



## **The State of Business Practices and the Impact of BDS on MSMEs in Lusaka and Kabwe, Zambia**

**By**

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## **Abstract**

The micro, small and medium enterprises (MSME) sector is generally viewed as an important component in stimulating economic growth and alleviating poverty. Many national MSME development frameworks contain support mechanisms intended to unlock full potential harboured by the MSME sector. Business development support is just one such mechanism, and within which Business Development Services (BDS) provide a specific means of influencing MSME practices towards enhanced enterprise performance and greater economic impact. The paper has looked at the practices, impact of BDS and determinants of business performance in Zambia using both descriptive and econometric analyses. Current BDS interventions do not seem to be well-aligned to key choke-point areas that could unlock the potential of Zambia's MSMEs. As such, BDS is not currently significantly influencing enterprise performance.

**Key words:** MSME, Business Development Services, Business Practice, Business Performance.

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## Executive Summary

Cognizant of their employment generating capacity and in the context of improving the Investment Climate and the Business Environment [ICBE], the Government of the Republic of Zambia (GRZ) developed the 2010-2020 Micro, Small and Medium Enterprises [MSME] Policy. One of the main objectives of this is to improve access to **Business Development Services [BDS]** in rural and urban settings and thereby facilitate enterprise stability and growth. It was against this background that through the funds allocated by Trust Africa the Mulungushi University research team carried out the study, “The State of Business Practices and the Impact of BDS on MSMEs in Lusaka and Kabwe ,Zambia.” The study project adopted three complementary methods – initial semi structured interviews, focus group discussions and one to one interviews.

The MSME sector in Zambia is characterized by a large number of informal and micro enterprises with very few small and medium enterprises besides the owner. The majority of the businesses are less than 10 years old. There appears to be a good positive correlation between the level of education and growth of MSME businesses. The age and education distribution in the MSME sector - younger and less educated, suggests that this sector and ultimately the economy as a whole is deficient of human capital that may be needed to address some of the practice and performance issues identified Overall, the seemingly low levels of entrepreneurship as evidenced by particular mindsets and practices towards identification and exploitation of opportunities appear to have had significant impact on enterprise performance.

There appears to be heavy regulatory burden and heavy NGOs and government presence providing free and/or subsidized BDS, in a market where the demand side is indicating it is prepared to pay. This is bound to affect not only the development of market-driven and market responsive BDS, but also negatively impact on their future improved MSME performance. Econometric analysis shows a weak relationship between BDS and MSME performance. Sales/revenue and market share have a significant impact on MSME profits as a measure of performance. The effectiveness of BDS appears to be undermined by the fact that much of it is currently supply-driven. As such, though almost all MSME operators appreciated the trainings, they participated in, much fewer were able to link it to any impact in their enterprises.

There is a need for the development of a clear framework for engagement amongst the various stakeholders operating within the BDS sub-sector. Research institutions have an important role in putting forward knowledge/evidence-based building blocks for the development of policy framework. A more formalized relationship between BDS providers and financial institutions need to be developed.

## **1.0 Introduction**

### **1.1 Introduction to the Study**

*“To improve access by MSMEs in rural and urban areas to business development support in key areas that facilitates enterprise stability and growth” - (Objective 4 of Zambia’s MSME Development Policy: 2011-15).*

The micro, small and medium enterprises (MSME) sector is generally viewed as an important component in stimulating economic growth and alleviating poverty (Pennisi, 2012). As such, many developing countries have developed formal strategies to tap into the potential that this sector could hold (e.g. FGN, 2003; MCTI, 2011). Zambia has, for instance developed an MSME Development Policy (2011-15) to guide the sector. Yet, major economic indices linked to MSME development continue to generally post sub-optimal performances as seen by low per capita Gross Domestic Product (GDP), a weak industrial base that may even have declining output and capacity utilization, and the ever growing numbers of educated individuals failing to find meaningful career opportunities (Ihunweze, 2007). Generally, many developing country MSMEs will simultaneously venture into several sectors or markets, with these interlocked enterprises not typically exhibiting scope for much growth. Some are owned by “hybrid” entrepreneurs who are in formal employment but also running businesses on the side. A “subsistence” approach to livelihoods is quite prevalent – getting by, one day at a time. In this kind of scenario the contribution of MSMEs to overall economic development will tend to generally be far less than hoped for.

There is need to carefully examine the various factors that could assist in the realization of the full potential that is believed to be harboured by the MSME sector. Many national MSME development frameworks contain support mechanisms intended to unlock such potential. Business development support is just one such mechanism, and within which Business Development Services (BDS) provide a specific means to influence MSME practices towards enhanced enterprise performance and greater economic impact.

This study takes a closer look at the MSME sector in Zambia and examines the current state of affairs with regard to business practices, access to Business Development Services (BDS) and enterprise performance, with the view to beginning a process that helps in developing a deeper understanding of key institutional issues related to the interplay between these three variables. The study involved interviews with 187 MSMEs operates in two geographical locations (Lusaka and Kabwe). The two locations provided a convenient but a significantly wide economic spectrum that allows major insights to be obtained. The examination was undertaken from five research and practice disciplines that include economics, business management, business law, entrepreneurship and finance. The overall objective of the study is to attempt to identify some of the institutional factors affecting the ability of MSMEs to provide a greater contribution to national development. While some of these factors may sit at the enterprise level, others are likely to be at the overall macro-economic policy level and also at the meso level - the level of support institutions working in the MSME sector.

This introductory section starts with a brief background to Zambia as a context of study and then goes on to define the research problem, before concluding with an outline of the sections that form part of the study report.

## **1.2 Zambia – A Macroeconomic Overview**

On attainment of independence in 1964, the elected government of Zambia inherited, a strong economy characterized by a boom due to high revenues earned from copper production, the country's leading industry to this day. But a combination of increased state involvement in the operations of enterprises, inefficiency and ineffectiveness, and a major fall in copper prices towards the mid-1970s took the economy into a downward spiral. It was not until the early 1990s that, with the poor performance of many state-subsidized economic development initiatives, the government swung the pendulum of economic management towards a process of rapid market liberalization that resulted in the privatization of many parastatal organizations and the opening up of markets to both local and international private sector investment. This process had its challenges, with a number of institutions failing to settle into the new dispensation, leading to significant de-industrialization.

By the start of the year 2000, the market liberalization process seemed to have developed a more structured approach. Seemingly more strategic economic development approaches had begun to take root, and several developmental partners had come on board to provide support. Successive governments have since continued to implement various and far-reaching economic reforms whose priority have been the stabilization of major macroeconomic indicators, promoting private sector development and the withdrawal of the state from running business enterprises.

Greater international confidence in the economic development direction has opened up enormous investment opportunities, with Foreign Direct Investment (FDI) continuing to pour into the country. Various packages of incentives have been developed to attract investment into particular sectors and geographical regions. As a result of the above efforts, Zambia's Gross National Income (GNI) per capita grew from US\$320 in 2001 to about US\$1,200 in 2010 (BoZ; CSO). This has been coupled with steady progress on other economic indicators over the same period, including consistently posting a real GDP growth of over 5% since 2005, and maintaining single digit inflation since 2010. The World Bank in 2010 named Zambia as one of the world's fastest economically reforming countries. A year later the institution upgraded Zambia's status to that of a lower-middle income country.

