

Unexploited potential: A critical review of policies supporting the self-employed in Zambia

Tamara Billima-Mulenga

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Background

This report is part of ZIPAR's Flagship project on "More and Better Jobs". The Flagship project was launched on 25th June 2015 and is running for around 18 months. It will develop an understanding of Zambia's jobs challenge and policy options for how to respond. It is addressing both the underlying long-term challenge of how to create more and better jobs and also the short-term challenge of protecting jobs during the current economic slowdown. The project is being informed by an Advisory Group, which includes representatives of the private sector, government, civil society, academia and international organisations. This paper, however, represents the views of ZIPAR alone. For further information on the flagship project see <http://tinyurl.com/p2nnhmk>. ZIPAR would also like to thank all the Government Institutions, Business Associations and the individuals through the District Business Association that participated in the study. The information they provided during the key informant interviews and the Focus Group Discussions was invaluable in completing this report. Lastly, but certainly not the least; ZIPAR also acknowledges Isaac Zyambo for the support he provided in collecting data from all the districts included in the study.

Executive Summary

The employment challenge – creating more jobs and improving the quality of existing jobs – is one of Zambia’s biggest. Over the past decade Zambia has recorded unprecedented economic growth rates, but this has not translated into significant job creation and poverty reduction.

Because of the structure of the Zambian labour market, micro enterprises and the self-employed should be a crucial bedrock for job creation and poverty reduction. Micro Small and Medium Enterprises (MSMEs) account for 99% of all businesses in Zambia out of which 96% are Micro Enterprises. What is more, 44.2 % of the working population is in self-employment.¹

Unrealized potential: survivalists and job creators

Many self-employed are ‘survivalists’. They have been forced into the sector because of a lack of employment opportunities elsewhere and do not aspire to grow their businesses. However, there are still a significant number that are more ambitious and we argue that the MSME sector provides an avenue for job creation and hence can be leveraged to create decent jobs.

The key argument in this paper is that current government policy is not effectively exploiting this potential. One critical reason for this is that policies are not designed for the Zambian context: they do not respond to the nature and needs of the majority of micro enterprises in Zambia. Policy has forgotten and is blind to micro-enterprises; it only addresses the needs of the much bigger enterprises (SMEs).

The vast majority of enterprises in Zambia are sole traders or ‘micro’ enterprises

The official definition of MSMEs covers all firms with up to 100 employees and annual turnover of up to ZMW800, 000. However, most enterprises are sole traders or micro enterprises. The Labour Force Survey includes details on what it labels the “self-employed”, by which it includes both sole traders and entrepreneurs who run a business with employees. Using this definition:

- 86% of the self-employed have less than 4 employees.
- 12% have between 5 and 25 and only 4% have in excess of 25 employees.
- Over 50% of the self-employed earn below the minimum wage of ZMW1, 200 and their annual turnover does not exceed ZMW7, 200.
- 95% are in the informal sector.

In addition to being important to understand the size of most businesses in Zambia, policy makers also need to know about the differences that exist within and between different sectors. For instance the rural distribution of enterprises varies across sectors with Agriculture having the highest concentration in the rural areas while sectors like Tourism and Wholesale and Retail are concentrated in the urban areas.

1 2012 Labour Force Survey

Challenges faced by micro-enterprises and sole traders

The primary research in this paper focused on sole traders and micro enterprises that *wanted to expand their businesses*. The aim was to try to understand what is holding back the potential of such entrepreneurial Zambians. Among the most prominent challenges they face include:

- 1) **Missing middle in access to finance:** Most of the funding sources from Financial Institutions available to the entrepreneurs require stringent collateral requirements which could not be met by most of the entrepreneurs interviewed in the study. Other more appropriate funding sources which include Government and Non-Governmental Organizations were said to be either too small or too large for the type of enterprises in self-employment.
- 2) **Flat charges which are regressive.** Entrepreneurs, formalized and those seeking formalization, face flat charges and fees which are imposed on them. These fees take no account of their size and hit micro enterprises much more than the larger ones. Formalization costs include initial registration costs and then subsequent regulatory fees. Local Government, for example, periodically increases the rate and number of fees. The estimated average cost of these fees is K5, 000 per annum which is paid as a lump sum and is well above the monthly earnings of the self-employed.
- 3) **Uneven distribution of Government support services:** Most government ministries and agencies are concentrated in urban areas and particularly in provincial centers. This is especially a problem for the self-employed in various sectors as they are concentrated in the rural areas and are highly constrained in accessing government support services.
- 4) **Poor policy co-ordination:** Poor policy co-ordination between government institutions perpetuates the dismal state of MSMEs in Zambia. It is for instance, very clear from the study that the lack of harmonization in licensing fees and charges amongst government agencies is an impediment to job creation among the MSMEs. The PSDRP has streamlined business licenses to one single business levy aimed at reducing the cost of doing business. However, the key informant interviews revealed that dissemination of this information has been very poor and that the implementing agencies such as the District Councils have not implemented the single business levy and have instead in some areas increased the fees against government policy.
- 5) **Lack of adequate Business Development Services:** Zambia Development Agency provides business development services to entrepreneurs and these services range from business establishment, financial management and marketing. However, these services are often delivered within five days which most entrepreneurs said to be too short. The demand for skills training is immense. More than half of respondents identified business skills as the most important factor for their business growth.

A policy mismatch: why current policy isn't working

Existing government policy is focused on the broader definition of enterprise - MSMEs. The 'MSME Policy' document contains the overarching strategy and includes key policies such as facilitating MSME access to finance and providing appropriate operating premises and business infrastructure. In addition other policies include the Citizen Economic Empowerment Fund which promotes citizen economic empowerment through providing finance and the Youth Development Fund which provides grants and loans to vulnerable youths.

However, one important shortcoming of these policies is that they do not reflect the real nature of the self-employed in Zambia. Firstly, policy lumps micro-enterprises with SMEs that tend to be much larger and different. Secondly, even the official definition of micro-enterprises, which includes those with up to 10 employees and annual turnover of up to ZMW 150,000, does not reflect the reality on the ground which is that the majority of the micro-enterprises' turnover does not exceed ZMW 7,200. This makes it less likely that current government policy will effectively respond to the challenges identified by entrepreneurs surveyed in this study.

Two other policy challenges identified by the research include a lack of policy and programme implementation and poor policy co-ordination. Poor policy co-ordination happens because most interventions tend to focus narrowly on one aspect of enhancing entrepreneurship, for example they either only focus on economic empowerment or only on training. However, solving one problem faced by an entrepreneur while ignoring other problems that may be of equal magnitude may result in wastage of resources. The other challenge is that policies that may benefit micro enterprises are simply not being implemented.

Policy recommendations

- **Adopt a 'Zambia relevant' definition of micro-enterprises:** the government should re-define micro-enterprises to address policy mismatches. There is need to clearly separate the micro-enterprises from the broader MSME group. If policy was based on this revised definition it could have the following benefits:
 - It could redesign fees and charges that are at the moment uniform across enterprises to ones that reflect the earning of the majority of the micro-enterprises
 - It could develop more appropriate incentives for micro-enterprises
 - And it could help address the missing middle in access to finance faced by micro enterprises.
- **The creation of a one-stop shop for microenterprises to improve policy co-ordination.** Co-ordination needs to occur to ensure systematic and holistic interventions are provided to help entrepreneurs. A one-stop shop would be a center that brings together support services to entrepreneurs through training, providing funding, infrastructure, equipment and market access.

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Acronyms

CEEC	Citizen Economic Empowerment Commission
CSO	Central Statistical Office
LCMS	Living Conditions Monitoring Survey
LFS	Labour Force Survey
MFEZ	Multi Facility Economic Zone
MSMEs	Micro, Small and Medium Enterprises
PSDRP	Private Sector Development Reform Programme
R-SNDP	Revised Sixth National Development Plan
ZBS	Zambia Business Survey
ZDA	Zambia Development Agency

1. Introduction

Job creation has become an important policy objective of the Government of Zambia especially in recent years. This is because despite posting unprecedented economic growth which has averaged more than 6% of GDP annually for the last decade², there has not been a corresponding growth in terms of job opportunities and poverty reduction. Poverty levels have also remained persistently high at around 60.5% in 2010³.

The lack of jobs cannot be solely attributed to the failure of the economy to create employment opportunities, but also to the country's bulging population which has resulted in the increase in the labour force. In 2012, the population was approximately 14.3 million, up from 13 million in 2010⁴. The labour force has increased by about 19% and currently estimated at 6 million from 5 million in 2008 according to the LFS. Despite the change in the size of the labour force, formal sector jobs have stagnated, growing at a paltry annual average of 30,000 between 2005 and 2012. The remainder of the labour force has been pushed into the informal economy which has also bulged as a result. Currently, the informal sector accounts for approximately 85% of the labour force, majority of which run their own small businesses characterized with low productivity and incomes. Additionally, most workers here often lack decent working conditions, adequate social security and a 'voice' through effective representation by trade unions.

Realizing the above status quo and implications on the economy, the Government has introduced various initiatives aimed at creating employment and increasing formal sector jobs by formalizing as many informal activities as possible. These initiatives are well articulated in various documents such as the Zambia Decent Work Country Programme 2012-2015; the Vision 2030, the Strategy Paper on Industrialization and Job Creation 2012-2016 and the Revised Sixth National Development Plan (R-SNDP) among others. Government has also embarked on a number of infrastructure development projects such as the Link Zambia 8000, Pave Zambia 2000 and the Lusaka 400 all which are supposed to create jobs while improving the countries road infrastructure. As a matter of fact in the Strategy Paper on Industrialization and Job Creation it is expected that the economy through four growth sectors⁵ will create 1 million jobs at the end of 2016.

Even with the above programmes and initiatives, formal sector employment still remains a big challenge. Besides, some of the current employment programmes are

2 Central Statistical office data

3 Living Condition Monitoring Survey 2006-2010, Central Statistical Office

4 2010 Census of Population and Housing

5 These are 550, 000 from Agriculture, 300, 000 from Tourism , 89, 000 from Manufacturing and 85, 000 from Construction

once-off projects which if completed will have no more jobs to offer and are hence not sustainable. Given this scenario, it is worthwhile to re-think new strategies of how jobs can be created in Zambia to achieve the aspirations of Government and end poverty. It is worthwhile at this time to scan the landscape of the Zambian economy and search for low hanging fruits from which jobs can be created alongside current projects by Government.

In the wake of a growing economy with limited employment and wide spread poverty, people have learned to innovate to cope. This has given rise to a crop of entrepreneurs who have risen to create employment opportunities for themselves. Most of these entrepreneurs are self-employed and run their own small businesses, sometimes just enough to employ a few more people. In 2012, the self-employed entrepreneurs accounted for 44.2% of the employed population. This group is large enough and can potentially create a lot of jobs for others. Unfortunately, this group of entrepreneurs does not seem to be understood by many including those who make policies. While there has been some increased attention paid to promoting local entrepreneurship through Micro, Small and Medium Enterprises (MSMEs), it is not clear whether this is helping the type of entrepreneurs common in Zambia and described above.

