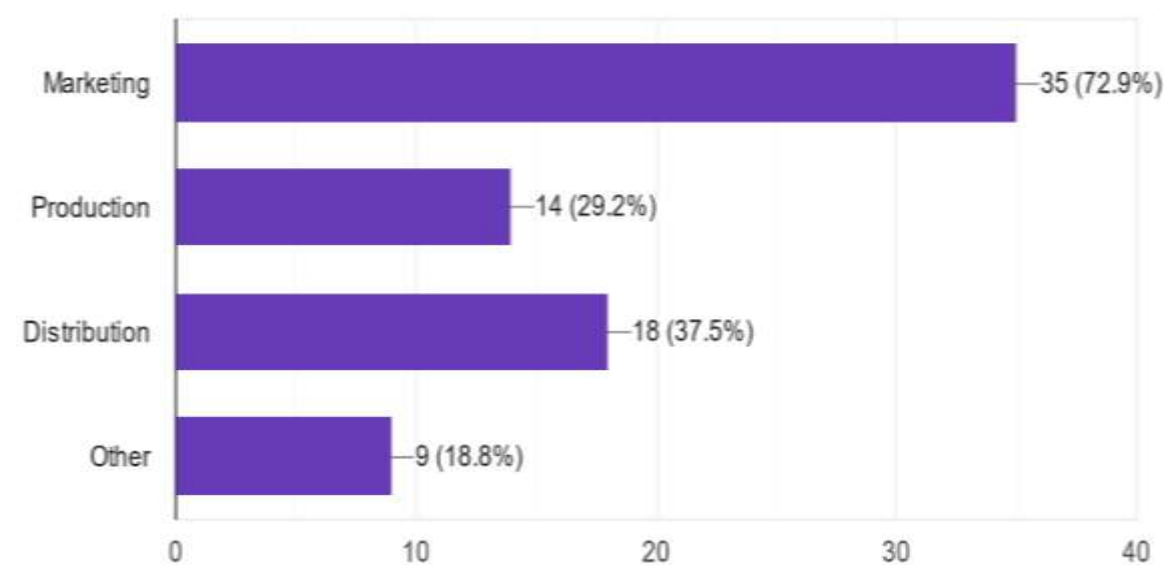
61. Slightly above 50% (52 businesses) indicated that they had changed some aspect on how they conducted their businesses as shown in figure 13 below. On the other end, 49 businesses (48.5%) indicated not having changed any aspect of their operations since inception.

**Figure 13: Changes in operation**



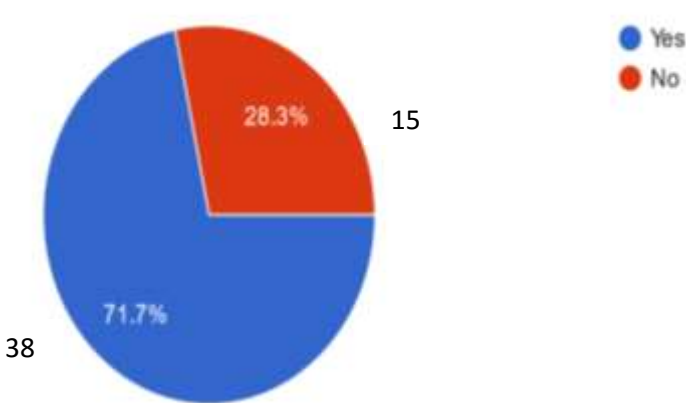
62. The 52 businesses that had indicated having changed some aspects of their operations over the years were required to state their specific area of change. The areas of operational changes as provided by the study included marketing, production, distribution and other forms of change. Based on the responses shown in figure 14 below, it was observed that most business made changes to their marketing strategy 35, (72.9%), followed by the distribution strategy (18, 37.5%), production methods (14, 29.2%) and other measures (9, 18.8%) respectively.

**Figure 14: Areas of operation changed**



63. The majority of the business (38, 71%) that submitted having changed some aspect of their operations indicated having obtained a competitive edge within their industry. However, 28.3 percent (15 businesses) submitted that they did not attain any competitive edge from their innovations as shown in figure 15 below.

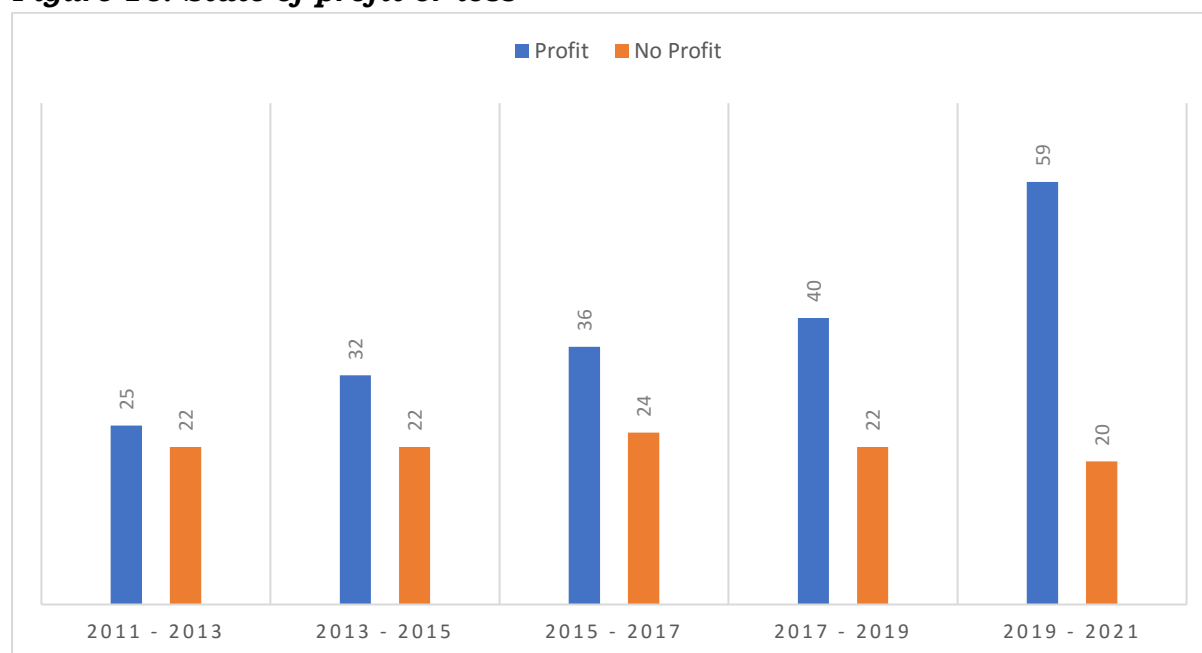
**Figure 15: Benefit of Changes in operations**





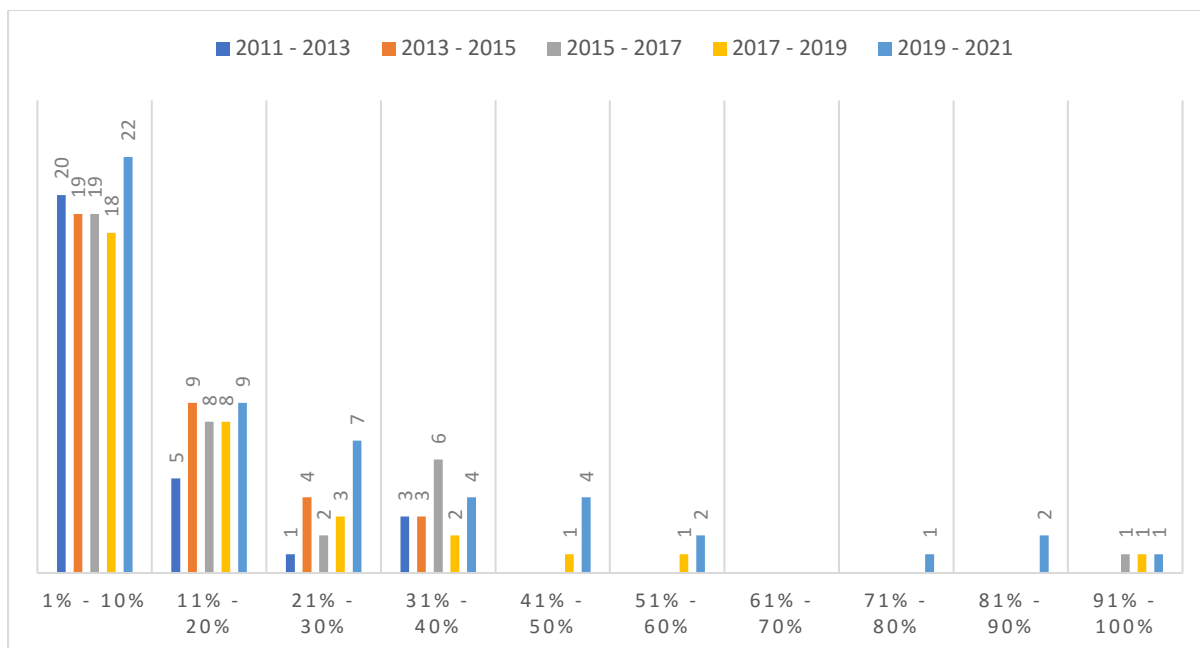
64. The businesses that were sampled were requested to submit the time periods in which they recorded a profit or loss over a 10-year period from 2011 to 2021 as shown in figure 16 below. Observations showed that there was generally a linear growth in profits recorded over time from 2011 to 2021. On the other end, it was observed that there was a minimal change recorded in losses over the same period. A steady rise was observed in the number of businesses that had recorded a profit over the period under consideration while a negligible decline was observed in the number of businesses that had recorded losses over the same period.