Notwithstanding this impressive macro-economic performance, poverty remains rife in the country. The growth described above has not significantly translated into broad-based and sustainable wealth creation and reduced vulnerability for many households, especially those living in rural areas. Zambia still is among countries with highest disparities of income. This scenario threatens prospects for attaining the Millennium Development Goals (MDGs) and Zambia's Vision 2030.

### **1.3 Statement of the Problem**

As and when a sustainable national economic growth and development path is set in motion, a country transits from an economy dominated by primary production to that driven by manufacturing and processing, before eventually ending up with a service-driven economy. Currently, much of the GDP of all developed countries originates from services. In this respect a middle income country such as Zambia that straddles between the least developed and the developed ones, would theoretically be expected to experience growth and development that is driven simultaneously by the three sectors of the economy – primary production, manufacturing and services. This spread would be evident in the profiles of enterprises operating in the economy.

Based on lessons learned from the Asian financial crises of the 1990s (particularly in the case of South Korea's economy that was dominated by very large firms and corporations, versus that of Taiwan that was based on millions of smaller businesses), an economy that is driven by numerous MSMEs provides greater resilience and is much better positioned to deliver equitable developmental results (Hall & Harvie, 2003). Yet, in the case of Zambia, the pattern of MSME development and the associated trends in poverty levels continue to be a source of concern. Studies have revealed that Zambian MSMEs (just like in other parts of the developing world), continue to struggle to compete in a rapidly globalizing economy (Beggs, M 2010; Conway & Shah 2010). Amongst other factors, business practices within the sector have been pointed out as contributing to poor levels of performance. Access to BDS has also been singled out as being key to influencing business practices towards enhanced enterprise performance. There is however limited in-depth understanding of specific practices, levels of access to BDS and also of performance issues affecting MSMEs in Zambia. Further, no effort has gone towards beginning to understand the institutional issues related to the interplay between these three variables.

This study takes a closer look at these variables by examining them from five research and practice disciplines that include economics, business management, business law, entrepreneurship and finance.

### **1.4 The Research Objectives**

The overall objective of the study is to attempt to identify some of the institutional factors affecting the ability of MSMEs to provide a greater contribution to national development.

The following are the specific objectives of the study:

- i. To identify some of the business practices that may be affecting MSME development in Zambia;
- ii. To undertake an assessment of the state of access to business development support to MSMEs in Lusaka and Kabwe, with the view to possibly extrapolation to the rest of the country
- iii. To gain insights into current levels of performance of MSMEs in Zambia

- iv. To better understand some of the institutional issues related to the interplay between business practices, access to BDS and enterprise performance in Zambia’s MSME sector

## **1.5 Structure of the Paper**

This section provides an introductory overview that captures the key issues and the macro-economic context being considered under the study. The next section brings out insights from literature review, providing understanding of important concepts and the theoretical framework underpinning the study. Section three provides a more comprehensive context to the study by discussing Zambia’s economic development process, particularly focusing on the private sector, including MSME development and BDS. Section four discusses the research process, including the philosophical approach and methodology employed and their implications on the objectives of the study and on the data analysis. Section five discusses the findings while section six provides the main conclusion of the study by synthesising key issues that have emerged and the policy and practice implications for overall MSME development in Zambia and specifically on BDS. Some pointers to possible areas of further study are also included.

## **2.0 Conceptual and theoretical framework<sup>3</sup>**

### **2.1 Background to MSME Development**

The last two decades have seen a general global shift towards the adoption of market-led approaches as a means to attaining sustainable and inclusive development. This process was particularly accelerated in developing countries after the disintegration of the Eastern Socialist block led by the former Soviet Union. Market-led approaches have sometimes come under the label of “*The Washington Consensus*” – representing a set of commonly shared macro-economic themes by Washington-based institutions that were, in the 1980s, felt to be necessary for the recovery of Latin American economies that were at the time facing major economic challenges (Williamson, 1989). Though some aspects of the Washington Consensus continue to raise controversy to this day, at the core is emphasis on private sector development (PSD) whilst also addressing issues of inequality (Williamson, 2000). PSD refers to a strategy for promoting economic growth and reducing poverty in developing countries by building private enterprises, membership organizations representing them, and competitive markets that are stronger and more inclusive (Springfield Centre, 2008; Surhone, et al., 2011).

PSD is embedded in the concept of sustainable development because of its emphasis on inclusiveness in both the process and outcomes of development. Inclusive development may be understood as development processes which marginalized groups can take part in and benefit from, regardless of their gender, ethnicity, age, sexual orientation, disability or poverty. (UNDP, nd;

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<sup>3</sup> In addition to the sources cited in this Section, this draws from Tenkir Bongor, Dejene Aredo and Gezahegn “. 2011. “ Performance Indicators of ICBE in Private Higher Education and health in the post 1991 Period in Addis Abeba” Ethiopian Journal of Economics, XX(1) 55-98 and in the ICBE website which deals with the same issue but applied to different sectors.

Rauniyar & Kanbur, 2009). Within this context, a new global approach called Growing Inclusive Markets (GIM) has emerged, and seeks to demonstrate how business can significantly contribute to human development by including the poor in the value chain as consumers, producers, business owners or employees (thus is, by employing ‘inclusive business models’). It has been argued that such efforts to redress developmental inequalities through greater inclusion would need to adopt a twin-track approach that targets: (1) the society and its various institutions; (2) the particular people groups that are excluded (IDDC, 2005). This approach could potentially ensure that the poor are successfully integrating into strategies and operations of the various economic sectors and therefore enhancing broad-based wealth creation, spurring economic growth and even sparking positive socio-political change (UNDP, 2008). The promotion of micro, small and medium enterprise (MSME) development is understood to be an important PSD strategy because of its significant potential to reach a large segment of the low-income category of society.

## **2.2 Creating a Conducive Investment Climate and Business Environment for MSMEs**

A significant body of research shows that countries that have sustained notably high rates of economic growth also have governments that have intervened in the economy so as to provide both appropriate incentives to and regulation for private capital. There has also been a need for *consistency, reliability* and *credibility* within the policy framework so as to commend the *confidence* of private capital. The result of this combination has been seen to include the creation of a positive environment for private investment, an environment in which negative effects such as ‘rent-seeking’ behaviour (by the private and/or public sector actors) can be restrained.

But also important is the political system through which the above framework emerges. This is because the underlying ideological basis on which such a policy framework rests can send important signals to the private sector about future prospects (Kohli, 2006). There is however need for what Evans (1995) refers to as ‘embedded autonomy’ - a scenario characterized by the relative autonomy of the public bureaucracy political systems and other particularistic pressures from within society. This, together with clear mechanisms for engaging with private sector players and for developing shared goals is essential in building the needed trust. On the other hand, the extent to which the private sector is organized, and its capacity for collective action are also critical in forging effective relationships with the public sector.