Helping the self-employed effectively requires a good understanding of who they are and the business they do especially in the local Zambian context. This will ensure interventions to help them are relevant and well-targeted.

The Central Statistical Office (CSO) defines a self-employed person as one who operates his or her own economic enterprise(s) and hires no employees. Such people can also be referred to as own account workers. In practice however, the self-employed will mainly be sole proprietors usually running micro enterprises and in few instances employing one or two additional people. Albeit there are also a good number of own account workers who have grown their businesses over time and are now able to employ even more than 25 people in some instances. While the latter group of the self-employed is important to the economy in terms of contribution to job creation, the focus of this paper is on the former: the sole proprietors and micro enterprises. The reason for focusing on this particular type of the self-employed is so that they too can be able to grow and create jobs for others.

Nonetheless, there are also intra group differences within the sole proprietors and micro-enterprises which this paper seeks to highlight. This difference lies in motives: within the current sole proprietors and micro enterprises there are those who become entrepreneurs merely for survival. Such people are self-employed only out of necessity and struggling just to ensure an adequate income. These have also been referred to as 'opportunistic entrepreneurs' in other literature. Then there is a second type of sole proprietors and micro enterprises whose motive is actually to grow their business beyond mere survival and become employers of labour. For this group, expanding their business is intentional and efforts are usually evident by their various activities

including belonging to business organizations or groups, striving to acquire additional finance and looking for more permanent business premises or markets for operations. This latter group was the main interest of the study and is what will be referred to as the self-employed in the rest of the report.

Therefore, this paper is an effort to provide policy guidance on how the self-employed, as described above can be supported to grow and create jobs. By studying their nature and characteristics the paper attempts to clarify the fact that it may not always be helpful to group all small businesses generically as belonging to one group of MSMEs. This is because most small businesses and especially those studied in this paper do not meet some of the characteristics used to classify a business as an MSME.

Based on the foregoing, it is envisaged that this study will provide Government and development stakeholders with knowledge that can be utilized in developing support programmes for small entrepreneurs in Zambia. The study isolates important factors that influence business growth of the self-employed and identifies appropriate interventions that can be put in place to increase the chances of success among them. In the process, the paper also assesses the ability of current MSME policies in fostering the growth of small businesses.

2. How do small businesses grow? Lessons from literature

This section briefly presents some of the main findings from existing studies, which assess both the factors that determine small businesses success and the effectiveness of different policy interventions. It concludes with some implications for Zambia. As the literature is not based on Zambian studies due to lack of availability of such studies, one caution is that the insights provided be contextualized to the Zambian situation as much as possible. The lack of such policy relevant research on self-employment in Zambia is another gap which this paper hopes to fill.

Determinants of small businesses success

It is clear from literature that a number of structural characteristics of the population of a country affect the prevalence of individuals who opt for entrepreneurship. These include population growth, urbanization rates, participation of women in the labour market, income levels, and unemployment (Verheul et al, 2002). Given continued urbanization, population growth and relatively low income levels and high urban unemployment, there is reason to believe that the supply of entrepreneurs in Zambia will grow in the future. Therefore, understanding the factors that will determine the success of these entrepreneurs is very important now and for the future. The following are some of the determinants of small business success from literature:

- Both the characteristics of the entrepreneur – ‘intrinsic’ factors such as education levels – and also the external environment, for example the structure of the industry they operate in and the policy environment, matter for small business growth (Bosma et al, 2000; Sandberg and Hoffer (1997)⁶). In terms of external environment Chrisman et al (1999) points out the need to establish whether the industry and market that the establishment operates in provide opportunities for expansion.
- Some of the skills needed by successful entrepreneurs are taught in schools: one study shows that entrepreneurs with higher education are more productive than their counterparts⁷. Other skills are, however, more specific to operating and growing a business, for example on knowledge of the world and business and finance (Bosma et al, 2000; Brüderl et al).
- Institutions are also crucial in influencing entrepreneurship rates: these include the fiscal environment for businesses, social security arrangements, labour

6 As quoted in Chrisman et al (1999:)

7 Ivar Kolstad and Arne Wiig, 2011, Education and entrepreneurial success, Malawi

market regulations, intellectual property rights, bankruptcy law and the educational system (Okumoro, Van Stel and Verhuel, 2010).

- Young and new businesses have a higher risk of failure. However, where new businesses are ‘followers’, where a market is already established, new businesses have a greater chance. There are some disadvantages of being a small company, for example, lack of access to finance, but also some advantages: for example the ability to scale up step by step (Brüderl et al, 1992).
- One study in Rwanda, which was focused on ‘household enterprises’ – very small enterprises similar to those which dominate in the self-employed sector in Zambia – found that the factors effecting growth included access to finance, finding a suitable location to work. For example, planning regulations and lack of basic infrastructure – such as electricity or transport connections – were also found to be significant barriers (IPAR-Rwanda; 2012).

Effective policy interventions

Assessing the evidence for the impact of policies in different countries can also provide some lessons. This section draws heavily on the work of Grimm & Paffhausen (2014), who carried out a comprehensive review of policy interventions explicitly intended to secure growth in the levels of employment in MSMEs. (Much of this work is focused on MSMEs generally, rather than just Micro-enterprises or sole traders looking to expand.) Headline findings include:

- Overall the evidence for policy interventions successfully supporting the generation of new jobs in MSMEs is mixed (Cho & Honorati, 2014; Grimm & Paffhausen, 2014). There is evidence that badly designed policies will be ineffective, but when designed well they can have an effect on factors such as “business knowledge and practice”, and potentially on levels of economic activity including MSMEs taking on more employees (Grimm & Paffhausen, 2014).
- Policies on access to finance are found to have little or no impact on employment for existing small and micro enterprises. In contrast large effects were found for the creation of new enterprises and for already existing larger organizations (Grimm & Paffhausen, 2014). In part this reflects the fact that often such policies are not intended to increase employment levels; instead they are intended to reduce poverty and create more reliable incomes.
- Policies focused on finance can work when combined with other support, such as training. Linking finance to an on-going relationship with the small company is more likely to lead to growth of the business because entrepreneurs are more likely to invest any money in the business (and not other priorities, including for personal use) (Karlan & Zinman, 2011, quoted in Grimm & Paffhausen, 2014).

- Training for entrepreneurship can take a number of forms. It can be generic or sector/firm specific; short or long-term; more theoretical or more practical and it can involve a link to some form of ongoing “mentoring”. There are two key insights from the literature on what is most effective: first, more tailored training, focusing on the particular needs of a sector or a specific firm has more impact (Drexler et al., 2012). Second, when training is combined with mentoring, carried out over a longer period of time, this can be more effective (Bruhn et al., 2013).
- Business development and wage subsidies also appear to work. Whether in the form of tax breaks, direct wage subsidies or incentives for technological innovation the overall findings from Grimm & Paffhausen (2014) is that *“business support services and targeted subsidies can contribute to employment generation if they are demand driven, tailor-made and focused”*. However, wage subsidies can be expensive and whether they are value for money – particularly in the long-term – is less clear. The key point is that the value of the input depends on the sustainability of any new jobs created (Betcherman et al., 2010).
- Formalisation, is part of the answer to creating more jobs, but not sufficient on its own. Successful policy approaches need to take account of both the ongoing costs of formalisation (for example, paying tax) and the one-off costs of registering to formalise. The key issue is that overall costs of formalisation are perceived to be lower than the potential benefits. (Grimm & Paffhausen, 2014)
- Policy needs to be well tailored to the particular needs of the self-employed in any particular national context. IPAR-Rwanda’s study, for example, found that policy did not reflect the nature of self-employment in Rwanda. The study focused on ‘household enterprises (HEs)’ and concluded that *“Rwanda’s development strategies, while supportive of informal and small enterprises in general, do not recognize HEs as key economic actors. They are either not differentiated from micro and small enterprises (MSEs), or they are excluded entirely from Government support (e.g., the SME policy is limited to enterprises with hired labour). With no explicit policy framework for promoting their development, HEs are largely overlooked and their specific needs left unaddressed.”* (IPAR-Rwanda, 2012)

Implications for Zambia

Based on the above assessment of the existing literature the following key conclusions can be drawn:

- It is factual that given continued urbanization and population growth, Zambia is likely to have a significant opportunity to create more successful small businesses in the future.

- Policy must be appropriate for the nature of self-employment in the Zambian context, not focused only on larger companies.
- Focus on the skills of the entrepreneur, but also the institutions which affect the environment in which they operate: policy matters.
- Policies on finance work best when they are combined with other approaches, in particular training and mentoring.
- For training to have an impact it should be tailored to the needs of specific firms and long-term.
- Subsidies work and have the clearest impact on employment of any policy tool; however, the risk is that any jobs created are not sustainable.

The 2010 World Bank Zambia Business Survey (ZBS) is one of very few studies in Zambia that have analyzed the effectiveness of policies on small businesses. It concluded that small businesses are mainly affected by limited access to basic infrastructure and access to formal financial services. Otherwise there is a significant gap in the literature locally on this subject. Drawing on lessons from around the world, this paper seeks to fill this gap by providing a detailed understanding of the nature of self-employment in Zambia, the challenges faced by such businesses and an assessment of the policy environment.

3. Methodological Approach

The methodological approach taken by this study has focused on understanding both the barriers faced by the self-employed in Zambia and on understanding the policy context within which they work. The aim of the research is to assess whether the existing policy environment is effectively supporting the self-employed, in particular those working as sole traders, or in micro enterprises. As such the approach to the study was to ask four questions:

1. *What are the characteristics of the self-employed in Zambia?*

To get in-depth and representative information on self-employment in Zambia the study drew largely on secondary data from the Central Statistical Office. The 2012 LFS which collects information on the employment situation was extensively used to inform the study. Other data sources included the 2010 Living Conditions Monitoring Survey and the 2010 ZBS. This is covered in section 4.

2. *What are the challenges faced by the majority of Zambian entrepreneurs?*

This aspect of the study was carried out through interviews with entrepreneurs. In this assessment, Focus Group Discussions (FGDs)⁸ and semi-structured interviews with entrepreneurs from the District Business Associations (DBAs) were used to get fresh and accurate information on the challenges faced. This is covered in section 5.

3. *Do existing policies respond to the challenges entrepreneurs face?*

This was a qualitative assessment seeking to understand Zambia's current policy environment relating to entrepreneurship nurturing and development. The aim of this was to understand the programmes that Government has put in place to nurture entrepreneurs. This assessment involved literature review of policy documents, interviews with program implementers and key informant interviews. This is covered in section 6.