**Figure 16: State of profit or loss**



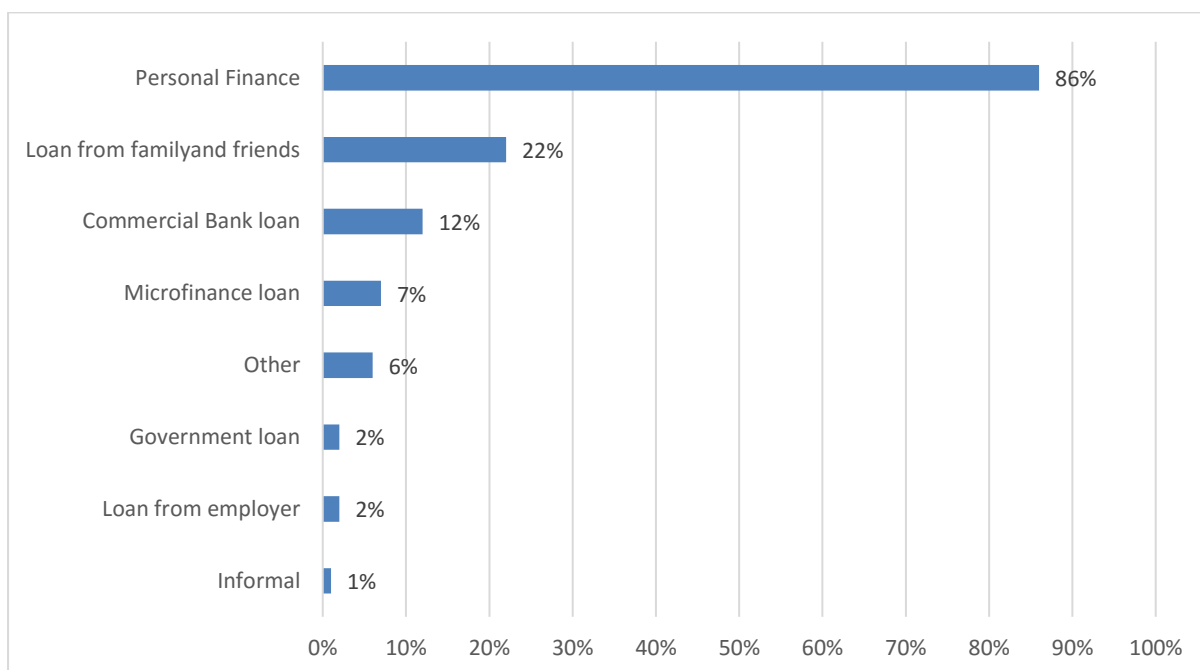
65. The sampled businesses were requested to state the period in which they made profits and the estimated profit margins. Over the ten-year period under review, it was observed that majority of the businesses had profit margins ranging between 1 – 10 percent, followed by 11 – 20 percent, then 21 – 30 percent and 31 – 40 percent respectively. Therefore, it was generally observed that businesses made on average between 1 to 40 percent profit over the review period. It was further observed that businesses recorded more profit margins of up to 100 percent for the periods 2015 – 2017, 2017 – 2019 and 2019 – 2021 respectively (See figure 17 below).

**Figure 17: Profit Margins**



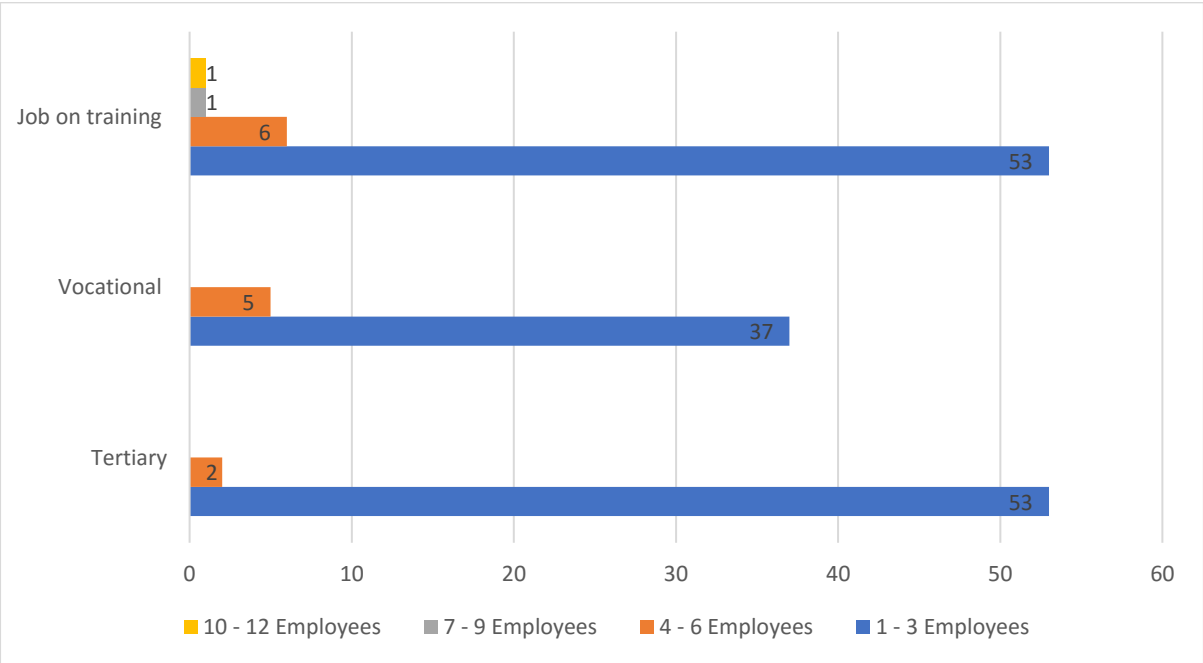
66. To get a better understanding of the sources of finance for business operations, the respondents were requested to state their sources of capital (See figure 18 below). Based on the responses, it was observed that the majority of the respondents (86%) used their own personal funds to finance their businesses; followed by sourcing funds from family and friends (22%); thirdly, funds were sourced from the commercial banks (12%); then microfinance companies (7%); other sources (6%); Government loans (2%), employer loans (2%) and informal sources (1%) respectively.

**Figure 18: Source of Capital**



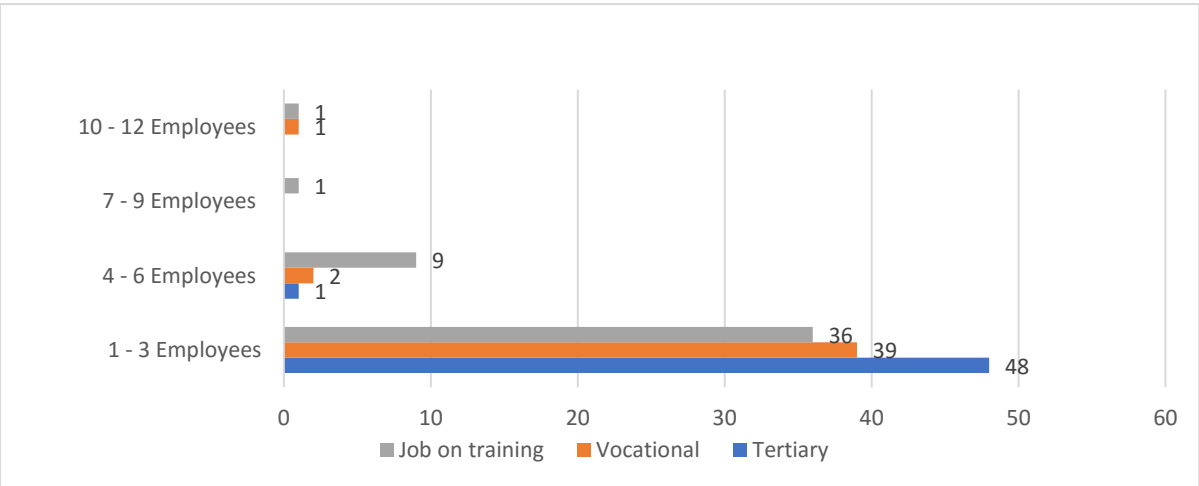
67. The sampled businesses were requested to state the level of qualification and or training that their Management staff had. It was observed that there were just as many businesses that had 1 to 3 Management employees with a tertiary training as those that had Management employees that only had experience. The number of businesses that had 4 or more Management employees with some training or qualification were significantly less. See figure 19 below.