There is also need to recognize the role of what is now being referred to as the “third sector”, constituting development agencies working with governments and the private sector in seeking to effect various forms of developmental change. They are probably the more difficult to locate within the development landscape and to define in terms of role, raising the possibility that the constituent players may not, in practice, necessarily be “pulling” in the same direction. The development sector is nonetheless well-known for its various forms of support to the private sector, including MSMEs. This has included working at individual MSME level, but also helping the entire sector to become better organized, such as supporting the development of fora that bring together different clusters of MSME operators.

### **2.3 MSME and Development**

Because of income segments that they represent, MSMEs are seen to be important to inclusive development. As such, developmental themes for engaging with MSMEs and low income categories have emerged, such as *"Making Markets Work For the Poor"* (MMW4P) and *"Doing Business with the Poor"*. (UNDP, 2008). These themes attempt to capture the essence of market-driven development that takes care not to leave any segment of society behind.

Though definitions of MSMEs will differ between countries, they are typically identified by their staff headcount and either their annual turnover or asset base. These enterprises account for by far the great majority of enterprises globally, have the highest capital/employment ratio and provide income to a broad layer of the population (UNDP, 2004). This therefore makes them a vital segment of the overall economy (Berry, et al., 2002; MCTI, 2010).

Much of the current drive for MSME development is being championed from an entrepreneurship development perspective. Whilst there is no globally-accepted definition of entrepreneurship, this concept is nonetheless understood to include the identification and successful pursuit of business opportunities. From this perspective it has been found that a relationship does exist between MSMEs (as an expression of entrepreneurship) and development (Audretsch et al., 2006), notwithstanding the fact that much research continues to enquire into the exact form and nature of this relationship (Carree & Thurik, 2003; van Stel, 2005; Naude, 2012). A particular issue of continued debate is whether this form of entrepreneurship is a driver of economic progress (see Leff, 1979; Kasper & Streit, 1998; Acs & Armington 2005; Henderson, 2006) or it is a consequence (see Van Stel, et al., 2007; Wennekers, et al., 2007). However, a strong argument is that, from an economics perspective, MSME entrepreneurship is a process embedded in the functioning of markets, and one that disrupts the existing market equilibrium by introducing successful new combinations into the economy. These new combinations boost productivity and resource allocation efficiency, which in turn fuels economic growth and development that moves an economy towards a new equilibrium (High, 2004; Douhan & Henrekson, 2007).

### **2.4 Current Research on the MSME Sector - Practices and Performance Issues**

Various studies have sought to (amongst other things) develop greater depth of understanding of the operations and business practices of developing country MSMEs and to ascertain how this affects their performance.

Unlike many of their developed country counterparts, most developing country MSMEs will not specialize in any particular sector, but attempt to reap from different markets. While this may respond well to short term realities, it will tend to limit the scope for enterprise growth. Many of them will not generally exhibit entrepreneurial orientations that include readiness and capacity to innovate. Various factors affecting entrepreneurship development have been identified and include lack of financial as well as technical and managerial skills on the part of the operator, and also poor infrastructure, scarcity of information, and other challenges on the part of the wider

environment (Gray 2006; Shiu & Walker 2007; Clarke, 2011). It has also been found that micro and small firms are more affected by bureaucratic burdens than the larger ones that, in turn, more affected by issues related to infrastructure (Aterido & Hallward-Driemeier, 2010).

By far the largest proportion of MSMEs, particularly those operated by women, are located in low value markets where there are few barriers to entry (Kantor, 2001). Prior studies have generally found that female-controlled SMEs tend to under-perform compared to the male-controlled SMEs on measures such as revenue, profit, growth and closure rates (Du Rietz and Henrekson, 2000). It has also been found that prior knowledge and experience does matter in MSME development (Westhead, 2005). This knowledge and experience could be from prior startups and/or from having worked in or known about the relevant industry.

Researchers such as Chen et. al. (1998) and Frese (2000) shows that individual psychologically attributes and behaviour such as Entrepreneurial Self-Efficacy (ESE) and elaborate and proactive planning tend to act as a mediators for MSME performance. Camuffo, et al. (2012) also brings out personality competencies that affect firm performance and categories them as follows: (1) threshold competencies (self-control, information gathering and visioning); and (2) distinctive competencies (planning, empathy, business bargaining, organizational awareness, directing others and benchmarking).

Watson et.al (2011) point out that managerial characteristics and operational processes affect enterprise performance. Freiling, (2007) draws on other prior work to show that MSME management challenges could be broken into three categories: (1) system renewal; (2) system exploitation; and (3) system protection. For each of these, three corresponding managerial functions are identified and include: (1) innovation; (2) coordination (internally) and market-making (externally); and (3) risk management.

Within this context, research shows that high performing and growth-oriented firms are opportunity driven (pull motivation), apply group management style, seek to enhance production capacity and leverage on external network relations, and adopt a specialized and differentiated product policy (Virtanen & Littunen, 2005). A recent study by Audretsch (2012) suggests that high growth firms, while representing just a small share of the overall MSME population, still lead in terms of employment creation. Perhaps even more controversial and surprising are suggestions that these growth firms are not often newly founded entrepreneurial startups, but rather that they tend to be larger and more mature firms. But Romer (1990) and Beck et al. (2004) hold the very opposite view - that new firms, as opposed to older ones, are more likely to grow. There is likely to be more research into growth-oriented firms because of emerging views about their relative importance to economic development.

But whichever the case may be, the above debate has raised the need to better understand MSME development in a developing country context. This is especially so because, as Lingelbach, et al. (2005) try to show, there are variations in MSME performance between developed and developing countries. Context does matter in this case. Liedholm & Mead (1999) examine developing country MSMEs and provide a categorization of four types that could be useful to work with: (1) newly

established, (2) established by not growing, (3) established but growing slowly, and (4) graduates to a larger size. One area of further research may be to better understand the contextual factors affecting each of these types. This could feed into more effective policies and interventions that target the most binding constraints to entrepreneurship in developing countries.

## **2.5 Measuring Firm Performance**

Enterprise performance can be a complex and multi-dimensional issue involving various fundamental aspects of an organization (Zammuto, 1984; Chong & View, 2008). It may touch on a basic issue such as product volumes being distributed or be in the realm of the nature of relationships with constituencies (customers, suppliers, regulators, etc.). Overall, performance may be understood to include institutional developments that advance the mission of an organisation.

Different frameworks and approaches exist for measuring enterprise performance. These often focus on resource utilization and can generally be grouped into: (1) the goal approach; (2) the system resource approach; (3) the stakeholder approach; and (4) the competitive value approach. The goal approach and system resource approach focus on the internal environment, with the former measuring the extent to which an organization attains its set goals while the latter assesses the ability of an organization to access resources (Yuchtman & Seashore, 1967). The stakeholder approach and the competitive value approach consider the ability to meet the needs and expectations of the external stakeholders including the customers, suppliers and competitors (Daft, 1995). Compared to the others, the goal approach is most commonly used due to its simplicity, understandability and internal focused. Data can be more easily collected, besides the fact that the issues being examined are much more within the control of the owners-managers (Pfeffer & Salancik 1978; Quinn & Rohrbaugh, 1981, Zammuto 1984).