4. *What are the policy gaps and how could they be filled?*

The final assessment was on the gaps in current policy programmes, which is used to help propose potential alternative policy proposals. The study analyzed current policies with a view to establish whether they meet the needs of small business in their current form. This was the basis for making specific policy proposals. This is addressed in section 7.

8 See annex G for the interview guide used

Primary research: focus groups, interviews and questionnaire

In order to understand in depth the challenges faced by the self-employed, in particular those looking to grow and recruit employees, the study carried out primary research with self-employed Zambians in selected districts. The primary research was not intended to sample a representative selection of the self-employed in Zambia. Instead it identified those self-employed who were either sole-traders or running micro enterprises, but who also had aspirations to grow their businesses in the future. There were two levels of this purposive sampling of participants:

- The research was carried out in Lusaka⁹, Kabwe, Ndola, Livingstone, Choma and Chipata. These districts have high rates of the self-employed according to the 2012 LFS. The self-employed – either sole trader or microenterprises – in these areas demonstrate particular potential to grow.
- The participants were purposively drawn from the District Business Associations (DBAs) membership, Beneficiaries of the Youth Development Fund, and the Citizen Economic Empowerment Commission funds. Membership to the DBA and receiving empowerment funds was used to differentiate more ambitious entrepreneurs from mere survivalists.

Two approaches were used to collect information: the first one was through Focus Group Discussions (FGDs) with six different groups of entrepreneurs who in addition completed a separate questionnaire. The second was in-depth interviews with key informants. The former was useful in getting information on the personal characteristics of entrepreneurs and the challenges they face while the later collected information on the policy environment.

	Agriculture	Wholesale & Retail	Construction	Manufacturing	Tourism	Other	Total
Kabwe	3	4	3	3	0	2	15
Ndola	1	3	1	7	1	4	17
Livingstone	0	12	4	0	2	2	20
Choma	0	0	0	0	0	1	1
Chipata	4	3	0	1	1	1	10
Total	8	22	8	11	4	10	63

Table 1: Distribution of Sampled Entrepreneurs by District and Sector.

A total of 63 entrepreneurs operating in various sectors which included Agriculture, Wholesale, Retail, Construction, Manufacturing and Tourism were interviewed as

⁹ Only key informant interviews with institutions were done in Lusaka.

shown in Table 1. There was also a category of 'other' that could not be classified in any of the categories: some of these included carpentry and mechanics, consultancy and counseling. Table 1 gives the distribution of the respondents according to district and sector.

Primary research: key informant interviews

In addition, the study undertook key informant interviews to get information on the policies and programmes in place on entrepreneurship. These key informant interviews were semi-structured.

The interviewees were chosen to reflect a range of perspectives from different stakeholders such as Government (for example the Ministry of Youth and Sport, Ministry of Commerce, Industry and Trade, Zambia Development Agency and others)¹⁰ and those outside Government. Particularly important was the views of organizations working with and representing the private sector. Interviews with this group were useful for understanding whether they viewed existing policies as having been successful or not, and the nature of challenges faced by businesses.

10 For a full list of the Key Informants, see the list in the annex.

4. Characteristics of the self-employed in Zambia

This section sets out the characteristics of the self-employed in Zambia. The key message from the data is that the self-employed sector is dominated by very small enterprises which are either micro-enterprises or sole traders. The typical self-employed Zambian is actually a street vendor or small farmer, and not an entrepreneur running a large business. This understanding is critical in developing policies which respond to the Zambian context.

Very important, although this report has earlier defined the characteristics of entrepreneurs it is focusing on, such entrepreneurs are not classified so distinct in the LFS on which this section is based. In other words the LFS treats all small businesses as one without differentiating them according to their motives. This means that as far as the LFS is concerned an opportunistic entrepreneur and the one who aspires for growth are all the same. This clarification has largely lacked in Zambia and is one aspect this study seeks to highlight.

The self-employed form a large part of the wider category of Micro, Small and Medium Enterprises (MSMEs). MSMEs account for 99% of all businesses in Zambia out of which 96% are Micro Enterprises. The definition of MSMEs according to the Zambian Government's MSME policy is based among other things on the turn over and number of employees as shown in table 2:

Table 2: Definition of MSMEs in Zambia

Enterprise	Total Investment	Annual Turnover	Number of Employees
Micro Enterprise	Up to K80,000	Up to K150,000	Up to 10
Small Enterprise	K80,000 – K200,000	K151,000 – K300,000	11-50
Medium Enterprise	K201,000-K500,000	K301,000- K800,000	51 - 100
Informal*	Up to K50,000		Less than 10

*An informal enterprise is one that is not registered with the Registrar of Societies

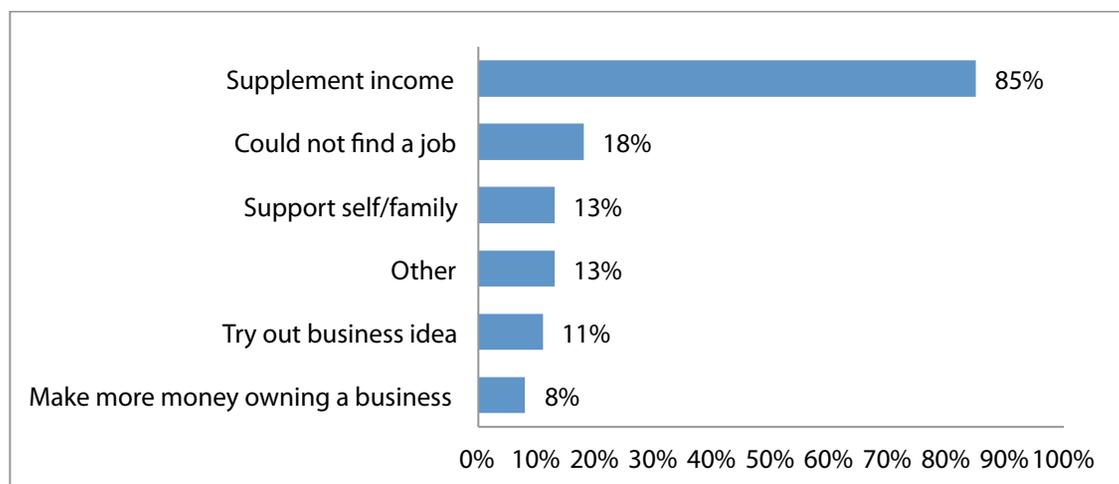
Source: MSME Development Policy 2008

There were 2.4 million people that were self-employed in 2012, representing 44.2% of the employed population in the same year. Most of these were sole traders or micro enterprises. Though some of the self-employed persons reported having more than 25 employees in the 2012 LFS, the majority (86%) reported having fewer than

4 employees. Only about 12% had employees between 5 and 25 and a mere 2% had employees exceeding 25. Males accounted for the larger share of the self-employed (57%) compared to their female counterparts (43%).

The characteristics of the self-employed should also include the motives behind venturing into entrepreneurship. Though the 2012 Labor Force Survey data is not able to provide this kind of analysis other data such as the 2010 Zambia Business Survey was able to bring out this aspect as shown in Figure 1. Clearly, supplementing income was cited as the commonest reason for going into business by 85% of business owners. This makes it clear that majority of people went into business with no other motive than to survive.

Figure 1: Reasons for Starting a Business

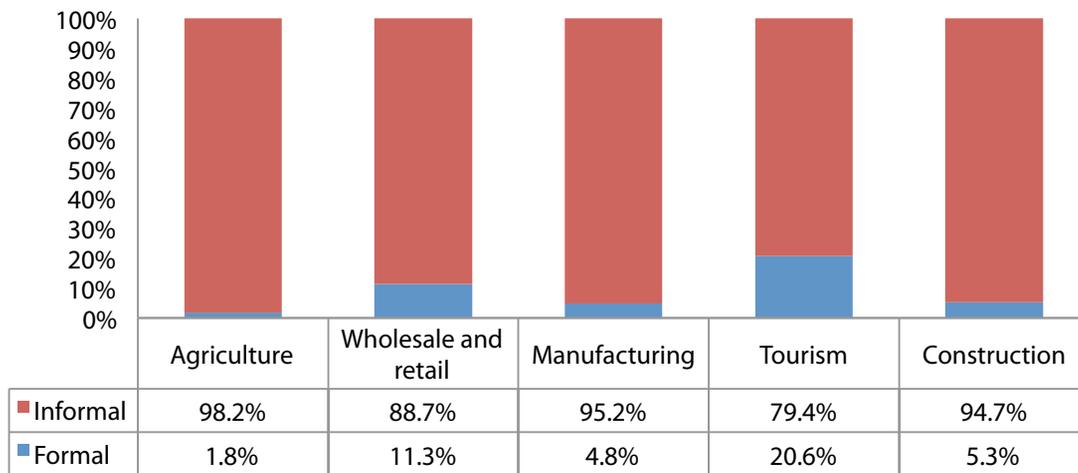


Source: 2010 Zambia Business Survey, World Bank

The second common reason for going into business was because people could not find a job. This was cited by 18% of businesses. These are the survivalist type of entrepreneurs earlier mentioned. More aspirational and ambitious reasons for going into business were to try out an idea and make more money owning a business which was cited by 11% and 8% of the businesses respectively. These statistics confirm that many small businesses in Zambia are survivalists and only a few have high aspirations.

Furthermore, about 95% of all the self-employed businesses are based in the informal sector, meaning that they are not registered with either PACRA or the ZRA. By implication these are also not captured in the Zambia’s formal tax net. Informality is high across sectors as shown below.

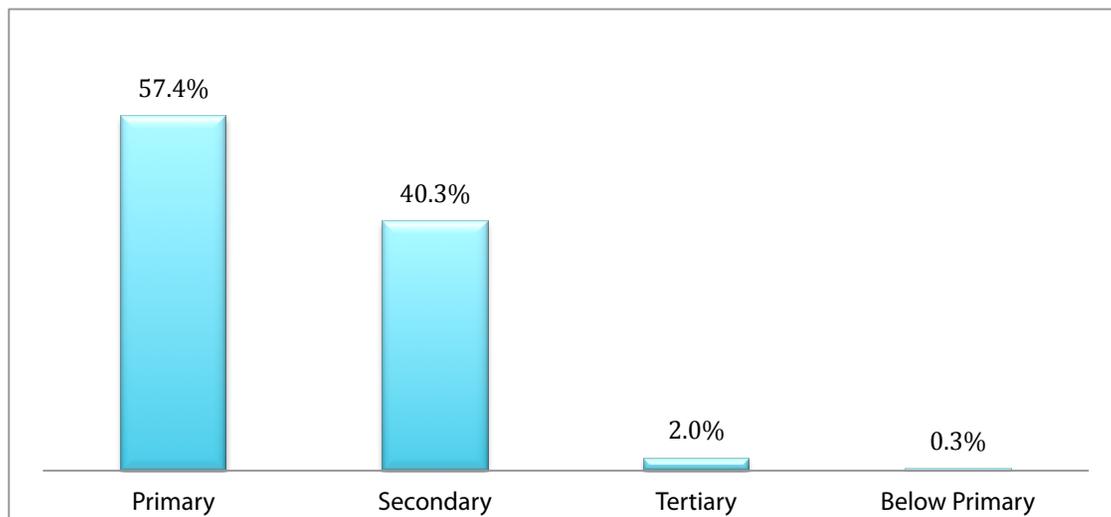
Figure 2: Informality by Sector



Source: 2012 LFS

In terms of education attainment, most of the self-employed had primary as their highest level of education. A mere 2% of the self-employed had tertiary education as their highest level of education. This indicates that education attainment is generally low for this segment of the labour force.