**Figure 19: Level of training/qualifications of management employees**



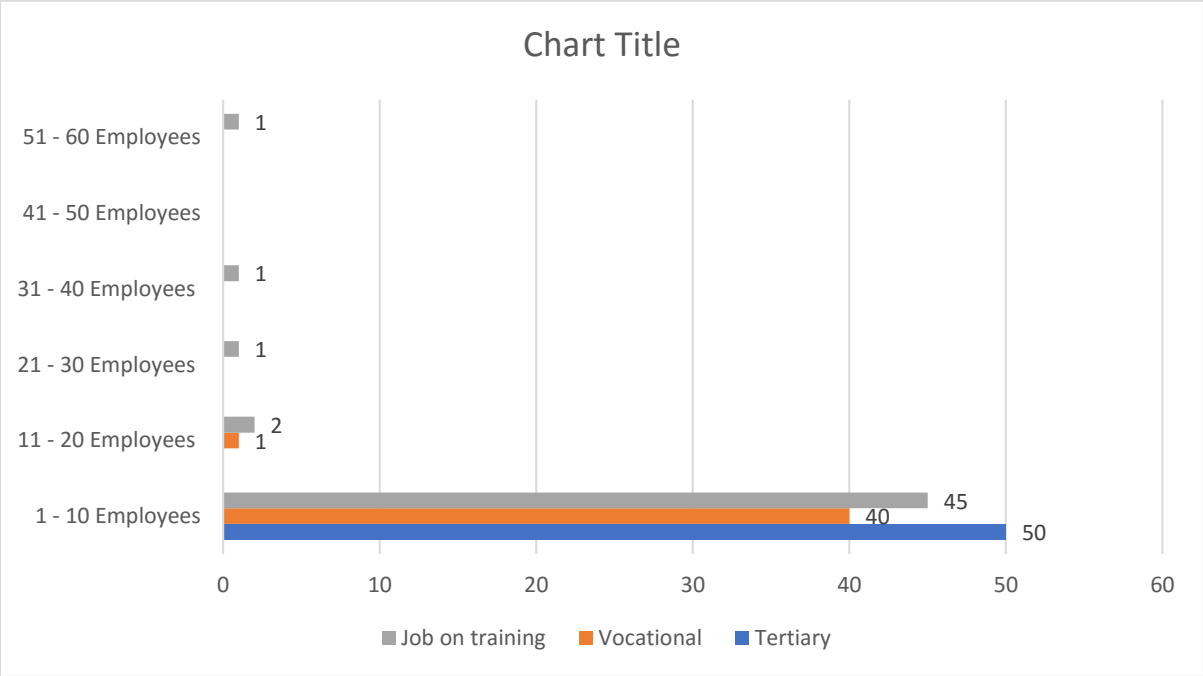
68. The sampled businesses were requested to state the number of technical staff that were qualified in their disciplines. It was observed that most businesses had 3 or less qualified technical staff. It was also observed that very few had 4 to 6 qualified technical staff and even less that had 7 to 9 and 10 to 12 qualified technical staff. See figure 20 below.

**Figure 20: Level of training/qualifications of technical staff**



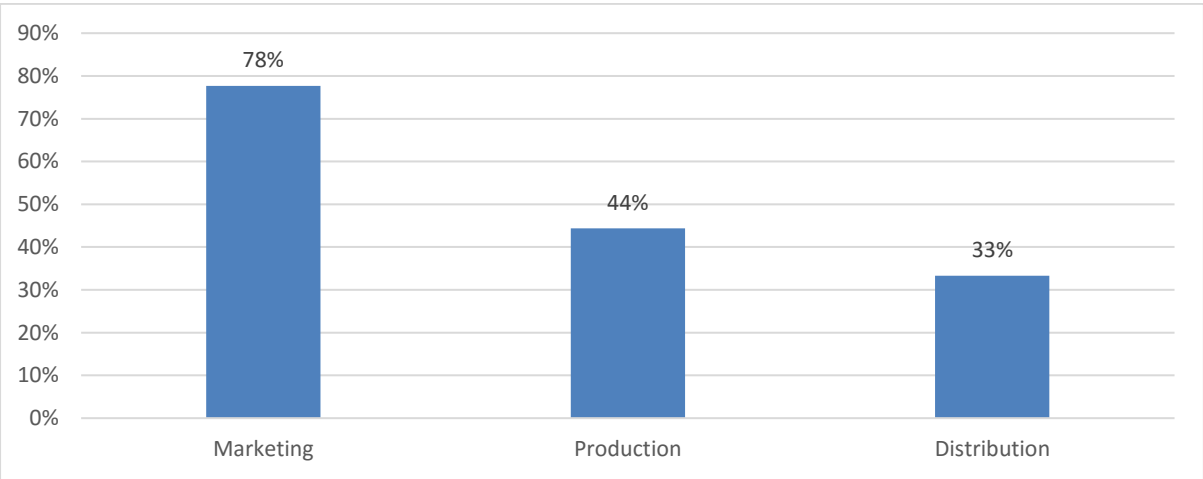
69. The sampled businesses were requested to state the number of administrative staff that are qualified in their disciplines. It was observed that most businesses had 1 to 10 qualified administrative staff. It was also observed that very few had 11 to 12 qualified technical staff. See figure 21 below.

**Figure 21: Level of training/qualifications of administrative staff**



70. Respondents were required to state the benefits that their businesses obtained by virtue of their employees having some form of qualification. The study observed as shown in figure 22 below that most businesses benefited more on the marketing side (78%) because of their employee’s qualifications. This was followed by the distribution benefits (44%) and production benefits (33%) respectively.

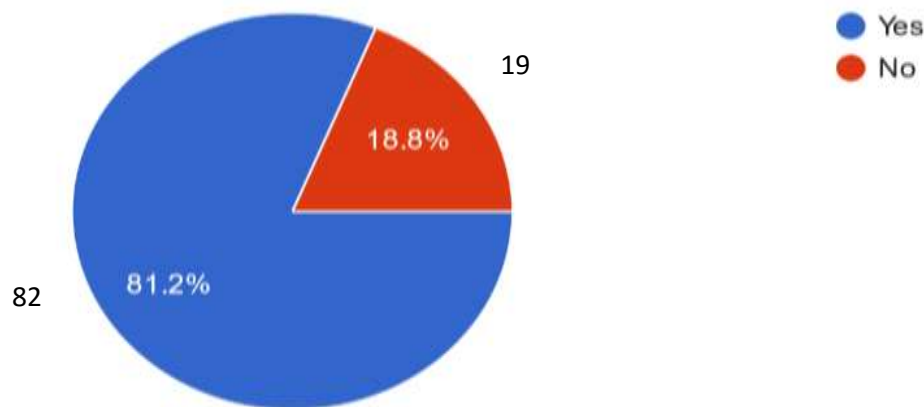
**Figure 22: Benefits of qualified staff**



## Industry conduct and performance affecting access to markets

71. The sampled businesses were requested to indicate who sets their prices. Most business (82, 81.2%) submitted that they set their own selling prices while 18.8% of them (19 businesses) submitted that they do not set their own prices (See figure 23 below).

**Figure 23: Price setting**

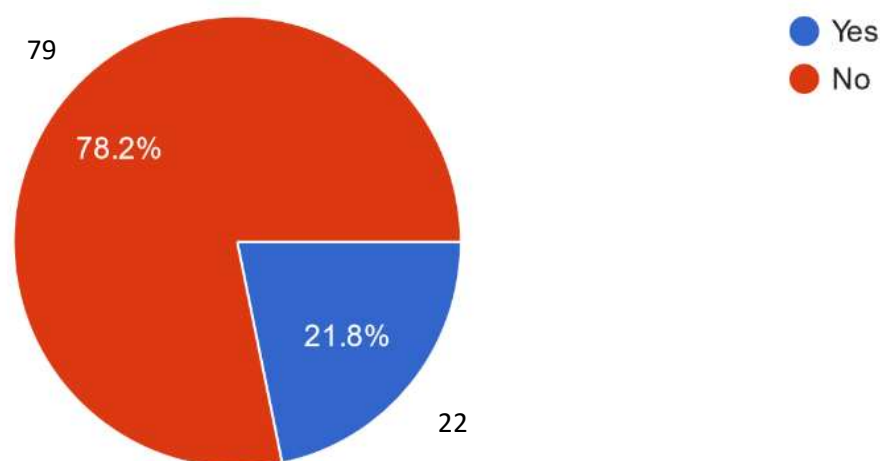


72. The nineteen (19) businesses that submitted that they did not set their own prices indicated that their selling prices are set by the following:

|   | PRICE DETERMINANT | NUMBER OF BUSINESSES | PERCENT |
|---|-------------------|----------------------|---------|
| 1 | Industry          | 7                    | 36.8%   |
| 2 | Suppliers         | 4                    | 21.1%   |
| 3 | Regulators        | 1                    | 2%      |