While enterprise performance measurement is relatively complex, it is possible to identify financial and non-financial measures (Chong & View, 2008). The financial measures could include examination of levels of profitability, liquidity, efficiency, gearing and investment. Non-financial measures focus on issues pertaining to aspects such as customer satisfaction and customer referral rates, delivery time, waiting time and employee turnover. Common venture performance variables used in many MSME performance evaluations include: (1) number of employees; (2) turnover; (3) Asset capitalisation and (4) market share.

An old but still important financial performance measure used from the 1920s is the Du Pont Analysis. It is a type of analysis that examines a company's Return on Equity (ROE) by breaking it into three main components: profit margin, asset turnover and leverage factor. This helps in demonstrating how effectively a company is using equity. A low result in any of the three components will have the effect of pulling down the overall firm performance. For the firm, the Du Pont Analysis assist in placing the spotlight on key performance areas that need to be positively influenced.

## 2.6 Business Development Services

Enhancing and sustaining the contribution of MSMEs to overall development requires various ingredients such as an appropriate policy environment, access to financial and non-financial services and also expanded markets for MSME products and services. Business Development Services (BDS) constitute an important part of a wide range of non-financial services that need to be accessible to MSMEs. There is currently still very limited scholarly work in the area of business development services (BDS), with most publications being of a practitioner type and based on developmental projects undertaken in developing countries.<sup>4</sup> BDS has in the recent past been presented as involving *the tasks and processes pertaining to the analytical preparation of potential enterprise growth opportunities and the support and monitoring of the same* (Sørensen, 2012, p. 26).

Though BDS is a function that can be performed internally, it is traditionally linked to services provided by external actors to MSME operators who use them to improve operations and prospects for growth.

Within a developing country context BDS is intended to respond to challenges of low levels of productivity and competitiveness amongst MSMEs. Typical services could be categorised into the following seven segments, based on Gagel (2006):

- i. Market access services – including facilitating access to market information, establishment of market linkages and other support to expose MSMEs and their offerings;
- ii. Input supply services – facilitating firm linkages with providers of inputs;
- iii. Technology and product development services – facilitating the development and utilization of appropriate and enterprise-enhancing technologies;
- iv. Training and technical assistance – skills development and experience sharing;
- v. Infrastructure-related and information services – provision of facilities needed by enterprises;
- vi. Policy and advocacy – facilitating active engagement of entrepreneurs in addressing issues affecting them and their operations; and
- vii. Access to finance – support to enterprises in their quest for appropriate financial services.

A significant proportion of BDS interventions in developing countries particularly focus on supporting rural (often agriculture-based) enterprises and the agribusiness environment as a whole (Agri-Profocus, 2012). Rural BDS is now increasingly forming a part of overall agricultural

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<sup>4</sup> The Committee of Donor Agencies for Small Enterprise Development (2001) provide what appears to be the most comprehensive description of BDS within a developmental context, refereeing to them as “... *services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of 'business development service' ... includes an array of business services [such as training, consultancy, marketing, information, technology development and transfer, business linkage promotion, etc.], both strategic [medium to long term issues that improve performance] and operational [day-to-day issues]. BDS are designed to serve individual businesses, as opposed to the larger business community.*”

extension service that is evolving from provision of basic technical services to including a broader range of support intended to help small holder farmers to view farming as a business.

BDS delivery mechanisms may take the form of training, consultancy, advisory services, marketing assistance, information, technology and development transfer, and business linkage. BDS may be delivered using one or a combination of these and other mechanisms and may stand alone or be bundled with other enterprise transactions. For instance, adoption of new technologies could bundle design and implementation with BDS training on how to optimize usage. Charge-out for BDS could be in the form of a direct fee, as part of the price of bundled services or even in form of a commission.

A distinction is sometimes made between *operational* and *strategic* BDS. Operational services focus on day to day issues that help improve the functioning of various systems and processes such as records management, and compliance with taxation and labour regulations. Strategic services are used to address medium and long term issues that enhance enterprise performance, and may include strategic planning and product or market development.

Various private sector development actors recognize the important role that BDS could play in the development of a vibrant MSME sector that contributes to inclusive economic development. As such, deliberate efforts are now being applied towards promoting BDS sub-sector development. An important goal is to ensure a well-functioning market with a diverse array of high quality services that are affordable to and meet the needs of a large proportion of MSMEs. In such a context, the expectation may be that much of BDS would be accessed through specialized private sector BDS providers. However, other actors known to provide BDS include MSME member associations, larger firms that may bundle it with their core products, developmental agencies and also government agencies. Governments and developmental agencies in developing countries have in the past, for instance, established local business support centers to offer a range of BDS (often subsidized, if not free) to local clientele of businesses. But lessons learned from these and other experimental initiatives have shown that effective BDS needs to be demand driven and operated on sound business principles (Clara et al., 1999).

Institutions such as the International Labour Organisation (ILO) have for some time advocated for discontinuation of direct BDS provision by non-private sector players because of the market-distorting effect that this continues to have. In theory, provision of BDS by private sector players may be deemed ideal because of its ability to work with market forces and remain responsive to MSME demand. Yet, studies have shown the private sector-led BDS provision can be challenging in weak markets that characterize developing economies (Richardson & Herrmann, 2003). Demand for BDS amongst MSMEs may not be matched with ability and/or willingness to pay. There could also be capacity issues on the part of BDS providers. Most developing country economies are still working towards developing a cadre of skilled BDS providers that are able to respond to the diverse needs of MSMEs.

### **3.0 PSD, the MSME sector and BDS in the Zambian context**

#### **3.1 Overview of Zambia's Private Sector Development**

Zambia has pursued PSD reforms through instruments such as the Poverty Reduction Strategy Paper (PRSP 2002-04), the Private Sector Development Reform Programme (PSDRP), and the Transitional National Development Plan (TNDP 2002-05) that fed into the Fifth National Development Plan (FNDP 2006-10) and also into the current Sixth National Development Plan (SNDP 2011-15). A PSD programme was also established in order to improve the investment climate and business environment in the country. Its action plan covers over 80 measures that fall within the following six reform pillars:

- i. Improvement of the policy environment and institutions that serve the private sector;
- ii. Review of regulations and laws;
- iii. Infrastructure development;
- iv. Business facilitation and economic diversification;
- v. Trade expansion; and
- vi. Citizens' economic empowerment. (MCTI, 2004)

The creation of the Zambia Development Agency (ZDA) in 2006 to serve as a "one-stop shop" was a priority matter that fell under the first pillar, though its role also goes into other pillars. A number of key measures in the action plan are still in early stages of implementation, needing various further studies to be commissioned in order to better understand key issues and to develop clear implementation models. It is hoped that this study will be one of those that contributes towards appropriate implementation of the measures.