Figure 3: Self-employed by Education Levels

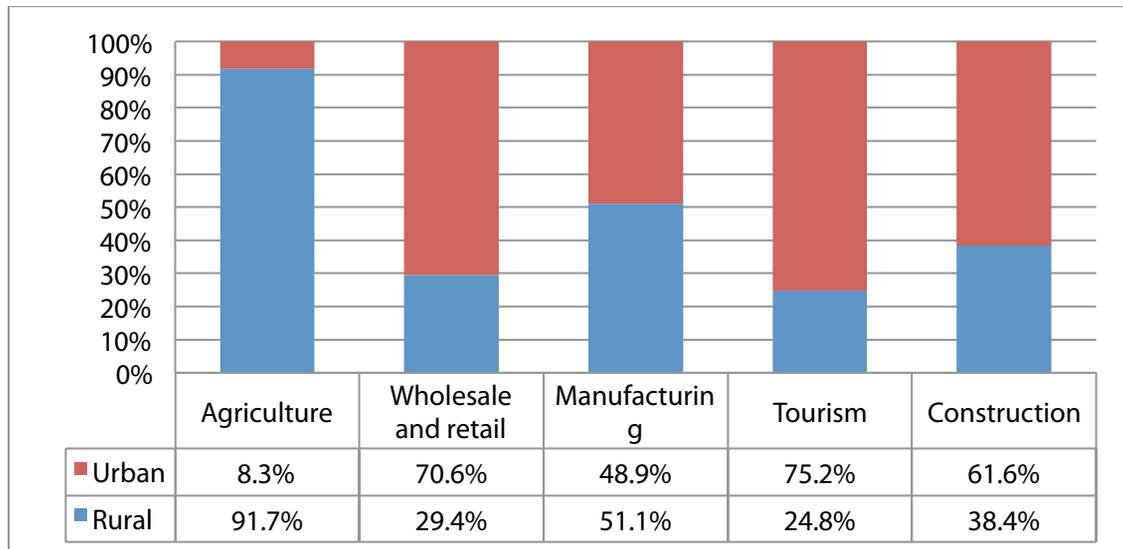


Source: 2012 LFS

The self-employed, also seem to be largely concentrated in the rural areas (70%) than in urban areas (30%) and tend to operate from locations such as markets, homes and road sides. The ZBS supports this observation by confirming that majority of the self-

employed are actually home businesses. The regional distribution of the self-employed however differs by sector with the Agriculture sector largely concentrated in the rural areas whereas sectors like Tourism are largely concentrated in the urban areas.

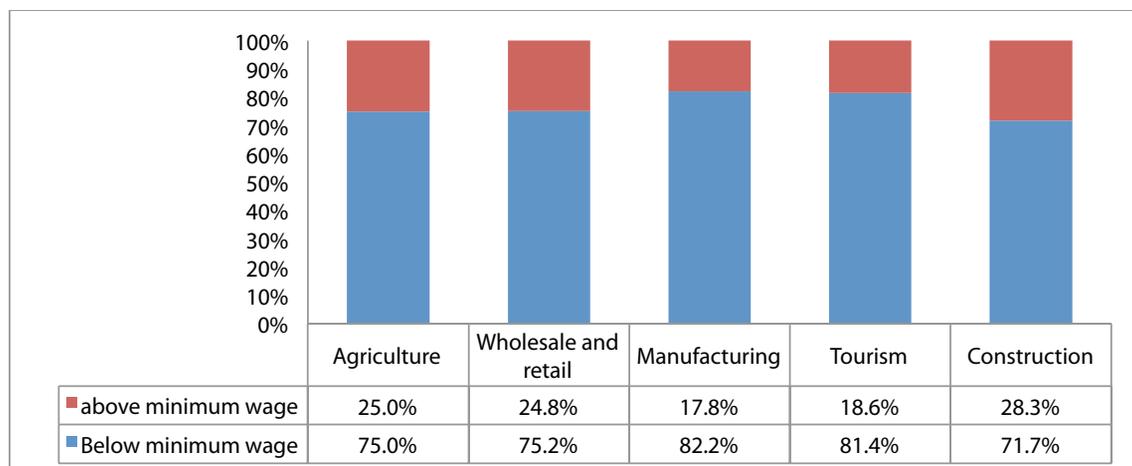
Figure 4: Regional distribution of the self-employed by sector



Source: 2012 LFS

Earnings for the self-employed are also very low. Only about 6.3% of all the self-employed earn above the minimum wage (ZMW1, 200). The LFS shows that most of the self-employed regardless of the sector earn below minimum wage.

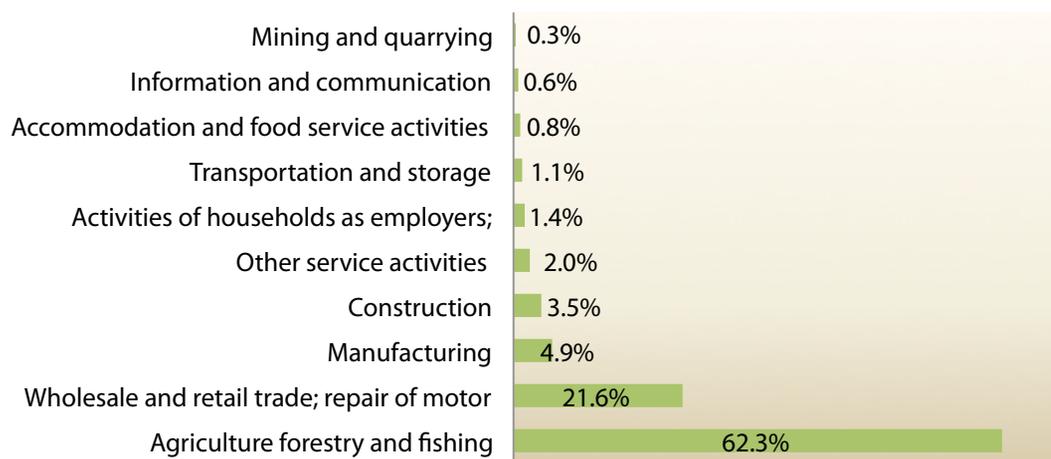
Figure 5: Earnings of the Self-employed by sector



Similarly, annual turnover does not exceed ZMW7, 200 on average for those operating self-employed businesses.

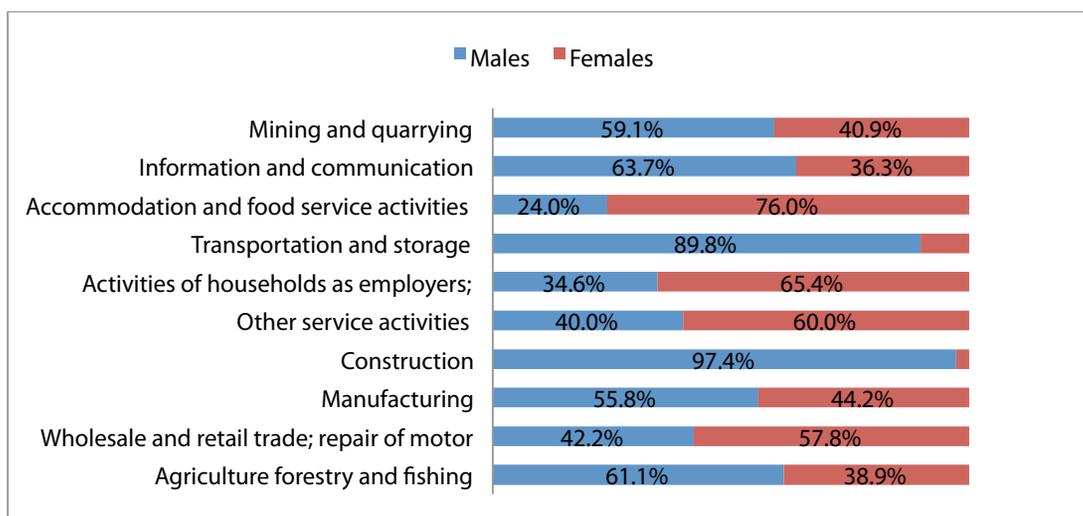
The LFS further shows that there are more self-employed persons in the Agriculture and Wholesale and Retail trade sector than any other. Each of these accounted for 62% and 22% of the self-employed respectively.

Figure 6: Self-employment in the top ten Industries



Interestingly, as shown in Figure 6, the rates of participation in self-employment by males and females do not seem to be uniform across different sectors. Males still dominate in most industries such as mining and quarrying, construction, information and communication, transportation and storage, agriculture and manufacturing. Females on the other hand accounted for the larger share of the self-employed in the accommodation and food services and activities of households sectors.

Figure 7: Self-employment by sex



Comparing self-employed to employers

There are significant differences between the self-employed and the employers. CSO defines an employer as a person who operates his or her own economic enterprise(s) and uses hired labour. This group is very small accounting for only 0.3% of the employed population but over 16% of the employers hire more than 25 employees compared to only 4% of the self-employed with more than 25 employees. Below is a table showing some of the distinct differences between the self-employed and employers.

Table 3: Comparison between the self-employed and employers

Characteristics	Employers	Self-employed
Education attainment		
Below primary	0.0%	0.3%
Primary	0.0%	57.4%
Secondary	68.0%	40.3%
Tertiary	32.0%	2.0%
Median years of schooling	12 years	7 years
Region		
Rural	16.0%	70.3%
Urban	84.0%	29.7%
Business location		
Fixed business location	100.0%	43.1%
Informal location	0.0%	56.9%
Formality		
Formal	80.0%	4.7%
Informal	20.0%	95.3%
Minimum wage		
Below minimum wage	0.0%	21.3%
above minimum wage	100.0%	6.6%

Conclusion

The statistics above show that it is difficult to classify the self-employed in Zambia as MSMEs in the sense in which this term is understood in Zambia. Rather the self-employed are more of micro-enterprises, the majority of which are informal, have low wages and home businesses found largely in the Agriculture and Wholesale and Retail industry. This understanding is important especially when formulating policies and programmes. These background statistics also lay a foundation and a basis for which to analyze the relevance of policies to support entrepreneurship in Zambia in the following sections.