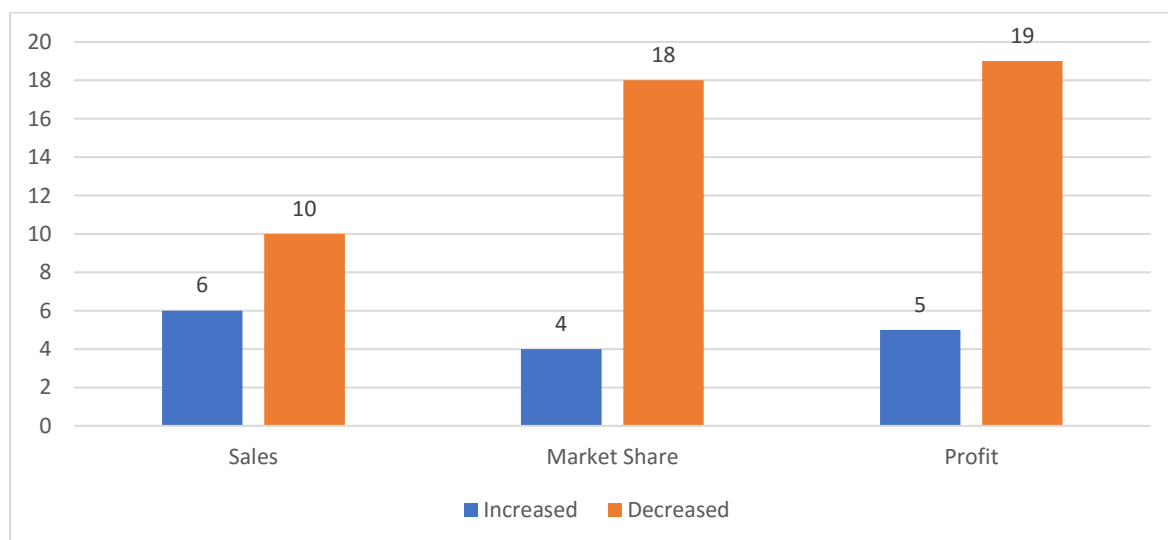
73. According to the responses presented in figure 24 below 78.2 percent of the respondents (79 businesses) submitted that they had no restrictions that prevented them from selling in certain areas across the country. On the other hand, 21.8 percent of the respondents (22 businesses) submitted that they faced some restrictions that prevented them from selling their goods and services in some parts of the country.

**Figure 24: Geographical restrictions**



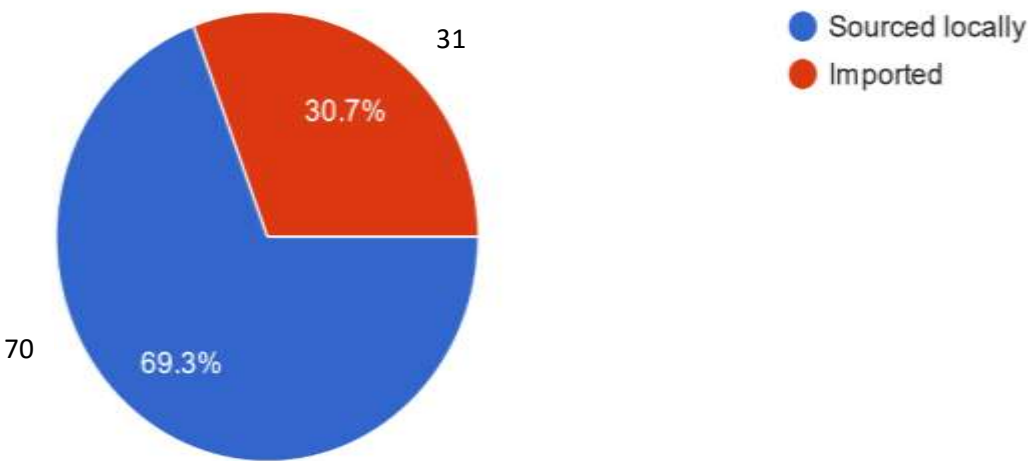
74. The main restricting reasons that prevented business from selling their goods and services in other geographical areas include the following (order is from most restrictive to least restrictive):
- 1) Inadequate capacity to supply
  - 2) High competition
  - 3) High transportation costs
75. Based on the geographical restrictions stated above, most of the respondents submitted that this had a negative ripple effect on the sales, market share and profits of about 20 percent as shown in figure 25 below. However, some respondents submitted that the restrictions had some positive effect on their sales, market share and profits of between 1 – 5 percent.

**Figure 25: Effects of Geographical restrictions**



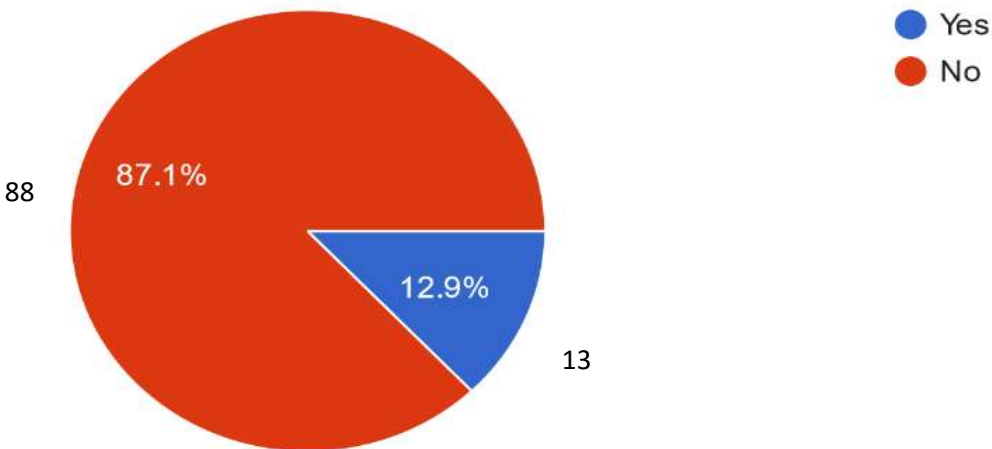
76. Most respondents (70, 69.3%) submitted that they source their raw materials used in production locally. On the other hand, 30.7 percent of the respondents (31 businesses) indicated that they imported their raw materials used in the production line (See figure 26 below)

**Figure 26: Source of raw materials**



77. The study sought to enquire whether businesses faced any supply challenges in procuring raw materials for production. According to the figure 27 below, it was observed that 87.1 percent of the respondents (88 businesses) did not face any challenges when purchasing raw materials. However, 12.9 percent of the respondents (13 businesses) submitted that they were faced with some challenges when buying raw materials (See figure 27 below).

**Figure 27: Challenges faced in procurement of raw materials**



78. The main restricting factors that prevent businesses from purchasing raw materials as indicated in figure 27 above include the following (order is from most restrictive to least restrictive):
- 1) Regulatory restrictions
  - 2) Supplier restrictions
  - 3) High transportation costs
  - 4) Inadequate capacity to purchase raw materials
79. The restriction on the purchase of raw materials by some businesses negatively affected their sales, market share, profits and margins as can be seen in figure 28 below.

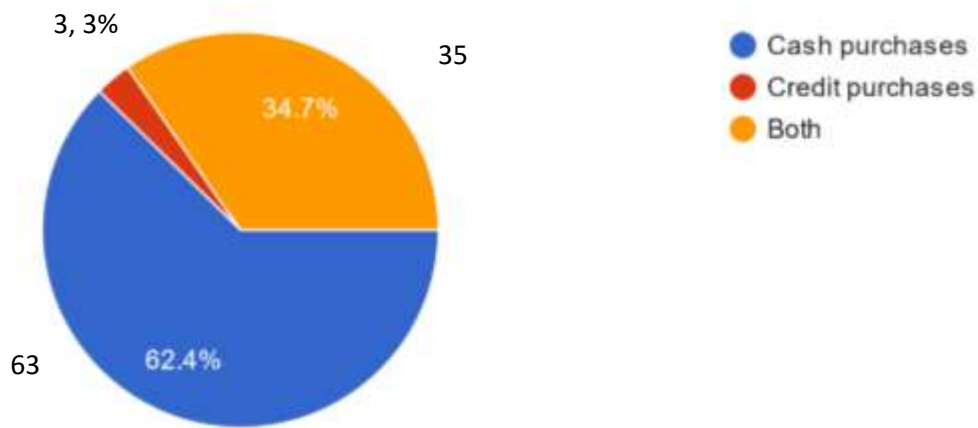
**Figure 28: Effects of restrictions raw materials procurement**



80. Most respondents (63, 62.4%) indicated that they purchase their stock with cash payments while about a third (35, 34.7%) of the businesses submitted that they purchase their stock on credit. However, a small number of business (3, 3%) indicated that they purchase their stock both with cash and credit (see figure 29 below).