The government of the Republic of Zambia (GRZ), through the MSME Development Policy (2011-20) acknowledges that MSMEs play a critical role in providing many citizens with the opportunity to meet their own livelihood needs. But for such potential to be unlocked, many issues relating to PSD policy and practice need to be addressed. With regard to MSME development, major initial studies have highlighted the following two key issues that have significant impact on MSME development in Zambia: (1) Productivity and competitiveness of Zambian MSMEs compared to other regional and global players (Clarke, et.al., 2010); and (2) Access to finance and related issues of credit worthiness (FinMark Trust & African Heights, 2010; Beggs, 2010). Whilst the establishment of the ZDA has worked towards the elimination of the disconnect between efforts to attract large investors and those to encourage MSME development, there appears to be a recognition by PSD players of the need for specific and concrete steps to address capacity constraints identified in the MSME sector.

### 3.2 A Profile of Zambia's MSME Sector

What follows below is a profile of Zambia's MSME sector that also brings out some key issues related to the spheres of economics, law, business management, entrepreneurship and finance<sup>5</sup>.

The total number of MSMEs<sup>6</sup> in Zambia has been estimated at 1,050,000, with 97 percent operating as either micro or informally and accounting for 88 percent of the 4.1 million employed Zambians. The choice of remaining unregistered may be seen to be the result of a combination of inadequate incentives, a seemingly honourous and costly compliance system, weak enforcement and also generally low levels of entrepreneurship. Most of Zambia's MSMEs tend to resemble home-based income-generating and income smoothing activities rather than clearly structured businesses. There is generally little or no capital investment into enterprise growth. 81 percent of the microenterprises are located in rural areas where they account for 91 percent of employment. 70 percent are involved in agriculture production. Overall, agriculture is the largest sector and accounts for half of all of Zambia's MSMEs. In terms of enterprise activity, 93% of Zambian MSMEs are engaged in primary production (mainly agricultural) and trading activities, leaving a very small proportion in value-adding activities such as manufacturing and processing (Clarke, et al., 2010).

Low productivity amongst MSMEs in Zambia, which may be associated with low business skills, has affected competitiveness, and this has in turn impacted aspects such as access to finance and ability to pay for services such as BDS. The fact that smallholder agricultural in Zambia is almost entirely seasonal has a significant effect on overall MSME sector productivity. Few MSMEs (whether rural or urban) use productivity monitoring/measuring mechanisms that consider indicators such as Cost of Sales or even Number of Customers.

By far the vast majority of the MSME owners are male. What may probably need to be better understood is the extent to which traditional cultural and business practices may have pushed women "behind the scenes" and so affected their ability to openly manifest their entrepreneurial potential. What is already known is that women have greater challenges than men in obtaining credit, productive inputs, information and other public services. Women are also more likely to be engaged in trading and retailing (44% of enterprises) than agriculture (31 percent). Compared to their male-folk, women owned firms are also more likely to be, smaller, located in low productivity sectors such as garments and will have lower levels of capital per worker and tend to be smaller. Women entrepreneurs are more likely to have a lower level education (Van Klaveren, et al., 2009)

Literacy levels can present one of the most critical barriers to enterprise development because of the effect on the MSME's ability to engage with the business world and also on the ability to access BDS. The ZBS also shows that only 10% of MSME operators have a tertiary qualification, with almost 70% not having gone beyond basic (Grade 9) education. Interestingly, analysis done by

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<sup>5</sup> The information in this section is based on detailed study of the data set for the Zambia Business Survey (ZBS) undertaken in 2008. See Clarke, et.al. (2010). This is supplemented by the ZDA database of BDS providers and The Broad Based Wealth and Job Creation (BBW&JC) Project of the ILO.

<sup>6</sup> With the informal sector definition of not registered by PACRO or any other similar organization.

Chileshe et. al. (2011) shows that there is actually a relationship between the level of education and the level of optimism. This may be linked to the confidence and greater sense of control that may come with higher levels of education

Some of the major external challenges cited by MSME operators relate to access to finance, access to various public service, poor roads and other infrastructure. With regard to finance, the government has made attempts to create channels for financing MSMEs, but accusations of corruption in the mechanisms have been widespread. This is compounded by high default rates, with more than 20% of MSME operators indicating they did not see it necessary to pay back a loan from government.

Though many MSME operators will admit to having low levels of requisite skills for successful enterprise development, few (as low as 12%) obtain BDS. There is need to further understand what could be attributed to such low levels of BDS utilization.

### **3.3 The Place for BDS in Zambia's MSME Development**

One of the resolutions of a July 2004 forum of PSD programme stakeholders was *“To unlock the growth potential of the MSME sector through business development support and empowerment initiatives”*. This aspiration was subsequently integrated into the MSME Development Policy (2010-2020) that is also guiding the country's Sixth National Development Plan (SNDP 2011-15).

*Objective 4* of the MSME Development Policy specifically addresses the issues of BDS and reads as follows:

*“To improve access by MSMEs in rural and urban areas to business development support in key areas that facilitate enterprise stability and growth”*.

Section 5 Sub-section (u) of the ZDA Act of 2006, in defining the purposes of the ZDA seems to include the responsibility for overall BDS development, as quoted below:

*“ . . . provide a framework for the provision of enterprise development services to industry and business enterprises and source for financial aid for the development of trade and industry in order to assist business enterprises meet economic and social costs of adjusting to a competitive international trading environment;”*

Though the MSME policy explicitly mentions entrepreneurship within the same context as BDS, it does appear clear that the focus is more in developing business management skills amongst MSME operators – an aspect that largely excludes entrepreneurship development in the form that it has been defined in this paper. The view that the MSME policy and ZDA may not really have specific focus on entrepreneurship development is further re-enforced by the fact that responsibility for this component actually sits in the Technical, Vocational and Entrepreneurship Training Authority (TEVETA). This is a government agency which is also in a different government ministry to ZDA, and which is currently developing a separate policy on entrepreneurship development. Questions may logically be raised around the extent to which this entrepreneurship policy will be harmonised with the current MSME policy, and how it will be

implemented without, at least in some areas, creating parallel processes to what ZDA is already engaged with.

A significant effort spearheaded by ZDA in the recent past was the 36-month pilot implementation of a donor-funded BDS voucher scheme. This effectively started in 2009 and implemented through a national farmers union and a national chamber of MSMEs. A major objective was to facilitate the development of private sector BDS provision through the mechanism of linking MSME operators directly with BDS providers of their choice. Selected MSME operators would be given vouchers that they would use to procure BDS from providers they would find on a BDS database developed and managed by ZDA. The BDS provider would then redeem the vouchers from an appointed private sector fund manager. The scheme was abruptly discontinued after what is said to be significant challenges were encountered. Though no formal evaluation report is publicly available, it does appear that these challenges went to the very design of the scheme. Various questions seem to have risen since, including the following:

- Could the significant visibility of ZDA in the scheme operations have affected how MSME operators viewed the scheme (i.e. possibly as just another grant opportunity from the government)?
- Could the active participation of donors have affected the extent to which the scheme was adapted (if at all) to the Zambian context and also implemented?
- Should the vouchers have covered the full BDS, or should they have been a kind of subsidy (i.e. should the MSME operator not have paid something to obtain the vouchers?).
- Was there an institutional framework within which the roles of the different actors (e.g. government, donors, MSME associations, BDS providers, MSMEs themselves, etc.) could have been well-defined?