5. Challenges faced by the self-employed in Zambia

This report has established that majority of the Self-employed Zambians are survivalists with no aspiration to grow their enterprises. However, there is still a small proportion that are quite ambitious and aim very high. This study focused on the latter group which was found to be frustrated by a number of barriers that impede their growth and eventual graduation into large enterprises. Based on information obtained from entrepreneurs, this section documents the challenges faced which stem from the policy and business environment. These are:

Access to Finance

In line with the ZBS findings, access to finance was identified as a major constraint to business growth. Close to half of those interviewed in this study said it was extremely difficult to access credit from financial institutions because of high collateral requirements. As a condition for awarding a loan to individuals, financial institutions often require that the client provides collateral such as a title deed for a property. But even where collateral is provided, the high interest rates charged on loans is an additional barrier. Currently, banks charge around 24.5% interest on loans and tend to have very short repayment tenures. The stringent requirements imposed on loan acquisition makes it highly unlikely for very small enterprises to access commercial bank credit.

Box 1: Lack of finance holding back a carpentry business



Sinkala is a youth who runs a carpentry enterprise in Choma district of Southern Province. He has been lucky and has benefited from the Youth Development Fund .He says he could not have accessed any form of finance from any other sources, in particular from financial institutions because of the high collateral requirements. Looking to the future, this is a big problem. He is threatened by competition from cheaper imported furniture. To compete, he needs to find land for a bigger workshop and to invest in more advanced technology. But access to land is a major problem and - while he has access to some finance through the YDF – he will need more business development services for his business to successfully grow and employ people.

MSMEs generally, and micro enterprises in particular, are considered by commercial banks as a high risk group when it comes to finance. This is because most of them have very low capitalization and often fail to meet requirements set by financial institutions. One such requirement is that enterprises should have their books of accounts in order and audited. This implies that they have to hire the services of a qualified and certified chartered accountant which comes at a cost that most of the respondents said could not afford.

The other requirement (especially for those that are informal) is that they have to formalize their business. However, formalization attracts a number of registration costs from Patents and Companies Registration Agency (PACRA), Zambia Revenue Authority (ZRA), the Local Council and institutions such as Zambia Environmental Management Agency (ZEMA), Zambia Information and Communication Technology Authority (ZICTA), Zambia Bureau of Standards (ZABS), and Ministry of Tourism and other agencies that apply to the specific sector in which the business is operating. As a result most have failed to access funding necessary for the expansion of their businesses.

Furthermore, most financial institutions require small enterprises to open corporate bank accounts for their businesses before they can be lent funds. However, the time lag between the approval of the loan and the actual depositing of the money into the account is usually too long resulting in the account accumulating charges that most of the entrepreneurs felt were too high and an unnecessary cost on their businesses. The table below shows some of the funding sources that are available.

Table 4: Some Funding sources available for entrepreneurs

Source	Interest rate	Time Period	Collateral requirement	Comment
Commercial Banks	24.50%	Annually	Real estate property	Funds are expensive and conditions are stringent
Micro Finance Institutions	4.5% - 6.5%	monthly	Salaried workers	Interest rates are very high especially when calculated annually which are often in excess of 40%
Citizen Economic Empowerment Fund	12%	Annually	Land and property for loans above K30,000	Larger loans are hard to access
Youth Development Fund	4%	-	No collateral	Loans are often too small
Other Government Funds	0%	-	Mostly social grants	Funds are often very small
Non - Governmental Organizations	0%	-	Mostly grants	Funds are often very small

Lack of business skills

More than half of respondents identified business skills as the most important factor for their business growth. These include skills such as ability to analyze market trends, ability to market and sale products and services and many more.

Costs of doing business: Cost of Formalization

The cost of formalization was cited by most entrepreneurs interviewed as a constraint to business growth. A micro enterprise that is formalized faces a 3% tax on annual turnover and is required to pay numerous trading licenses to the local council. The main challenge with the tax system is that it is tax on turnover rather than profit and most businesses are not given any tax holidays. In all the districts surveyed in the study, the local councils were also cited by all the District Business Associations as a hindrance to business growth due to the various charges they continue to impose even on micro businesses.

Costs of doing business: High Labour Costs

Labour costs were identified as the reason for not taking on additional employees by most entrepreneurs. In normal circumstances a business may need additional employees in order to expand. However, for most of the businesses interviewed, an additional worker attracts additional costs which include the minimum wage which most respondents said could not afford. Others are contributions towards NAPSA, and Workers Compensation, employees' meals and transport allowances. In addition, the high cost of separation which by law requires that the employer offers a severance package of not less than two month's basic pay for each completed year of service¹¹. This cost of separation was said to be too stiff. Most entrepreneurs also complained that it is hard for them to find skilled labour and that the cost of skilled labour is high.

Costs of doing business: non-labour costs

Non-labour costs which include high taxes, transport costs and rentals also act as barriers. The cost of renting business premises is a particular concern. Access to land was identified as a major challenge by many respondents. As respondents generally lack access to finance, their ability to acquire land is complicated. This leaves most of them to rent premises for business operations. However, the cost of rentals especially in Lusaka and Livingstone is very high making it challenging for business expansion.

Cost of doing business: Multiple Licensing and fees

Entrepreneurs also lamented over the high number of licenses that they have to obtain and pay for to operate their businesses. This was especially more acute for businesses

11 The Minimum Wages and Conditions of Employment Act

in the tourism sector. These licenses include fire, health, liquor, business levy, personal levy, land rates and signing and stamping (all from the local councils). There is also need to obtain licensing and/or certification from PACRA, ZEMA, ZABS and ZRA and other Government agencies before one can continue operating a business. The rates of the licenses vary depending on the district and the industry of the business. It is estimated that on average an entrepreneur spends ZMW5, 000 per year on licenses alone. This is especially a problem because entrepreneurs are expected to pay for all the licenses at the beginning of the year but this is challenging considering that majority of the self-employed earn below the minimum wage (ZMW1, 200).

Limited access to Government services

One challenge that came out more pronounced among all the entrepreneurs in all the districts was that they find it hard to access Government support services, especially under the Ministry of Commerce Trade and Industry. This was attributed to the fact that most of these institutions are either found in Lusaka only or the provincial headquarters. This is the same for ZDA, Ministry of Tourism and Arts, ZEMA and ZICTA.

6. Existing policies and their ability to respond to entrepreneur challenges

Numerous policies aimed at supporting the growth of entrepreneurs exist in Zambia. Through the Private Sector Development Reform Programme (PSDRP), Government has also undertaken a number of reforms to address the challenges faced by MSMEs outlined earlier in this paper. Additionally, there are reforms and programmes by the MCTI through the ZDA which also seek to redress these challenges. This section discusses some of these policies and their ability to respond to the needs of entrepreneurs.

Overall, while there are many policies focusing on MSMEs, most of them do not seem to differentiate between the various characteristics of enterprises. As already discussed, not all small enterprises in Zambia may fit in the general definition of a typical MSME as understood in the Zambian context. More often than not, policies and programmes seem to be designed for larger enterprises than most self-employed described in this study. As a result, sole proprietors and micro enterprises mostly fail to fit in some of the policy prescriptions made.

Table 5 provides an assessment of some of the key policies. Visibly, the policies are at variance with the kind of entrepreneurs described in Chapter 4. In rare cases where the policy objectives seem to meet the needs of the self-employed, such policies are either not implemented or poorly implemented.

Table 5: Summary of Policies on Entrepreneurship in Zambia

Policy	Objectives	Applicability to micro enterprises	Weaknesses
MSME Development policy	<ul style="list-style-type: none"> ❖ Facilitate MSME access to finance ❖ Enhance market opportunities for MSMEs ❖ Enhance business development services ❖ Provide appropriate operating premises and business Infrastructure. 	<ul style="list-style-type: none"> ❖ None of the objectives applicable to micro enterprises have been effectively implemented. There are however only efforts to improve access to finance through the formulation of an alternative stock market tailored to SMEs. 	<ul style="list-style-type: none"> ❖ Most objectives not achieved <ul style="list-style-type: none"> -access to finance remains difficult -markets not accessible to MSMEs -business development services are limited and duration often too short ❖ Most entrepreneurs are too small to join an alternative stock market.

Strategy paper on Industrialization and Job Creation	<ul style="list-style-type: none"> ❖ lower the cost of doing business; ❖ streamlining and strengthening inter-agency coordination; ❖ reduce input costs for sectors ❖ Expand export opportunities through trade facilitation measures and tax reforms 	<ul style="list-style-type: none"> ❖ Micro enterprises can benefit from a lower cost of doing business 	<ul style="list-style-type: none"> ❖ This has not been effective: <ul style="list-style-type: none"> -land still inaccessible -business licensing processes still a barrier to business -transport and communication remain expensive due to undeveloped infrastructure. -corruption still an issue in the public sector
CEEC	<ul style="list-style-type: none"> ❖ Promote Citizen Economic Empowerment through provision of finance ❖ Provision of Business Development Services ❖ Fostering improvements in the policy environment 	<ul style="list-style-type: none"> ❖ Micro enterprises have benefited from BDS ❖ Micro enterprises are recipients of micro loans. 	<ul style="list-style-type: none"> ❖ These are not very successful: <ul style="list-style-type: none"> -Loans either too small or too large for micro enterprises. -High default rates on loans reducing funds available for other would be beneficiaries -Loans and grants prone to political influence -BDS not linked to recipients of funds
ZDA Act	<ul style="list-style-type: none"> ❖ spur private sector development through incentives ❖ Provide marketing support services to MSMEs ❖ Designate industrial estates for the location of MSMEs in Manufacturing 	<ul style="list-style-type: none"> ❖ None are applicable to micro enterprises except BDS 	<ul style="list-style-type: none"> ❖ Incentives do not benefit micro enterprises because of their low capitalization and size ❖ Business development services provided in form of training is often said to be too short and inadequate

From table 5, it is quite clear that current policies do not directly meet the needs of micro businesses in Zambia. Some of the policies are too vague or too general in a number of cases to accommodate sole proprietors and micro enterprises. Further responses to some of the challenges are as follows:

Access to Finance: as indicated in the box an alternative market for stock market for SMEs was introduced in 2014. The terms for listing on this stock market: SMEs with annual turnover of between ZMW 250, 000 and ZMW 20 million and employees of not more than 150. However, the micro enterprises that are described in this paper are simply too small to meet these thresholds. This systematically leaves them out of this kind of initiative.

The PSDRP is in the process of introducing movable assets, such as goods, intangibles, securities, money, negotiable instruments and negotiable documents, as collateral to ease the collateral requirements imposed by financial institutions. It is hoped that with the addition of movable assets as collateral, more people will be able to access credit.