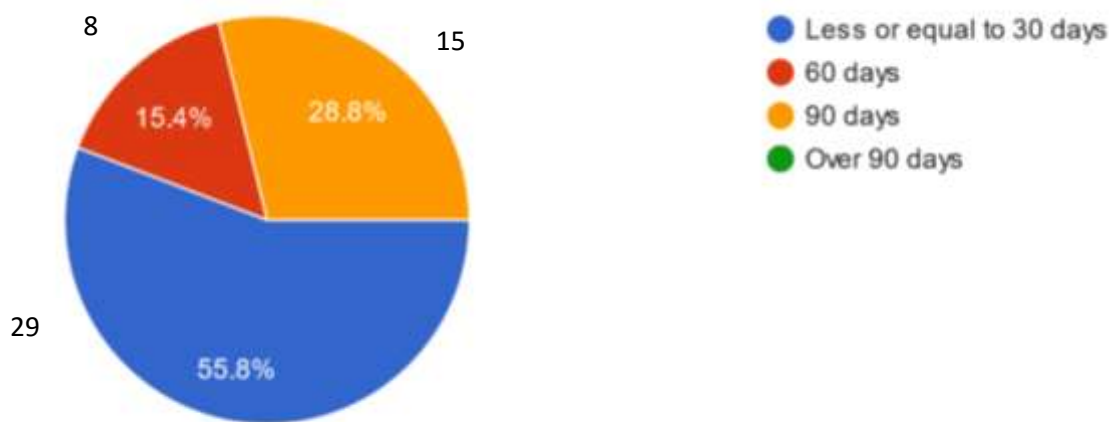
**Figure 29: Type of payment for stock purchases**





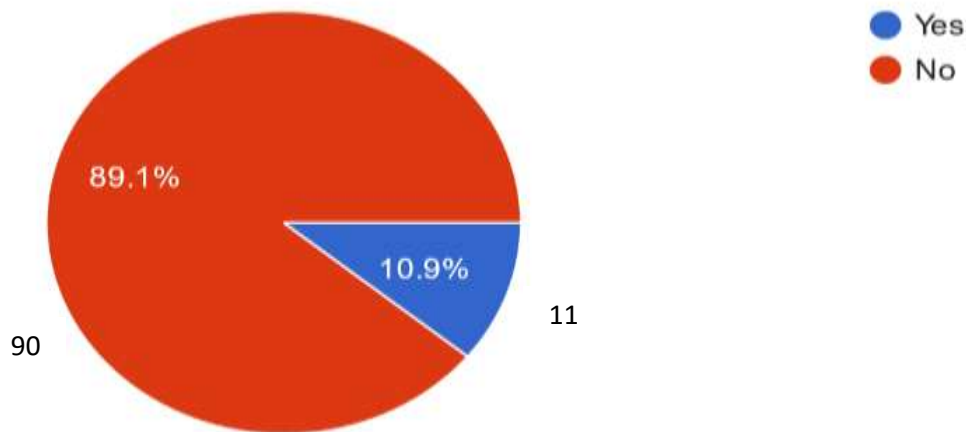
81. As can be seen in figure 30 below, most businesses (29, 55.8%) that indicated that they purchase their stock on credit stated that they were required to clear their payment with 30 days. About a third of the business (15, 28.8%) submitted that they are given up to 90 days to clear their payment while a few businesses (8, 15.4%) are given a period of over 90 days to clear their payment.

**Figure 30: Time to clear credit payments**



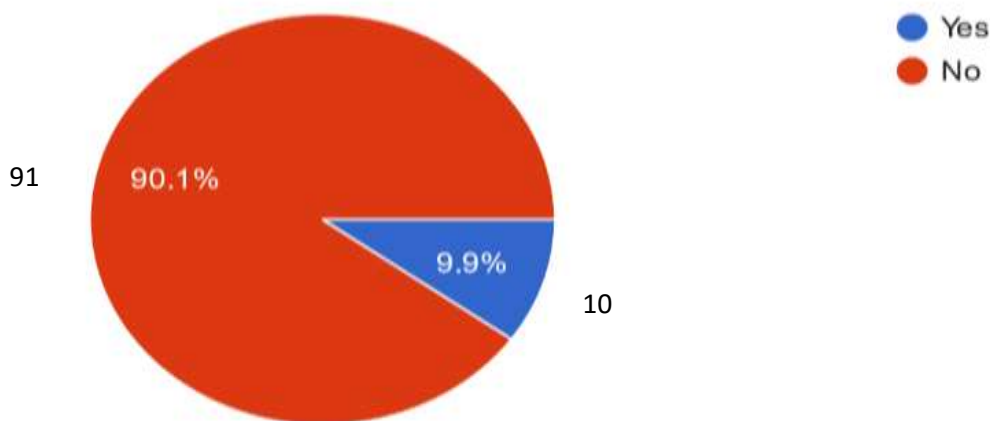
82. The study sought to investigate whether businesses operating at the same market level received similar or dissimilar condition from their suppliers when purchasing stock or raw materials. Based on the responses shown in figure 31 below, most of the businesses (90, 89.1%) indicated that they received similar conditions of purchases with other competing businesses while a few businesses (11, 10.9%) did not receive similar conditions of purchase from their suppliers.

**Figure 31: Conditions from suppliers**



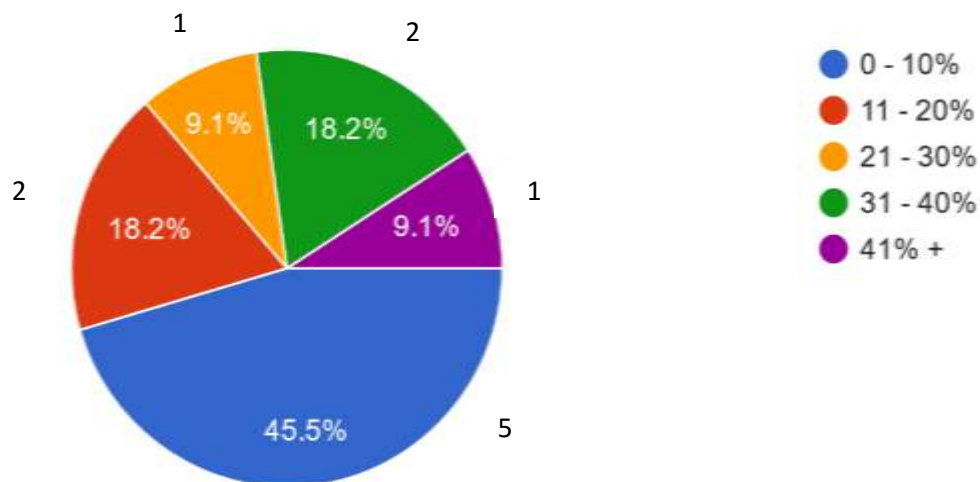
83. The study further sought to investigate whether MSMEs faced any tying and bundling incidences when procuring goods from their suppliers. Based on the responses presented in figure 32 below, most businesses (91, 90.1%) submitted that they did encounter such incidences when purchasing goods from their suppliers. However, a few businesses (10, 9.9%) indicated that they faced incidence where they were required to purchase other products/services as a condition to purchasing the products they wanted.

**Figure 32: Tying and bundling**



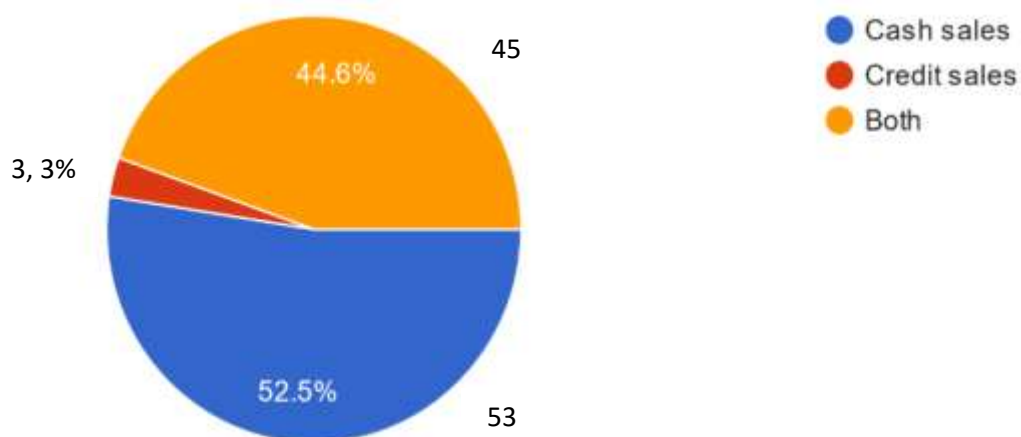
84. The ten (10) businesses (9.9%) that submitted that they faced incidence of tying and bundling were asked to estimate the percentage cost of the tying product as compared to the product they sought to purchase. Based on their responses, it was observed that in most incidences (5, 45.5%), the cost was between 0 – 10%, followed by two equal representations (2, 18.2%) of those businesses whose tying product was between 11 – 20% and 31 – 40%. Finally, two equal representations of businesses (1, 9.1%) purchased a tying product whose cost was 21 – 30% and above 40% respectively. See figure 33 below.

**Figure 33: Percentage cost of the tying product**



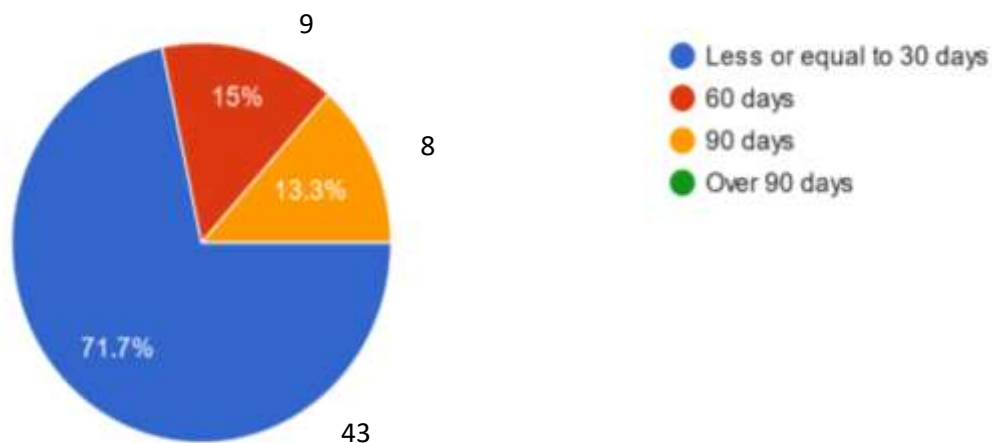
85. The study also sought to know the type of sale that the businesses were engaged in categorized as either cash sales, credit sales or both. Slightly above half of the businesses (53, 52.5%) submitted that they sold their products on cash basis to their clients while 44.6 percent of them (45 businesses) indicated that they sold their products on credit. Only three businesses indicated that they had a provision for both cash or credit payments.