These questions and others may point to areas for further research and lesson learning.

Whilst there is often general agreement around what the key issues are and the major steps to be taken in order to achieve objective 4 of the MSME policy, one of the important questions that has emerged is as follows: *What should be the role of the various players (including government) be in the growth and development of a BDS sub-sector that adequately responds to Objective 4 of Zambia's MSME Policy?* A clear understanding of the possible roles in BDS sub-sector development in the Zambian context has become important at this stage in the implementation of the MSME policy - a stage at which stakeholders in the public and private sector are positioning themselves to engage within this policy framework. The stakeholders recognize that a lack of clarity and the resultant uncertainties may affect the development of a market-driven BDS sub-sector in Zambia.

There have been various specific initiatives aimed at supporting BDS delivery to MSMEs in Zambia. One such initiative has been the 3-year United Nations Joint Initiative on Private Sector Development, titled "*Broad-based wealth and job creation in Zambia: Economic empowerment through MSME development Project*" (BBW&JC). This was implemented from 2008 by the

International Labour Organisation (ILO) in partnership with national institutions that include the Ministry of Commerce, Trade and Industry (MCTI), Ministry of Labour and Social Security, the Zambia Development Agency (ZDA), and the Citizen Economic Empowerment Commission (CEEC). Two of the BBW&JC strategy areas connected directly with objective 4 of the MSME policy by focusing on the following:

- i. Stimulating demand for Business Development Services at enterprise level;
- ii. Capacity development for facilitators and providers of Business Development Services [BDS].

With support from donor agencies, network organisations representing MSMEs have also been active in promoting BDS provision. Amongst the largest of these are the Zambia Chamber of Small and Medium Business Associations (ZACMBA) and the Zambia National Farmers Union (ZNFU, which also represents large commercial farmers). The heavy and very visible donor engagement with these institutions may lead to one raising the question of the extent to which they may be running with the agenda developed in consultation with their constituencies. It is possible that well-intended donor-driven interventions may not necessarily be addressing the most critical issues affecting entrepreneurship, BDS and overall MSME development amongst their members.

Larger commercial players have sought to develop linkages with MSMEs as sources of input material for their industrial activities. This is most common in the agribusiness sector where processors (and other intermediaries) have entered into contract farming arrangements. Part of the relationship building has included provision of support to the smaller partners. Such BDS seems to gravitate towards technical and quality issues rather than BDS in the way it has been defined in this paper. It appears more likely for in-house experts to coach the MSMEs around specific areas of particular interest to the commercial player.

With all of the above players engaging with MSMEs, challenges seem to have emerged around developing harmony to ensuring that all are “pulling in the same direction”, that there is no duplication of efforts in some areas while other areas remain unsupported, and that there is effectiveness in the support mechanisms being employed. Finally, the fact that there is no globally-agreed mechanism of measuring the effectiveness of BDS has implications on securing agreement on how best to proceed if a more harmonised approach was to be employed.

## **4.0 Methodology**

### **4.1 Introduction**

The previous sections have introduced and presented the key issues pertaining to the study, including the research variables and the context. The importance of MSME development to Zambia as a whole and to Lusaka and Kabwe in particular has been outlined. BDS has been presented as an element that is important to business practice and performance in the MSME sector.

This section considers the research paradigm, including research design and methodology that have informed the data collection, measurement and analysis. It starts with a brief discussion of the different approaches to MSME and BDS research before providing justification for utilising combined research methods as part of the strategy to achieve the study objectives. The key question is therefore with regard to what data collection and analysis methods should be employed so as to optimally present the current state of practice, access to BDS and the performance of MSMEs in Lusaka and Kabwe. The section also captures some lessons from the field process and key adjustments that have been made to respond to various practical realities.

#### **4.2 Research on MSME and BDS**

A review of prior research on MSMEs in the context of access to BDS shows that by far the great majority of studies are action oriented and/or practitioner-type, undertaken on behalf of developmental agencies. This should not be surprising because, with the importance of the MSME sector to inclusive and sustainable development, a wide range of governmental and non-governmental development agencies have actively sought to work in this space and influence change.

Further, almost all studies identified within this context have sought to examine the effect of particular BDS intervention on targeted MSMEs (e.g. Chuulu, 2004; Musara & Fatoki, 2011). Much research work also tends to focus on one or both of two levels: (1) assessment of the specific BDS programmes themselves (e.g. appropriateness/relevance, efficiency, effectiveness, etc.) and/or (2) examination of the outcomes and impact on MSMEs that had been targeted by these BDS programmes. The research framework developed by McVay (1999) appears to be particularly authoritative for practitioner-type studies whilst Cooper & Schindler (2008) appear to be an important reference point for academic work.

This study introduces a unique dimension because it is not looking at the outcome of any specific BDS intervention. Instead, it is examining three variables (MSME practice, access to BDS and performance) and seeking to: (1) understand the current state of affairs in the selected locations, (2) identify the possible interrelationships between practice, access to BDS and performance within the MSME sector and (3) identify possible implications for policy and institutional development going forward. In addition, the study examines these variables from the perspectives of six disciplines: legal, economics, institutional management, finance, marketing and entrepreneurship. It is hoped that by drawing on each of these disciplines, a more comprehensive view and understanding of the variables can be developed.

Because of this unique dimension of the study, the research paradigm employed has drawn on different philosophies, approaches and methods that were found to be useful in addressing the various facets captured in the research objectives.

### 4.3 Research Philosophy and Design

While the study largely adopts an objectivist approach towards establishing the state of affairs with regard to current MSME practice, access to BDS and performance, aspects of constructivism are drawn in to begin to try and understand the interplay between these variables and to construct possible meanings that could feed into future research, and policy and institutional development. The research design therefore follows this philosophical direction.

In view of the foregone and based on the views of researchers such as Bryman (1988), and *Best & Khan (1989) and the methods evaluation framework developed by Punch (1998)*, a combination of both quantitative and qualitative research methods was deemed appropriate for the study. Quantitative methods were seen to be key to assisting with objectivist demands in establishing the state of affairs with regard to business practices, access to BDS and performance. But supporting qualitative methods were found to be necessary for mitigating on some of the data collection limitations encountered, in helping to construct meanings from the key findings, and also in allowing for important issues to emerge for future study (Chong & View, 2008). Below is a discussion of how each of the variables was studied based on the choice of research methods.