Box 2: Producing stock feed in Chipata: "Government ignores micro enterprises"



Mr Mwale is an entrepreneur who produces stock feed for dairy cattle and chicken. He recently received funding for purchase of stock feed production equipment from the Citizen Economic Empowerment Commission and aim to create 14 jobs once the plant is fully set up. Access to credit was a major constraint before he got a loan. He still faces a number of challenges, including the high costs of production and a lack of appropriate technology. Employing additional people for his business is challenging because wages especially for skilled labour are relatively high thus making it hard to expand the business. He says the business environment is heavily regulated and there are too many levies that he has to pay (see annex F). He also thinks that the minimum wage is too high and that it should be lower for smaller businesses. He feels there is no focus on micro businesses by Government. He says: 'If we are part of the larger part of businesses, Government needs to take care of us because we have the capacity to create jobs!'

The Citizen Economic Empowerment Fund is intended to provide affordable finance to MSMEs. However, most micro enterprises are unable to access this fund because it still requires collateral. The repayment period by CEEC which is 6 months for micro loans was also said to be too short by some respondents. One participant in the focus groups said: "We fear them [the CEEC]. They are for big businesses."

Licenses: Despite the PSDRP efforts to streamline trading licenses by introducing a single business levy in 2012 as a way of reducing the cost of doing business licensing still remains a nightmare for micro businesses.

Before the repeal of the trading license, enterprises were required to pay for a number of licenses that included health permit license, fire license and other inspection fees to the district councils. With the issuance of Statutory Instrument No. 20 of 2012, Statutory Instrument No. 70 of 2011 was amended to introduce a single business levy which required that no extra charges leveled against MSMEs in respect to fire, health and other inspection fees. However, information from the key informant interviews revealed that the local councils have not adhered to this rule, meaning that the same fees are still being charged.

Council fees were highlighted by all the DBAs as one of the major inhibitors to business growth. Evidence of non-compliance by the local councils has also been recorded in the local newspapers. The number of licenses still remains high. According to an inventory of licenses in Zambia conducted by PSDRP, there were a total of 517 business licenses and by 2014 only 113 licenses have been eliminated.

Business Development services: ZDA, Ministry of Commerce, CEEC and Ministry of Youth have business development services for entrepreneurs covering a wide range of areas which include, starting a business, financial management, pre-financing training and business management training. The ZDA has an incubation program that is meant to provide mentorship to a business until such a time that it is able to function on its own. Under this programme, an enterprise is provided infrastructure from which it can operate while being mentored on marketing, product development, financial management and many others.

However, the Business Incubation Programme has not been implemented. The Ministry of Youth and Sport has a business clinic conducted jointly with the district councils and the ZRA. The trainings offered most often do not exceed five days making them inadequate for the entrepreneurs. The trainings have also been described by most respondents as highly academic and do not resonate with the business environment in Zambia.

7. Filling the Policy Gaps

A number of gaps exist in policy especially policy that apply to micro enterprises. These include;

Lack of policy and programme implementation

Government has a number of policies and programmes for MSMEs. Unfortunately most of them do not seem to have been implemented. The issuance of a single business levy in most districts is an example of unimplemented policies. As earlier alluded to, ZDA has a number of programmes that have not been implemented. The lack of implementation may be due to insufficient funding to ministries. Government may have to engage the private sector to implement certain programmes such as the Business Incubation Programme. This may result in more efficiency and timely implementation.

Policy mismatch

Micro enterprises as described in Chapter 4 do not fit into the Governments definition of micro-enterprises. There is a large variability within the definition which makes it hard for policies to cover all the micro entrepreneurs. Additionally, lumping micro-enterprises together with SMEs creates a problem because they are very different.

The lack of a proper definition has resulted in policies that are not sensitive to the challenges that are faced by these enterprises. Furthermore, micro enterprises have been systematically excluded from Government support. There are no known incentives for micro enterprises because most of the incentives offered by ZDA only apply to large enterprises.

Poor policy co-ordination

‘The effectiveness of entrepreneurship development strategies depends on how (i) the different elements of the strategy are integrated and (ii) how they are aligned with overall development strategies and (iii) with other national competitiveness and private sector development policies. Harmonization with strategic processes pursued by different national ministries and national commissions are crucial to exploit synergies.’¹² In Zambia there is a lack of cohesion among the institutions working with MSMEs. The people targeted for the provision of finance are not the same people targeted for other programs such as business training for example.

But the solution to the current challenges of micro enterprises will require a holistic approach. Therefore an intervention that seeks to address one challenge while

12 Source: UNCTAD 2012; Entrepreneurship Policy Framework And Implementation Guidance

ignoring the others results in partial problem solving. There is therefore need to coordinate various programmes so that various interventions target the same crop of entrepreneurs.

There is also a problem of duplication of programmes for instance the National Technology Business Centre has incubation programmes similar to ZDA's. Furthermore ZDA and CEEC both have a mandate to provide business development services. The other gap is the lack of coordination among Government agencies.

Lack of integrated support services in the different Government programs

Most programmes by Government are centered on training and do not provide interventions that ensure an entrepreneur benefits from existing local value chains. There is very little that has been done at providing markets locally and internationally for the entrepreneurs. Thus while entrepreneurs receive training on business management and hence may increase their output, market access remains a challenge.

8. Conclusion and Recommendations

MSMEs are undoubtedly an avenue for job creation and poverty reduction in Zambia. The high proportion of the self-employed in the labour force demonstrated in this report is also a useful resource whose potential to create jobs is immense.

This report has highlighted that most micro entrepreneurs are constrained due to inadequate capital, low business skills sets, lack of access to markets and high regulation fees. Constraints in accessing finance also pose a serious limitation to growth of enterprises. There is need to develop financial services tailored for micro enterprises and provide adequate alternative sources of finance. Current economic empowerment funds may need to be revisited so they meet the financing requirements of not only medium scale businesses but also micro enterprises. There is also need for Government to fully implement the various policies and programmes.

To redress the myriad challenges faced by sole entrepreneurs and micro-enterprises, there is need for a holistic intervention. The challenges that have been identified stem mainly from the policy environment which is uncoordinated, lacks cohesion and is ignorant of the type of entrepreneurs we have in Zambia. The MSME policy which is the overarching policy on MSMEs needs to be fully implemented with immediate focus on programmes with high return to businesses such as the establishment of business incubation programmes to provide the much needed business skills to small businesses. There is also need to harmonize Government ministries and agencies to ensure that enterprises are not burdened with too many licenses and charges and avoid duplication of efforts. Some of the following pointers would be useful in enhancing the capacity of small businesses:

i. ***Redefine micro-enterprises to address policy mismatch***

Policy seems to have forgotten and is blinded towards micro-enterprises. It only addresses the needs of the big enterprises (SMEs). There is need to clearly separate the micro- enterprises from the broader group. The definition of a micro enterprise based on annual turnover of up to ZMW 150,000 is too broad and unrealistic for what is obtaining on the ground. The variability within the group is simply too large.

ii. ***Develop appropriate policies for the micro-enterprises and implement already existing appropriate policies***

The business incubation programmes and some of the reforms under the PSDRP that would support small businesses more effectively have not been implemented yet. It would be very important to implement them as soon as possible. On business

incubations, the private sector may be a useful partner in implementation while Government may have to limit its role to that of coordination and quality control. Despite many efforts by PSDRP, the cost of doing business is still high in Zambia. Wages still remain high, registration, licensing and fees to various Government agencies all remain a barrier to formalization. The Government may consider doing some of the following:

- a) Design a one-stop shop for various fees and registration licenses specifically designed for MSMEs.
- b) Incentivize micro enterprises especially those that keep proper financial records by revising the turnover tax to be tax on profit to improve record keeping among micro enterprises.
- c) Consider introducing tax holidays for MSMEs. The only incentives currently existing are for investments in the MFEZ which require a minimum investment of \$500, 000 for which most MSMEs do not qualify.
- d) Enhance skills development through skills centers

iii. *Lower cost of doing business*

The multiplicity of fees and charges impose a high cost and strain on sole entrepreneurs especially those in the agriculture sector¹³. Ministries and different agencies of Government should coordinate themselves and streamline some of these. A single business levy in particular would be the easiest way to do this.

iv. *Reduce the cost of finance*

There is need to diversify funding sources for micro enterprises away from Government. ZIPAR has earlier recommended enhancing relationship banking between the banks and MSMEs through creation of an institution that could provide business development services to MSMEs by intermediating between the banks and MSMEs¹⁴. Another alternative would be to establish an organized platform where micro-enterprises can create equity partners. Other countries leverage on crowd-funding as a way of financing start-ups and micro-enterprises.

13 See annex E for the list of fees in the Agriculture sector

14 Based on a ZIPAR study, switching costs, Relationship Banking and MSMEs formal Bank Credit in Zambia.

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Annex

Annex A: Full details of existing policy frameworks

1) The MSME Development policy¹⁵

This is the overarching policy on MSMEs which started in 2010. The MSME Policy aims at achieving the following development objectives:-

- i. To facilitate creation and development of viable Micro, Small and Medium Enterprises that contributes 30% towards annual employment creation and 20% towards Gross Domestic Product by the year 2018.
- ii. To facilitate an increase of 10% towards utilization and value addition of local raw materials in identified regional areas by the year 2018.
- iii. To strengthening forward linkages between MSMEs and large scale companies by facilitating an annual increase of 10% in subcontracting of MSME by large scale companies.
- iv. To improve productivity in the MSME sector by 10% by the year 2018.
- v. To enhance Local Economic Development thereby stimulating broad based economic growth by establishing five Business Incubators and five Industrial Parks in identified locations by the year 2018.

Out of the five development objectives, only the fifth objective applies to the micro-enterprises but it has not been implemented. In addition to the objectives, the MSME policy focuses on three focus areas hinged on three development pillars; Capacity, Access and Operating Environment. The pillar access focuses on MSME access to finance, market opportunities, business development services and provision of appropriate operating premises and business Infrastructure. All these pillars are suitable for the micro-enterprises however none of these are operational except the business development services that are often inadequate.