**Figure 34: Type of sales**



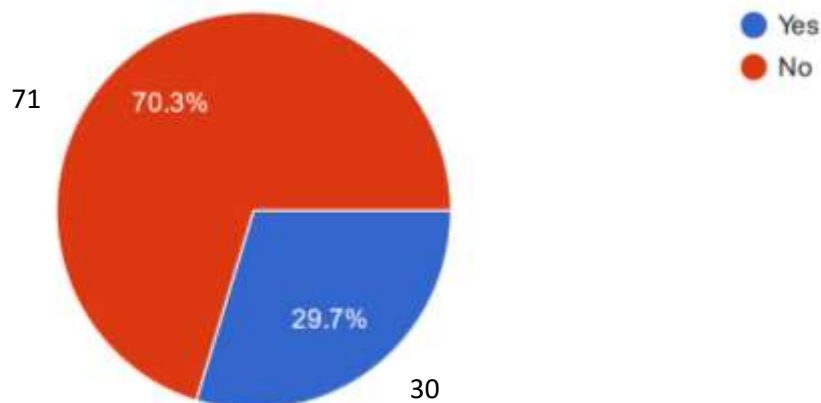
86. Businesses that offer credit sales were required to state the period they serve to their client before payment was due (See figure 35). Most businesses (43, 71.7%) submitted that they gave their clients up to 30 days; followed by those businesses (9, 15%) that give their clients a payment period of 60 days; and finally, those businesses (8, 13.3%) that offer their clients up to 90 days to clear their payment.

**Figure 35: Time given to clear sales payments**



87. The study sought to investigate whether the responding businesses offered dissimilar conditions to different clients. Based on the statistics shown in figure 36 below, it was observed that most businesses (71, 70.3%) did not offer dissimilar conditions to their clients. However, it was noted that some businesses (30, 29.7%) offer dissimilar conditions to their clients.

**Figure 36: Conditions given to clients**

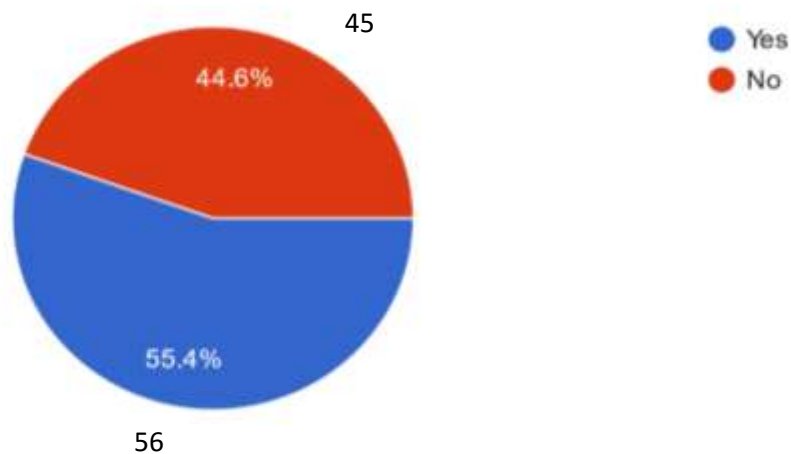


### **Regulatory and policies factors affecting access to markets**

88. The study sought investigated whether there were any regulatory requirements that negatively affect MSME's access to markets. Slightly over half of the businesses (56, 55.4%) submitted that Government Regulations and Policies negatively affect the operations of their businesses while 44.6

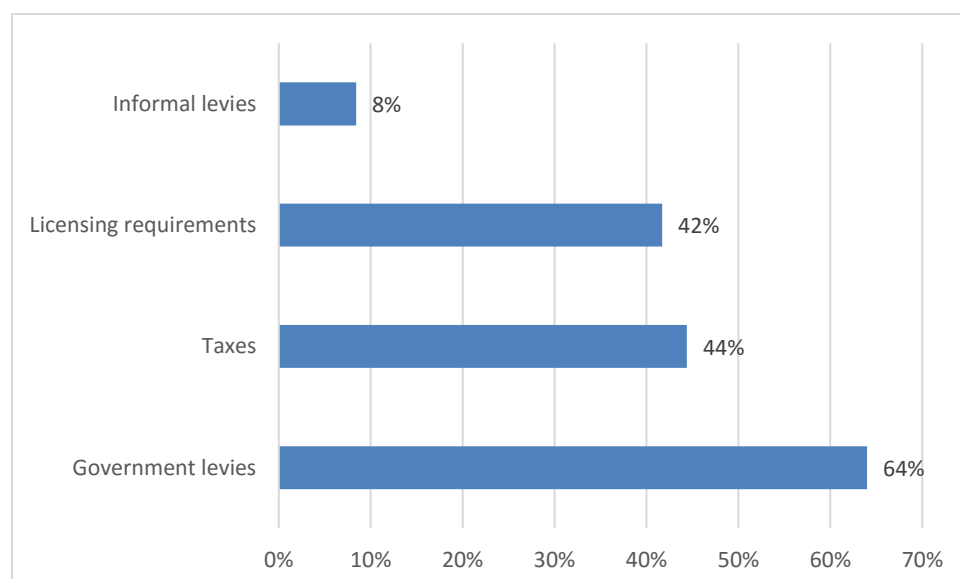
percent of the businesses (45) submitted that their businesses were not affected.

**Figure 37: Effects of regulations and policies**



89. The study further sought to find out the specific aspects of Government regulations or policies that negatively affected the operations of MSMEs. Businesses whose operations were negatively affected by Government regulations/policies submitted the following issues in figure 38 below as being the main causes. It was observed that most businesses (64%) faced challenges with government levies; followed by taxes (44.4%); licensing requirements (41.7%); and the least being informal levies (8.4%).

**Figure 38: Time given to clear sales payments**



## **CHAPTER 4**

### **Analysis Of Findings**

#### **Business Profiles**

90. The study findings indicate that 91 percent of the sample businesses were established during the period 2006 to 2021. The increase in the establishment of MSMEs during this period can be attributed to the initiative put in place by Government to improve the contribution of MSMEs towards the national GDP and economic development during the mid-2000s onwards. During this period, the government came up with deliberate policies and legislation that promoted the growth and development of MSMEs such as the Zambia Development Act No. 11 of 2006 and the Micro, Small and Medium Enterprise development Policy of 2008.
91. Most of the sampled businesses were registered as sole trader businesses managed by a single owner while slightly over a quarter of the businesses were registered as limited companies. A few businesses were run as partnership businesses owned by two or more individuals. This may indicate a reluctance by enterprise owners to enter into partnerships or limited companies either due to a lack of understanding of the benefits of such a set up or the technical know-how of business development.
92. About 85 percent of the sampled enterprises were formally registered while 15 percent were unregistered. Given the incidence that 85 percent of the enterprises were formalized and most of them (70%) operate outside Lusaka province indicated that the process of business registration can easily be done anywhere across the country. The Patents and Companies Registration Agency (PACRA), a government agency responsible for business registration has made the registration process of startup businesses easier through its online portal<sup>20</sup>. The online registration portal allows businesses to use simple and easy to follow steps to register their businesses. This has made the registration process easy to access even for businesses that are established in other localities where PACRA does not have physical presence.
93. A categorization of the enterprises by economic sector revealed that 53 percent of these businesses were engaged in wholesale and retail trade of various goods and services while collectively 33 percent of these were engaged in agriculture, manufacturing, and ICT services indicating that wholesale and retail have the lowest barriers to entry. This finding is in line