The study firstly sought to develop insights into key MSME business practices with the view to providing a knowledge platform from which subsequent studies could seek to develop a deeper understanding of, for instance, how these practices may be influenced by access to BDS and how they also affect firm performance. This study has limited itself (within the parameters of the research methodology used) to beginning this conversation by highlighting some of the interconnectedness of the variables. Key practice indicators used under this variable include: choice of business Sector, business registration method, business/marketing planning, existence of bank account, financial record-keeping, financial audits, savings practice, choice of source of business information, and customer retention practice.

In the case of access to BDS by MSMEs, the study largely limited itself to establishing the extent of such access, though some enquiry also went into aspects such as the form and nature of such access and also touched on end-user perception of BDS. This enquiry was undertaken from an end-user perspective and so was based on reality as constructed by them (including what, in their view, constitutes BDS). Specific indicators for access included: awareness of BDS in general, awareness of BDS provided by government agencies, access to BDS/Training, types of BDS/Training accessed, types of BDS/training providers available, perceived benefits of BDS accessed, areas of future BDS needs and also willingness to pay for BDS by MSMEs.

The indicators of performance measurement include changes in revenue, cost, profit, and market coverage across time. These parameters are directly linked to business survival, profitability and growth which are also essential to realize MSMEs contribution to economic growth and development. The first step of the process involved asking MSME operators to compare their current position against the startup time in terms of the above parameters. For each parameter, they are asked whether the business has recorded an increase or a decrease or no change between the

two periods. This approach is simple for respondents to answer and the responses are believed to be more reliable than asking them about actual revenue or profit level. The responses are analyzed descriptively and also using a relevant econometric technique that suits for such qualitative responses.

#### **4.4 Specific Research Methods and Tools**

Three complementary research methods were employed under the study. Initial semi-structured interviews were used to help identify key issues (including perceptions) pertaining to BDS and MSME development in Zambia. Focus group discussions with a cross-section of stakeholders from the MSME and BDS sector (private, public and non-governmental) were also used to help validate and understand issues emerging from literature review and from the semi-structured interviews, and to inform the design of the main research method and tool. The main research method under the study was in-depth one-on-one interviews conducted mostly with MSME operators and also with a limited number of BDS providers from Lusaka and Kabwe. These interviews were largely structured, but included some semi-structured questions to try and allow for probing and for emergence of aspects not previously envisaged during research design.

Based on the above selection of research methods, specific tools used were therefore semi-structured question guides, focus group discussion guides and in-depth interview guides.

#### **4.5 The Actual Research Process, Including Data Collection**

##### *Establishment of Study Advisory Panel*

Because of the nature of the study, it was felt that stakeholder participation was key to identification and understanding of key issues pertaining to the study and also to ensuring that the outcomes of the study would be utilized to support policy and institutional development. In this regard, an advisory panel was constituted and composed of individuals working senior levels within the following stakeholder categories: various relevant government and inter-governmental agencies, local and international development agencies, the national MSME association and BDS providers. Ongoing correspondence and planned brainstorming meetings helped ensure that the research responded to agreed aspects falling within its parameters.

##### *Establishing the Research Team*

The research process was born out of discussion at a national stakeholder workshop looking at BDS delivery to MSMEs in Zambia. Based on the issues that emerged from this workshop, the principal investigator who was representing an academic institution decided to team up a research consultant to examine more closely the issues pertinent to BDS and MSME development. It was also agreed that additional team members from academia would be brought in, with each representing at least one of the following disciplines which were felt to be relevant to the study: economics, finance, management, corporate law, marketing and entrepreneurship. Team meetings were then held so as to develop a common understanding of the research objectives, process and

outcomes. Two of these additional members were also responsible for ensuring a rigorous research methodology.

### *Situation Analysis*

Under the oversight of the Advisory Panel, the research team carried out a situational analysis of the current BDS's provisions and a profiling of the MSMEs Zambia. This largely qualitative data collection process involved literature review, semi-structured key informant interviews and focus group discussions with the Advisory Panel and also with a larger cross-sectional stakeholder group. This process was exploratory in nature and was intended to inform the study focus areas.

Focus group discussions were felt to be useful in bringing out reflective perspectives that can be synthesised through discussion amongst the respondents and with the facilitator. They also enabled in-depth discussion, triangulation of various issues and provided opportunity for possible construction of meanings that may be attached to the variables being studied.

### *Development of Sample Frame and Sampling Method Used*

To ensure a representative coverage, the study had initially intended to collect data from one town in all the 10 provinces, however, because of the huge cost implications, the study settled to collect data only from Lusaka in Lusaka province and Kabwe in Central province. Lusaka is one of the oldest districts in Zambia, having been established 100 years ago. It is now the country's administrative, commercial and industrial centre, with a population total of 1.75m, density of 4,841 per km<sup>2</sup> and growing at a rate of 4.9 percent per annum. The district includes what should be the widest spectrum of income and occupation categories. Kabwe is the provincial centre of the Central Province and is on the main highway connecting Lusaka to the the country's copper producing areas of the North-west and also to the agricultural North that also provides the gateway to the eastern coast of Africa. With a population of 203,000 and density of 129 per km<sup>2</sup>, Kabwe has experienced one of the slowest population growth rates (1.7 percent per annum) due to the demise of mining industries due to depletion of ore. Inhabitants have had to identify alternative livelihoods, resulting in the emergence of a wide range of small-scale enterprise activities.

In selecting the sample, the study stratified the MSMEs by industrial sector. The sectors chosen were Agricultural, Manufacturing, Trading and Service sectors. Although, the study initially intended to use a proportionate random sample from the 4 sectors, this proved to be difficult as the comprehensive list of the MSMEs provided by the Zambia Chamber of Commerce and Zambia Development Agency were found to be inadequate as most enterprises had either collapsed or could not be accessed. As a result, the study randomly selected 187 MSMEs and 30 BDS providers with each MSME and BDS provider having an equal chance of being included in the sample. Of the total 187 MSMEs sampled 127 were from Lusaka and 60 from Kabwe. While, from the 30 BDS providers sampled only 12 questionnaires were completed as the other providers declined to provide information.

### *Structured One-on-one Interviews*

These interviews were almost entirely face-to-face, with a few conducted over the telephone. They were conducted on 187 MSME operators (160 from Lusaka and 27 from Kabwe) and 13 BDS providers. About a quarter of the MSME respondents are female. The data collection was undertaken by 16 third year undergraduate students that received training and were supervised by selected members of the research team. For each student enumerator, a reserve of 5 MSME firms was provided to substitute in case some were 'unavailable' for interview. Only few cases of refusal for appointment on telephone was recorded. The firms to be interviewed were selected at random from a stratified sample of MSMEs classified by sub sector – agriculture, retail, wholesale, manufacturing etc.

### **4.6 Data Analysis**

Once collected and cleaned, data were coded and entered into excel. The dataset of 187 respondents comes from Lusaka (127) or 68 percent and the remaining (60) 32 percent from Kabwe. Because of the limited number of responses from BDS providers (13 out of 30 sampled), it was decided that this report captures only the findings from MSME responses as these provide a clearly basis for any findings, conclusion and recommendations. From the MSME responses, a total of about 150 variables/characters were entered and processed for each respondent resulting into an output of 28,050 (150 x 187) response items.