2) Strategy paper on Industrialization and Job creation

The paper which was developed by the Ministry of Commerce Trade and Industry outlines Government's strategy to create 1 million formal jobs by 2016 through four growth sectors: Agriculture, Manufacturing, Construction and Tourism each of which will contribute 550, 000 jobs, 89, 000 jobs, 85,000 jobs and 300,000 jobs, respectively. To achieve this job targets, the strategy seeks to enhance the investment framework through: strengthening of the policy framework to facilitate investment and lower the cost of doing business; developing effective compliance and monitoring mechanisms;

15 Micro, Small and Medium Enterprises Development Policy 2008, Ministry of Commerce Trade and Industry

streamlining and strengthening inter-agency coordination; and reduce input costs for sectors and expand export opportunities through trade facilitation measures and tax reforms.¹⁶ The salient strategies from the strategy are:

- Enact the Tourism and Hospitality (Amendment) Bill and the Zambia Wildlife (Amendment) Bill to streamline licenses in the tourism sector;
- Strengthen the monitoring of investors, particularly investors accessing incentives to ensure the country attains its socio-economic objectives that form the premise on which incentives are given;
- Strengthen inter-ministerial coordination on investment with a focus on enhancing the coordination role on the Zambia Development Agency for all investment activities and investment promotion programmes.
- Implement one-stop shops for business registration in all provinces;
- Implement a one-license concept for Tourism Investment; and
- Increase the number of manufacturing firms operating in the MFEZs.
- Lower import duties for inputs used in the pharmaceutical and metal fabrication sub sectors
- Enforce the preferential procurement threshold for public works in all procurements of public works

Specifically the key strategies to facilitate growth of MSME's are:

- a. Review the coordination and institutional framework in the development and implementation of MSME policies and strategies and strengthen the legal and regulatory framework;
- b. Develop and implement programmes to assist MSME owners keep business records, identify more profitable lines of business, develop business plans, and improve general business administration with a view to making it easier for them to gain access to financial services;
- c. Ensure that Citizen Empowerment initiatives support the integration of Zambian enterprises into the economy and ensure that Government financial interventions for enterprises should be targeted at viable enterprises operating in the priority sectors;
- d. Formalize existing informal industrial clusters in selected districts and explore options for value chain based clusters linking rural producers to processors and markets for their raw materials;

16 Extracted from the Strategy paper on Industrialization and Job Creation, 2012

- e. Fully operationalize the preferential procurement scheme and institute monitoring mechanisms and sanctions for noncompliance;
- f. Limit or discourage use of “grants” as an empowerment tool to improve credit culture and strengthen the role of the Credit Reference Bureau;
- g. Introduce entrepreneurship as a compulsory component of all skills development curricula;
- h. Fast track establishment of incubation facilities for timber processing; Agro and Gemstone Processing;
- i. Reorient and harmonize existing empowerment programmes to focus on enterprise development for citizens;
- j. Scale up existing interventions such as the Export Development Fund in the priority sectors that enhance productivity and exports and explore measures to further reduce the cost of rural transportation;
- k. Implementing the International Finance Corporation programme for lending to MSME’s and introduce legislation for the establishment of a national Credit Guarantee Scheme for MSMEs
- l. Promote FDI in targeted sectors on a Joint Venture or partnership basis by developing capacity for Zambians to participate in joint ventures and facilitate business linkages with large corporations; and
- m. Simplify the listing requirements on the Lusaka Stock Exchange (LUSE) for MSME’s.

3) **Private Sector Development Reform Programme (PSDRP)**

PSDRP established by Government implements business environment reforms in Zambia. Its goal is ‘to promote and facilitate the development of a competitive business environment in Zambia in order to contribute to job and wealth creation.’¹⁷ The purpose of PSDRP is ‘To increase business access to markets and finance and reduce cost of doing business in Zambia’. The programme has prioritized five key reform areas namely; Business Licensing Reform, Micro Small and Medium Enterprise (MSME) Development, Public Private Partnership (PPP) Development, Labour law reform and productivity, Trade expansion and three key cross cutting areas, Doing Business Reforms, Reform Communication and Capacity Building to manage and implement reforms and Gender mainstreaming. As one of its focus areas, PSDRP is undertaking the Strategy on Industrialization and Job creation.

4) **Citizen Economic Empowerment Commission**

The Citizen Economic Empowerment Commission (CEEC) was established through an Act of Parliament in 2006 with a mandate to bring about equitable development through three strategies:

¹⁷ The PSDRP is currently in its second phase which started in 2009 and ended in 2014. More information on PSDRP is available on <http://www.psdzambia.org/>

- 1) Increase economic support through provision of finance under the Citizen Economic Empowerment fund. CEEC has a value chain development programme that targets specific sectors in each district for provision of finance. For example in Chipata district, the Commission is only funding enterprises in dairy farming while in Luanshya the sector funded is fish farming. The loans are offered at 12% interest per annum. The Commission offers micro loans ranging between K5, 000 and K30, 000 which are paid within 6 months and do not require collateral. However loans above K30, 000 are backed by collateral in form of land and housing properties. In addition to the fund, the Commission is exploring a franchise initiative in the Tourism sector as a way of broadening access to capital. A pilot project is currently underway in Muchinga, Southern and Western provinces with an estimated budget of K2 million per province.
- 2) Provision of Business Development Services through trainings on preparation of business plans and financial management training among others. The cost of the training is partly born by the beneficiary and is incorporated in the loan.
- 3) Fostering improvements in the policy environment. CEEC is implementing the preferential procurement for citizens- influenced companies, citizens empowered and citizens owned companies. The definition is based on involvement of citizens as shown in Table 10 below.

Table 6: Types of Companies that qualify for CEEC Preferential procurement

Companies that qualify	Equity ownership by Zambian Citizen	Margins awarded under preferential procurement
Citizens-influenced company	5 – 25 % citizen ownership	4 %
Citizens empowered	25-50 % citizen ownership	8 %
Citizen owned	50.1 % ownership	12 %

An addition of 15% is awarded to companies in the manufacturing sector.

The preference schemes provides for adjustment of the bid price by granting a margin of preference to the advantage of the citizen- influenced, citizen empowered and citizen owned companies. The preference schemes has thresholds for the reservation of the targeted citizen companies as follows; the scheme applies to public procurement of goods not exceeding K3 billion; for building construction works not exceeding K20 billion; Civil and road works not exceeding K30 billion; and for non-consulting services below the value of K1 billion.

Other CEEC programmes

The Commission is in the process of developing industrial yards and is collaborating among others with the Street Vendor Transformation Programme aimed at clustering micro enterprises through providing appropriate infrastructure and modern equipment. The commission is undertaking a baseline study aimed at mapping enterprises in Zambia by identifying the types of enterprises and their locations. CEEC is also implementing the Rural Industrialization Strategy.

5) ZDA Act

The ZDA Act of 2006 was enacted by the Parliament of Zambia to spur private sector development. It aims among others to foster trade and investment in Zambia, establish the Zambia Development Agency and support the MSMEs. The specific support to MSMEs includes;

- i. Providing marketing support services to micro and small business enterprises;
- ii. Designating industrial estates for the location of micro and small business enterprises engaged in manufacturing
- iii. Designating commercial estates for the location of micro and small business enterprises engaged in the retail of goods and services.
- iv. Provision for a waiver of a Trade Licensing under the Trade Licensing Act for micro or small business enterprise registered under the ZDA Act.

There are a number of incentives given to enterprises registered under ZDA. The incentives however apply for enterprises operating in manufacturing in the MFEZ and rural areas. These incentives as outlined in the ZRA practice note include;

- On the income of a rural business enterprise or business enterprise in a priority sector operating in a multi-facility economic zone or an industrial park tax shall be charged at 0% for a period of five years starting from the year of commencement of operations of the approved investment;
- Tax to be deducted from any dividend declared by a rural business enterprise or business enterprise in a priority sector operating in a multi-facility economic zone or industrial park shall be at the rate of 0% per annum for a period of five years starting from the year of commencement of operations of the approved investment.

Annex B: List of key informants

List of Key Informants	Location
Ministry of Commerce trade and industry	Lusaka
Ministry of Labour and Social Security	Lusaka
Ministry of Youth and Sport	Lusaka
National Technology Business Centre	Lusaka
Ministry of Agriculture and Livestock	Lusaka
Zambia Development Agency	Lusaka
Citizen Economic Empowerment Commission	Lusaka, Kabwe, Ndola, Choma and Chipata
Zambia Chamber of Commerce and Industry	Lusaka
Kabwe Chamber of Commerce and Industry	Kabwe
Eastern Chamber of Commerce and Industry	Chipata
Kitwe Chamber of Commerce and Industry	Kitwe
Zambia Association of Manufactures	Lusaka
Private Sector Reform Programme	Lusaka
Zambia Chamber of Small and Medium Business Association (ZCSMBA)	Lusaka
African Development Bank	Lusaka
Poultry Association	Lusaka
Zambia National Farmers Union	Lusaka
Youth Entrepreneurs of Zambia	Lusaka
Ndola District Business Association	Ndola
Kabwe District Business Association	Kabwe
Livingstone District Business Association	Livingstone
Chipata District Business Association	Chipata

Annex C: Laws regulating the Construction sector

The construction sector is another sector that is heavily regulated by multiple laws which in some cases conflict. Among the laws that regulate construction include;

- Citizen Economic Empowerment Act No. 9 of 2006
- Citizen Economic Empowerment (Preferential Procurement) Regulations, Statutory Instrument No. 36 of 2011
- Competition and Consumer Protection Act No. 24 of 2010
- Engineering Institute of Zambia Act
- Environmental Management Act No. 11 of 2011
- National Council for Construction Act No. 13 of 2003
- National Housing Authority Act No. 16 of 1971
- Occupational Health and Safety Act No. 36 of 2010
- Public Health Act
- Public Procurement Act
- Public Roads Act
- Roads and Road Traffic Act
- Zambia Public Procurement Authority (ZPPA) Guidelines
- Workers Compensation Act
- Urban and Regional Planners Act

There are various conflicts that exist among various laws in the Construction sector. These include; Workers Compensation Act, NCC Act and NAPSA which all have the same mandate of conducting safety inspections on site; Conflict on definition of a Zambian Company in the CEE Act and the ZPPA Act. Definition of Citizen influenced and Citizen empowered company differ in these Acts; The Procurement Act requires that the full budgeted funds for the project are available at the time of sourcing the contractors and signing of the contract, while Public Finance Act is being used by Government to procure works with only limited resources.

Annex D: Licenses in the Tourism Sector

The tourism sector had over 500 licenses required by law for business operation before PSDRP streamlined the number of licenses to 300. Businesses operating in the Tourism sector require licenses and permits from Zambia National Tourist Board (ZNTB), Zambia Local Councils and Wildlife Authority (ZAWA). Among the licenses required to operate in tourism include;

- Hotel licenses which in total are about 7-8 permits. The payment of license fee for hotel services is done without grading of hotels.
- Liquor license
- Business levy
- ZEMA
- Park/Camp/ZAWA fees for people operating along parks.
- Park/Camp fees for miners in game parks

In addition to the numerous licenses there are too many forms and repeated documentation that have to be done annually in hotel and tourism sector. This documentation sometimes requires contracting consultants services for example in auditing financial statements and business plans.