---

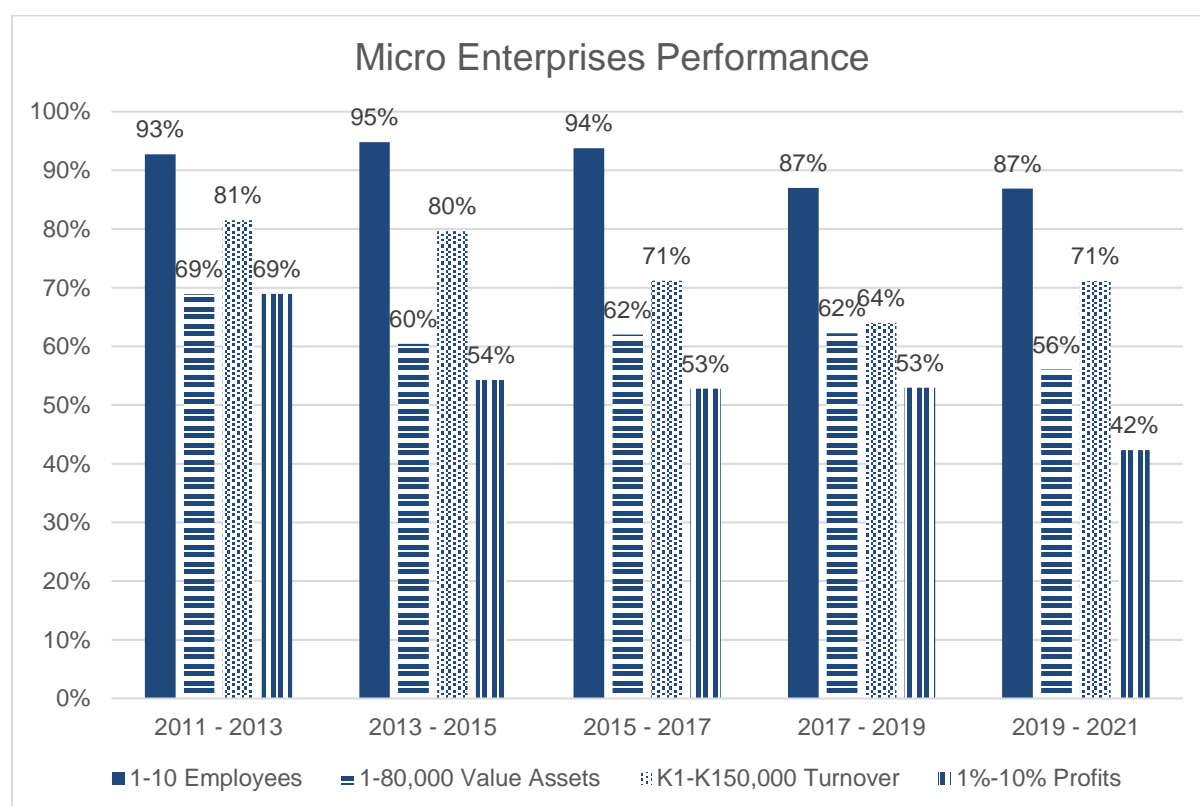
<sup>20</sup> <https://www.pacra.org.zm/>

with the findings of the Zambia Statistical Agency that asserted that most businesses in Zambia are dominated by retail and wholesale trade<sup>21</sup>.

### **Business Performance**

94. The study findings show that the number of enterprises reporting as micro enterprises reduced from 81% in the period 2011 to 2013 to 71% in the period 2019 to 2021 with the lowest being 64% recorded in the period 2017 to 2019. This may indicate that over the ten-year period, the percentage of businesses with annual turnovers above K150,000 increased. Similarly, the percentage of businesses that had profit margins of 1% to 10% gradually reduced from 2011 to 2013 period (69%) to 2019 to 2021 (42%) showing that the number of businesses that were making more that 1% to 10% profits was increasing. These findings indicate a general growth in terms of turnover and returns.
95. Despite growth in turnover and profits, findings indicate that over the years, the rate at which business hired employees was not commensurate with the rate at which they were making money or investing in assets. The figure below shows the revenue, asset values and profit trends

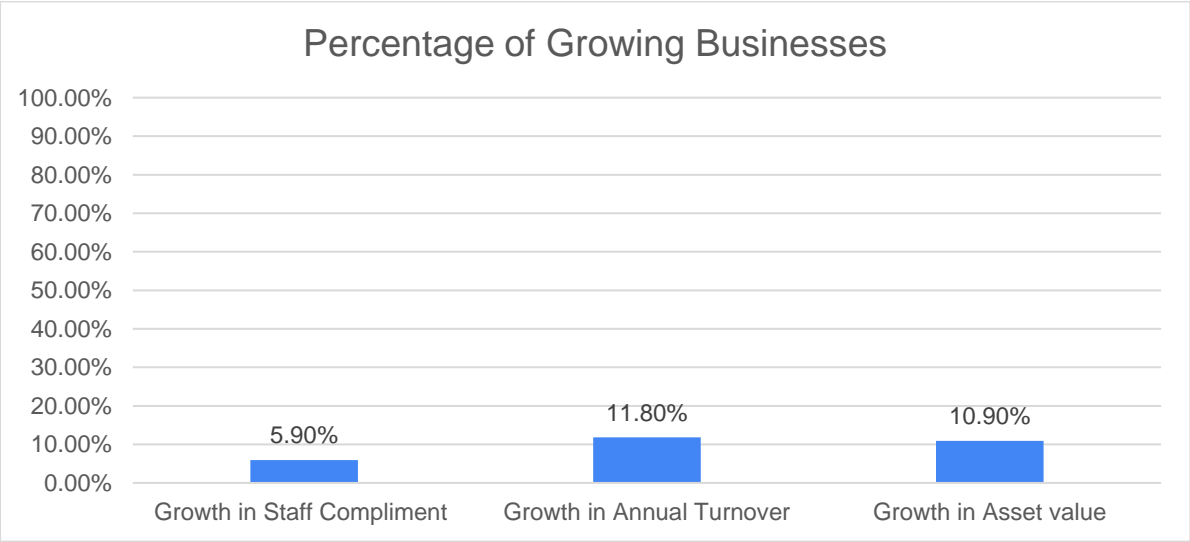
*Figure 39: Micro Enterprise Performance*



<sup>21</sup> Quarterly Gross Domestic Product Estimates – 4<sup>th</sup> Quarter 2019-Zambia Statistics Agency

96. Fig 39 shows that from 2011/2013 to 2019/2021 periods, the sampled micro enterprises operating in the market reduced by 6% from 93% to 87%. While micro enterprises reporting asset values and turnovers in the category of micro enterprise was somehow stable, enterprises reporting profits of 1%-10% reduced by 27% indicating either transitioning into higher profit margin brackets or more enterprises entering at a higher profit margin bracket. Findings indicate that more enterprises between 2019 to 2021 period recorded profits of 11% to 60% as well as 71% to 90%. This may indicate a better management of the cost structures or a pass on to consumers in terms of higher prices. Despite the significant decline in micro enterprise level profits (27%), the micro level asset base did not fall as much (13%). This is indicative of a lack of corresponding investment into the business following improvement in profits.
97. Findings also indicate that only a modest 5.9% of the businesses from the sample grew in number of employees, 11.8% grew in annual turnover and 10.9% grew in asset value. Despite positive trends in profit margins, information indicates a general lack of growth in businesses as most of the businesses did not grow in any of the key aspects that define the size of a business. Enterprises that posted growth in one or more of the key aspects equally posted modest growth in employee number as indicated in figure 40 below. The few businesses that indicated growth in the key aspects were found to have innovated particularly in the way that they marketed their business. Innovation delivers significant benefits to an enterprise as it is one of the critical skills for achieving success in any business. Though the lack of growth in number of employees might not be problematic in itself, it is an indication of a potential problem considering this was a lack of growth over a ten year period.

Figure 40: Business growth

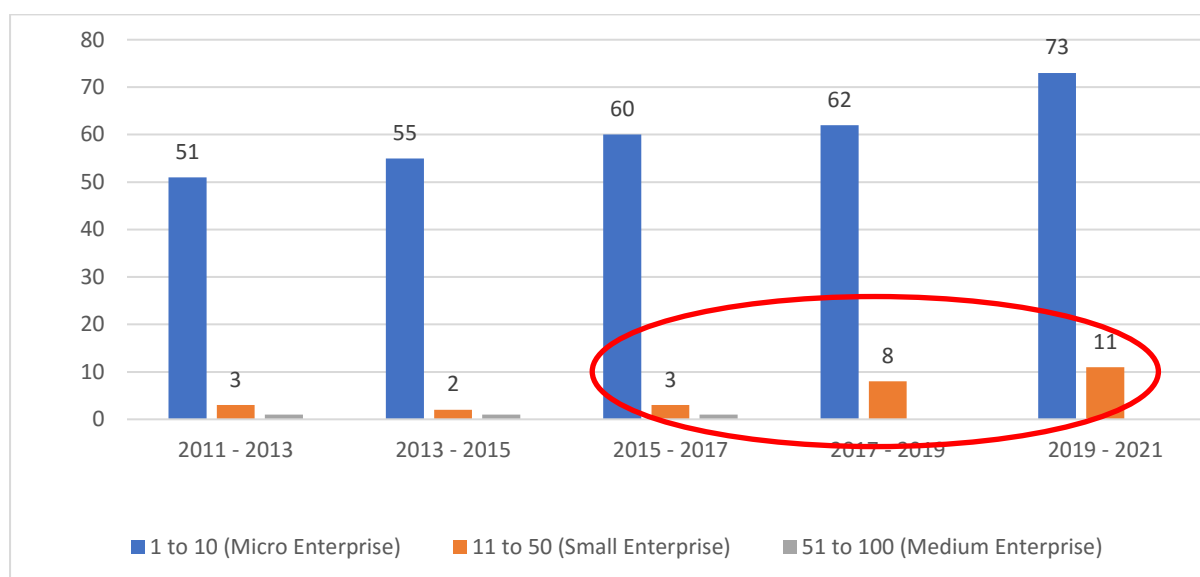




## Entry and Exit

98. The period 2017 and 2021 saw an increase in the rate of market entrants at small enterprise level in particular. However, in absolute terms the number of micro enterprises was significantly greater than small and medium enterprises. Fig 41 below shows the notable entry at small enterprise level and nearly non at medium enterprise level.

Figure 41.



