

**WHAT NEEDS TO BE DONE TO GROW SMALL AND MEDIUM BUSINESSES IN ZAMBIA**

BY

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According to the Small Enterprise Development Act of 1996, a small business or small enterprise is defined as one whose:

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(a) total investment, excluding land and building does not exceed

(i) Fifty million Kwacha (K50m) in case of a manufacturing and processing enterprise

(ii) Ten million Kwacha (K10m) in case of a trading and service providing enterprise

(b) annual turnover does not exceed eighty million Kwacha (K80m)

(c) employing up to thirty (30) persons

Unfortunately, the said act does not at the same time define what a medium business or medium enterprise is. Under the circumstances, one is left to craft a definition that best suits his or her situation. For example, the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) has a new class of membership called Corporate member and has

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defined such a member as an enterprise that fulfils (i) and any two of (ii),(iii) and (iv) below:

(i) formally registered as a company

(ii) annual turnover of five hundred million Kwacha (K500m) or more

(iii) assets of two billion Kwacha (K2b) or more

(iv) minimum of thirty (30) employees

One may quarrel with any of these definitions, especially bearing in mind that the definition in the SEDB act was formulated some ten years ago and a lot of changes have taken place since then, to warrant a revisit of the definition. For now that is not our concern . These are the available definitions and these are the definitions that will be applied in this presentation.

It is of interest to note that in both the above definitions, the number of employees is one of the criteria used. Employment is one of the most important factor in determining the performance of an economy and the attendant social and political wellbeing of a country. It is so sensitive an indicator of economic performance that governments have been known to be 'kicked out' of office based purely on a poor employment record.

In Zambia, the employment situation is not healthy to say the least.

Out of an estimated labour force of four million (4,000,000) only about five hundred thousand (500,000) are in formal employment. The remaining three million five hundred thousand (3,500,000) able bodied men and women, earn their living through a variety of income generating activities categorised as belonging to the informal sector of the economy, where they are unregulated and outside the taxman's reach. It is to this sector that the majority of activities such as peasant farming, especially in the rural areas, and small business operations dotted all over the country belong. These activities and others of a similar nature, are responsible for the absorption and livelihood of a large number of men and women who, under normal circumstances, should be engaged in formal employment but are not.

Given the huge number of able bodied men and women earning their living through informal sector income generating activities, the country needs to pay more attention to this sector of Zambia's economy. For example, there is need to institute measures that will promote the growth of small businesses to enable them not only employ more people but also graduate from the informal into the formal sector of the economy. It is an established fact that in most economies of the world today, small businesses are responsible for the creation of most of their new jobs.

Introducing a micro financing bill in the Kenyan parliament last year (2005) President Mwai Kabaki is reported to have said that in Kenya the small business sector employs over 2.3 million

people

In Malaysia, small businesses employ 55% of workforce in agriculture, manufacturing and services sectors of the economy

So, what does Zambia need to do in order to grow its small businesses?

First, there is urgent need to put in place a policy framework that is supportive of the small business sector. At the moment this is lacking, although public pronouncements sometime give the impression that all is well. In my view, it is the responsibility of the Zambian Government to provide such a framework. When one talks about a supportive framework one is looking at, for example, the Government providing a set of incentives to make it possible for small businesses to access funds 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.

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 disorganised 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 stake holders.

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.