Annex E: Multiplicity of fees and charges in the Agriculture sector

Agriculture faces multiplicity of fees and charges that vary across the sub-sectors and across districts. Among some of the fees and charges that are in the agricultural sector include;

- Chemical Storage fees by ZEMA. This is charged to businesses using and storing hazardous chemical substances such as pesticides, vaccines and herbicides.
- Slaughtering fee
- Marking fee
- Re-marking fee
- Branding fee
- Stock movement fee by the veterinary department
- Stamping fee
- Re-stamping fee
- Kapenta levy
- Egg levy
- Broiler levy
- Meat inspection fee
- police livestock anti-theft clearance report charges
- animal examination fees
- company charge on fresh fish
- fee for food handling certificate
- fee for fresh fish certificate of origin
- zonal charge

Annex F: Interview Guide



TOPIC: ASSESSMENT OF THE POLICY ENVIRONMENT AND FACTORS THAT INFLUENCE JOB CREATION AMONG ZAMBIAN ENTREPRENEURS

INTERVIEW GUIDE FOR GOVERNMENT MINISTRIES

1. What is your role in supporting entrepreneurship in Zambia? (*probe for programmes in place for business development*)
2. What is the nature and form of this support?
3. What are the strengths of the programme?
4. Who are the main target beneficiaries for these programmes?
5. There is an Industrialization and Job creation strategy currently being implemented; in what way are you involved as the ministry in this strategy?
6. If any strategies, is there a system that is used to ensure that jobs are being created? (*probe for any monitoring and evaluation they may have and get copy*)
7. How many jobs have been created from these programmes?
8. Are these numbers of jobs created your initial targeted levels? If not, could you explain the differences between the target and the achieved number of jobs?
9. What are some of the key policy measures and strategies outlined in the Policy aimed at entrepreneurship development?
10. How old are most of the enterprises that you support? What is the survival rate?
11. What conditions are given to enterprises to qualify for your programmes?
12. Do you think entrepreneurs are creating jobs in Zambia? If no, what needs to be done to ensure job creation?

MINISTRY OF COMMERCE, TRADE AND INDUSTRY

1. The MCTI is one of the instrumental ministries that look at entrepreneurship development, what policies and programmes do you have in place supporting entrepreneurship in Zambia? **(probe for programmes in place for business development)**
2. How has been the evolution of entrepreneurship in Zambia especially with people in self-employment?
3. How is the Zambian environment when it comes to entrepreneurs creating jobs?
4. In Zambia, there are a high proportion of people in self-employment and especially concentrated in the informal sector, are there any policies and programmes in place aimed at people in self-employment and/or in the informal sector?
5. How have entrepreneurs who start out as sole entrepreneurs fared in creating jobs over time?
6. Do you think entrepreneurs are creating jobs in Zambia? If no, what needs to be done to ensure job creation?
7. The MCTI launched the Industrialization and job creation strategy, what has been the contribution of entrepreneurs to job creation since the implementation of this strategy?
8. Is there a system in place that is used to ensure that jobs are being created? **(probe for any monitoring and evaluation they may have and get copy)**
9. How many jobs have been created by entrepreneurs who are self-employed?

INTERVIEW GUIDE FOR THE PRIVATE SECTOR

1. How do you analyze the current business environment in Zambia in as far as job creation is involved? **(possible responses; cost of doing business high, credit constraints)**
2. What policies and programs in place do you know aimed at promoting the sector in creating jobs?
3. What are the strengths and weaknesses of these policies and programmes?
4. What do you think Government should work on in order to boost your sector?
5. What are the main challenges being faced by your members?
6. If you were to rank these challenges, which ones would you say are the most important?
7. What characteristics of your members do you think ensures success in this sector?
8. What is the membership base of this association?
9. What has been the trend of your members in job creation? (are they able to create jobs? Give reasons for ability or inability to create jobs)
10. What role do you play in ensuring job creation among your members?
11. Are there any policies by Government that you feel inhibit the operations and growth of the sector?
12. If you were to design policies and programmes for job creation, what policy programmes would you come up with to support job creation in Zambia? What would be the features of this strategy?
13. Do you see a role for small businesses in effectively participating in job creation?
14. What could be the enabling factors and constraints for small businesses to create jobs?

INTERVIEW GUIDE FOR ZAMBIA CHAMBER OF COMMERCE AND INDUSTRY

1. How do you analyze the current business environment in Zambia in as far as job creation is involved? **(possible responses; cost of doing business high, credit constraints)**
2. What policies and programs in place do you know aimed at promoting the sector in creating jobs?
3. What are the strengths and weaknesses of these policies and programmes?
4. What are the main challenges being faced by your members? **(What could be the enabling factors and constraints for small businesses to create jobs?)**
5. If you were to rank these challenges, which ones would you say are the most important?
6. What opportunities in job creation are there for micro-enterprises? **(tell us more about the financial literacy training for MSMEs)**
7. What characteristics of your members do you think ensures success in this sector?
8. What has been the trend of your members in job creation? **(Are they able to create jobs? Give reasons for ability or inability to create jobs)**
9. What role do you play in ensuring job creation among your members?
10. Are there any policies by Government that you feel inhibit the operations and growth of the sector?
11. If you were to design policies and programmes for job creation, what policy programmes would you come up with to support job creation in Zambia? What would be the features of this strategy?
12. Do you see a role for small businesses in effectively participating in job creation?
13. We understand that under financial literacy training, you seek to make entrepreneurs understand the interface between micro finance institutions and clients and the implication of this; could you tell us more on how you do this?
14. ZACCI's aim is advocacy through influencing the business environment, how do you do this especially for MSME's?

ZAMBIA CHAMBER FOR SMALL AND MEDIUM BUSINESS ASSOCIATION

1. How do you analyze the current business environment in Zambia in as far as job creation is involved? **(possible responses; cost of doing business high, credit constraints)**
2. What policies and programs in place do you know aimed at promoting the sector in creating jobs?
3. What are the strengths and weaknesses of these policies and programmes?
4. What are the main challenges being faced by your members? **(What could be the enabling factors and constraints for small businesses to create jobs?)**
5. If you were to rank these challenges, which ones would you say are the most important?
6. What characteristics of your members do you think ensures success in this sector?
7. What has been the trend of your members in job creation? **(Are they able to create jobs? Give reasons for ability or inability to create jobs)**
8. What role do you play in ensuring job creation among your members?
9. Are there any policies by Government that you feel inhibit the operations and growth of the sector?
10. If you were to design policies and programmes for job creation, what policy programmes would you come up with to support job creation in Zambia? What would be the features of this strategy?
11. Do you see a role for small businesses in effectively participating in job creation?
12. What do you see as the challenges and opportunities of micro-enterprises in creating jobs?
13. ZCSMBA provides a number of services for micro enterprises (such as starting a business, marketing information, capacity building and improving your business), could you elaborate more on these services. Which of these services do you think are most important for micro enterprises?
14. As an institution that lobbied Government to develop an MSME policy, how effective do you think this policy has been implemented and what has been its impact on enabling entrepreneurs create jobs?

15. What do you think are the strengths and weaknesses of the MSME policy?
16. If you were asked to design the policy what would be the features of the MSME policy?
17. How has the CEEC assisted entrepreneurs in creating jobs?
18. You have an MoU with NATSAVE for exclusive financing to your members, how is this MoU working especially for micro enterprises?

ZAMBIA DEVELOPMENT AGENCY

1. How do you analyze the current business environment in Zambia in as far as job creation is involved? **(possible responses; cost of doing business high, credit constraints)**
2. What policies and programs are in place aimed at promoting the sector in creating jobs?
3. What are the strengths and weaknesses of these policies and programmes?
4. What are the main challenges faced by micro enterprises in creating jobs?
5. If you were to rank these challenges, which ones would you say are the most important?
6. What role do you play in ensuring job creation among micro enterprises?
7. Do you see a role for small businesses in effectively participating in job creation?
8. What could be the enabling factors and constraints for small businesses to create jobs?
9. Could you expand more on your 3 development pillars for MSME's **(capacity, access and operating environment)**
10. What guidelines and incentives do you provide for business environment for the MSMEs especially the Micro enterprises?

INTERVIEW GUIDE FOR INTERNATIONAL AGENCIES

1. Government is implementing the Industrialization and Job creation strategy; are you involved in this strategy? **(If yes, how are you involved?)**
2. Do you see any role of self-entrepreneurship as a solution to job creation in Zambia?
3. How do you understand the Zambian environment and its impact on promoting entrepreneurship?
4. What are the strengths and weaknesses?
5. What other interventions do you think should be in place to enhance job creation among self-entrepreneurs?
6. If you were to design policies and programmes for job creation, what policy programmes would you come up with to support job creation in Zambia? What would be the features of this strategy?
7. Who are the main target beneficiaries for these programmes?
8. What conditions are given to enterprises to qualify for your programmes?
9. What programmes do you have in place for business development?
10. What are the strengths of the programme?
11. Zambia has an MSME policy, how effective has been in enhancing entrepreneurs abilities to create jobs?

FOCUS GROUP DISCUSSIONS

1. How do you analyze the current business environment in Zambia in as far as job creation is involved? **(possible responses; cost of doing business high, credit constraints)**
2. What policies and programs in place do you know aimed at promoting entrepreneurs create jobs?
3. What are the strengths and weaknesses of these policies and programmes?
4. What do you think Government should work on in order to boost your ability to create jobs?
5. What are the main challenges you face in your businesses and also in creating jobs?
6. If you were to rank these challenges, which ones would you say are the most important?
7. What characteristics of entrepreneurs do you think ensures success in a business?
8. Are there any policies by Government that you feel inhibit the operations and growth of entrepreneurs?
9. What are the enabling factors and constraints for small businesses to create jobs?
10. What do you see as the challenges and opportunities of micro-enterprises?
11. What incentives do you know of provided by Government to the MSMEs especially the Micro enterprises?
12. What do you see as your main needs for your business development? **(possible responses; financing, marketing, strategy and business planning)**
13. What was the main source of funding for starting your business/organisation? **(own funds, commercial bank, MFI, friends/ relatives)**
14. Have you applied for funding in the last 2 years? If yes, was it successful?
15. What is the main market for your business?
16. What do you see as the main challenges in creating jobs as an entrepreneur?

INDIVIDUAL QUESTIONNAIRE (this is meant to get in-depth information on the entrepreneurs)

1. What made you venture into self-employment?
2. What kind of business are you involved in?
3. Does this business have any permanent paid employees? **(do not include family members) If so how many?**
4. Where is the enterprise located? (at home, permanent structure)
5. What was the main source of funding for starting your business/organisation? **(own funds, commercial bank, MFI, friends/ relatives)**
6. Have you applied for funding in the last 2 years? If yes, was it successful?
7. If you have not applied for funds, what are the reasons?
8. What do you see as the main challenges that you face in creating jobs?
9. Are you aware of any policies and programmes in place that promote entrepreneurship in Zambia?
10. If yes, what are they?
11. What do you think should be done by Government to boost your ability to create jobs?
12. What do you think are the attributes that makes one to be a successful entrepreneur? **(soft skills and hard skills)**

CSO Annex Building, Cnr John Mbita & Nationalist Roads,
P.O. Box 50062, Lusaka -Zambia
Tel: +260 211 252559
Fax: +260 211 252566
E-mail: info@zipar.org.zm

Website: www.zipar.org.zm

“Working towards the formulation of sound economic policies”



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