## Business Financing

99. With regards to business financing, findings show that most businesses (86%) used their personal funds and savings to finance their operations, followed by loans from family and friends (22%), then commercial banks (12%), microfinance loans (7%), others (6%), government loans (2%), employers (2%) and informal sources (1%). While personal finances and loans from friends presents cheap and easily accessible financing, it is often limited in quantum and lacks technical support that often comes with financing from financial institutions and ventures capitals. The low levels of financing from banks and financial service providers indicate low levels of collaboration between the banking system and the SMEs. Issues that may contribute to this development include low levels of collateral from the SMEs that financial institutions require and lack of interest by SMEs due to the high interest rates that has characterized the financial services sector for come time.

100. The lack of access to affordable and adequate financing has also affected the ability of most businesses to employ sufficient, skilled, and specialized human resource to run the affairs of the establishment and to invest in assets that can develop the business. The study found that most businesses employ only 1 to 3 people with the prerequisite skills such as tertiary education and vocational skills to manage the business affairs. The lack of the technical know-how made it very difficult for businesses to innovate, compete effectively and efficiently and grow in general. As a result, the lack of skills and trainings had contributed significantly to the stunted growth of MSMEs.

### ***Competition***

101. Post 1990 reforms, Zambia had largely pursued a free-market economy which encourages enterprises to compete with prices largely influenced by the demand and supply trends of goods and services. In addition, trade and commercial laws and regulations were put in place to support the deregulation and commercialization of the economy. Private sector has been touted as the panacea to the economic growth agenda with private enterprises regarded as key to the process. Study findings showed this drive with 81% of the surveyed establishments indicating that they determine their own selling prices. The 19% that submitted having prices set indicated that industry, suppliers, and regulators were responsible for setting the prices.
102. Access to markets remained key for enterprise growth and could0 be hampered largely by anti-competitive business practices such as market foreclosures. Findings indicate that 78% of the enterprises surveyed did not face any geographical restrictions to supply their goods and services. The study further found that were limitations existed, it was largely due to own capacity constraints to supply, perceived high competition, high transportation costs and regulatory restrictions. A large proportion of enterprises (87%) indicated that they did not face any challenges in acquiring raw materials with 89% indicating that they did not encounter instances where they had dissimilar condition applied to them with their competitors. Equally, most of the businesses (90%) indicated that they were not required to purchase a tying product when getting goods and services from their suppliers.
103. The Value Proposition submissions based on experience done by the Commission during the 2023 budget submission to the Ministry of Commerce, Trade, and Industry (MCTI) shows that while pure economic fundamentals have a bearing on the cost of doing business, anti-competitive conduct has generally been seen to be one of the major drivers of increased cost of doing business in Zambia. Currently, 9-30% of the cost of doing

business between business to business (B2B) is due to anticompetitive conduct. The most affected are the Small to Medium Enterprises (SMEs) whose capital is greatly affected, and their growth is impacted. Equally, 45-100% of the cost to consumers (business to consumer) is due to unfair trading practices. Therefore, improving the business environment and reducing the cost of doing business for the private sector is key for the attainment of economic growth. Such measures include the strengthening of measures for fair competition in the domestic market and enhancing consumer welfare to spur innovations and improve the quality of goods and services.

### ***Regulatory requirements***

104. Regulatory requirements have in some instances prevented the development and growth of MSMEs as they have in some instances contributed to the high cost of doing business. Such impediments present themselves as high costs or lengthy durations to obtain authorizations. From the surveys, information indicate that 55 percent of the enterprises cited regulatory requirements such as levies, taxes and licensing as negatively affecting business operations. Some indicated that regulatory requirements cost between 10% to 15% of their operations and was making complying with the requirements costly as they were a strain on the limited resources of MSMEs.
105. Other operating costs cited as having a fundamental effect on the operations of the MSMEs include utility costs mostly electricity, rentals costs and labor costs. While electricity and other utility costs were variable and largely dependent levels of activity, labor costs were sometimes fixed due to the various requirements as such National Pension Scheme Authority (NAPSA) contributions and other legal requirement such as the minimum wages among others. This may partly explain the low growth in employment found from the surveys despite growth in profit margins across the various business types.

### **Conclusion**

106. MSMEs in Zambia face many challenges. Their ability to access markets and sustain that access can be linked to all their challenges because ultimately that is the lifeline of the business. A notable observation from the study was the low levels of partnerships and limited companies. Partnerships can give the business more expertise, more capital, can take on more opportunities and sharing of the liability all which can contribute to improving the capacity and resilience of the business. However, the study indicated that very few

business owners engaged in partnerships. This may be due to perceived disadvantages of partnerships such as loss of autonomy, loss of personal profit and future complications in selling. Most of the businesses were therefore not taking advantage of the opportunities to pool resources, improve performance and ultimately have better access to markets.

107. The study also found that enterprises in Zambia were able to generate significant returns, but this was not commensurate in their level of investment in terms of assets, employees and ultimately their growth. Though it is not expected that the growth in returns must immediately translate into investment in assets and employees, the amount of reinvestment that was observed over the ten-year period was not sufficient for such a time period. Additionally, majority of the businesses did not make any investment into either their assets or the number of employees or both likely due to how much of their resources go to payments of levies, taxes and other regulatory requirements. According to the MSME experience the regulatory requirements were too high and too many and were a major cost to doing business.
108. The study found that the businesses in the sample largely sourced their financing from themselves and friends and family. Very few accessed financing from financial institutions. Most of businesses therefore did not access the necessary structural benefits and support that come with formal financing structures such as a large pool of funds and technical guidance for business development.
109. Though there were no competition concerns MSMEs and consumers at large stand to gain from strengthening the measures of fair competition.

### **Recommendations**

110. Based on the findings, the study makes the following recommendations to improve access to markets by MSMEs:

| <b>Issue</b>                                | <b>Concern</b>                                                                                  | <b>Recommendation</b>                            | <b>Expected Impact</b>                                                                                             | <b>Key Actors for Implementation</b> |
|---------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Very few partnerships and limited companies | Too much time is taken to grow and build the resources needed to access markets. Missing out on | Programme to educate and facilitate partnerships | More businesses that will hedge risk by sharing assets and liabilities. Less time taken to grow and access markets | ZDA and MSMED                        |

|                                                                               |                                                                                                                                           |                                                                                                                                                                |                                                                                                                                              |                   |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
|                                                                               | opportunities to pool resources, financial and otherwise.                                                                                 |                                                                                                                                                                |                                                                                                                                              |                   |
| Not accessing finance through the formal structures. High barriers to finance | Not accessing the benefits of structured finance such as the technical support in business development and financial management services. | <p>Programme to educate on the benefits of formal finance and its structures.</p> <p>Streamlining of the access to finance process and removal of barriers</p> | MSMEs will access the much needed support from the financial sector particularly in efficient financial management and business development. | ZDA/MSMED/B<br>OZ |

|                                                            |                                                                                               |                                                                                   |                                          |       |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------|-------|
| High levies and taxes and too many regulatory requirements | Undue Pressure of the limited resources of MSMEs limiting their ability to re invest and grow | Lowering of levy/tax rates for MSMEs. Reform in the regulatory requirements MSMEs | Cost of doing business reduced for MSMEs | MSMED |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------|-------|

## References

<https://unctad.org/osgstatement/international-day-micro-small-and-medium-enterprises-msmes>

Zambia Invest (2017), Zambia to Set Entrepreneurial Fund for SMEs.

Harvie, C., S. Oum, & D. Narjoko. (2013). "Small and Medium Enterprises' Access to Finance: Evidence from Selected Asian Economies." *ERIA Discussion Paper*

Asian Development Bank (ADB) (2015). *Integrating SMEs Into Global Value Chains: Challenges and Policy Actions in Asia*. Mandaluyong City: Asian Development Bank

<https://www.adb.org/sites/default/files/publication/182532/adbi-wp564.pdf>

<https://www.lusakatimes.com/2021/11/05/ministry-of-small-and-medium-enterprises-in-stakeholder-support/>

FSD Zambia, (2017). Access to Finance: SME perceptions of Financial Service Providers

<https://www.theigc.org/wp-content/uploads/2012/06/Kedia-Shah-2012-Working-Paper.pdf>

Quarterly Gross Domestic Product Estimates – 4<sup>th</sup> Quarter 2019-Zambia Statistics Agency

International Trade Centre (ITC) Survey (2018)

The Citizen Economic Empowerment Act No. 9 of 2006 - [Microsoft Word - Citizens.doc \(fao.org\)](#)

The Companies Act No. 10 of 2017 - [F:\Companies Act 2 2017.pmd \(ilo.org\)](#)

The Zambia Development Agency Act No. 11 Of 2006 - [The Zambia Development Bill \(fao.org\)](#)

Micro, Small and Medium Enterprise Development Policy, (2008) - <https://www.boz.zm/Micro-Small-and-Medium-Enterprise-Development-Policy-2008.pdf>

UNCTAD, (2022). The COVID-19 pandemic impact on micro, small and medium sized enterprises: market access challenges and competition policy. United Nations - [https://unctad.org/system/files/official-document/ditcclp2021d3\\_en.pdf](https://unctad.org/system/files/official-document/ditcclp2021d3_en.pdf)

International Labor Organization (2019) Small Matters: Global Evidence On The Contribution To Employment By The Self-Employed, Micro-Enterprises and SMEs, Geneva: ILO.

<https://www.pacra.org.zm/>

Quarterly Gross Domestic Product Estimates – 4<sup>th</sup> Quarter 2019-Zambia Statistics Agency