Data analysis was then divided into two broad categories based on whether in was quantitative or qualitative. Due to the interdisciplinary nature of the study, a combination of different data analysis models/methods were employed so as to bring out the different dimensions pertaining to BDS and MSME development. Quantitative data were exported into STATA after which descriptive statistics and econometric analysis methods/models were used. Because this report is intended to be the first of a series, it provides the outcome of quantitative analysis and no substantial qualitative data analysis. Subsequent analysis and reports will place greater emphasis on qualitative issues emerging from the data collection process.

The analytical models set out in the research design are employed to bring out measurements of the three key variables by examining the different aspects of business from the perspectives of the six disciplines stated earlier. Analysis was also extended to considering the possible impact of BDS on business practices and MSME performance. This is done through identification of notable difference between firms and inferring possible reasons that relate to possible explanatory embedded variables (hypothesized) within the firms such as:

1. Access to BDS (including particular types)
2. Formal education level
3. The gender of the operator of the firm
4. The age bracket

5. The duration of firms existence in market
6. Whether registered
7. No of employees

Data was then analysed around themes that relate to the three (3) variables and is presented in section 5.0 below.

## 5.0 Study findings

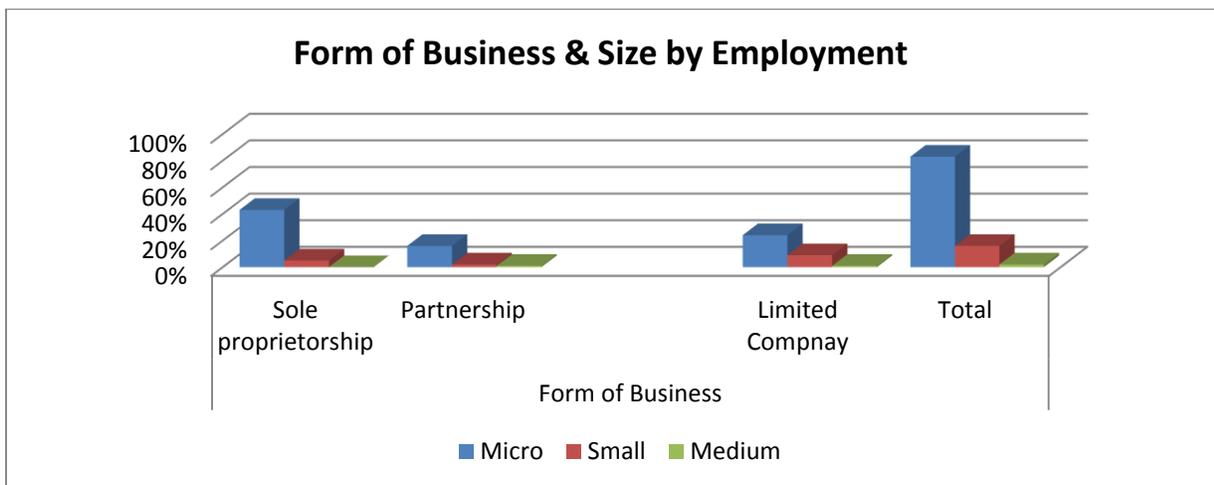
### 5.1 Introduction

This chapter presents the findings from the study. This is done through a process that starts with a characterization of the MSMEs, including their types, the perspectives and practices of their operators. Findings relating to access to BDS are then presented, including the various aspects associated this. The last part provides an assessment of MSME performance. The process has largely involved the use of descriptive statistics, though econometric models have also been used to provide an assessment of performance.

### 5.2 A Characterization of the MSME Sector

In total, 187 MSME operators were interviewed – 127 from Lusaka and 60 from Kabwe. The table below shows the classification of these MSMEs based on levels of employment and business model employed. It is worth noting that about 80 percent of the respondents fall in the category of micro enterprises (measured by number of employees, where those with 1-10 persons are micro, 11-50 persons are small and those with 51-100 persons are medium) and about half of these are operate as sole proprietorships.

**Figure 1: Form of Business & Size by Employment**



Sixty percent of the respondents were in the age group of 25-45, rising to 83 percent when the age group of 46-55 is included. The great majority of MSME operators are therefore within the same age-group as those that are formally employed. It also implies that MSMEs may not be drawing

as much from highly experienced individuals that have retired from formal employment, but probably mostly picking up those that have not been able to find opportunities on the job market. This view is further supported by the fact that only 3 percent of those interviewed had a degree-level qualification or higher.

As may have been expected, the largest single sector is trading (31 percent) followed by services at 27 percent. Agriculture and livestock (7 percent) appears under-represented partly because the sample was drawn from a largely urban and peri-urban population. The sample frame actually has the opposite effect on processing/manufacturing which at 15 percent will be higher than the national average. In terms of location on respective value chains, just over a third are primary producers and suppliers and about 25 percent are retailers.

As indicated in the literature review, the age of a firm may have implications on the prospects for growth. Overall, nearly one fifth of the MSMEs have been operating for over ten years ago. This proportion actually doubles if Kabwe is considered separately. Lusaka as nearly 60 percent of its MSMEs having come into operation between 3-10 years ago.

Only 37 percent of the MSMEs are registered with the Patents and Company Registration Agency (PACRA). When desegregated, Lusaka has 41 percent while Kabwe is much less at 27 percent. This is clearly not representative of the national scenario because of the fact that both districts may have easier access to the PACRA offices than other far outlying areas. A quarter of the MSME operators felt that the business registration processes (including other forms of securing authority to operate) were too expensive. Though much government effort has gone into lowering costs associated with business registration, there appears to be some issues to do with awareness of actual costs and possibly also with actual accessibility of registration points even for areas such as Kabwe. Only 14 percent felt the amount of time it took to get necessary authorization was too long.

Most of the MSMEs therefore fit into a profile that has implications not only on the capacity to generate significant revenues, but also on financial access. Banks and other formal financial institutions will tend to treat them as high risk and demand collateral, even though this is the form of enterprise least likely to have this. MSMEs do nonetheless engage financial institutions mainly through maintaining business accounts (88 percent of respondents) and also as a source for longer-term debt financing, when such can be financed. Working capital is mobilized from personal savings and from family and friends. Even though overdraft facility was ranked highest as a financial service most needed by the MSMEs, less than a third actually are accessing it. About 42 percent of MSMEs financed new investments from retained earnings and also from family and friends.

Only about 6 percent of respondents indicated that they have accessed loans from microfinance institutions. This is indicative of the level of penetration of microfinance amongst Zambian MSMEs. The Citizens' Economic Empowerment Commission (CEEC), government agency, has provided finance to only 4 percent of MSMEs interviewed. The low rate may be attributed to

factors such as length of time it takes to process the application, limited funding received from the government and the possibility of positional rent-seeking behaviour.

Though nearly 56 percent of the respondents saw commercial banks as the primary source of debt finance, about 58 percent indicated that they did not presently need any of the different loan facility provided by financial institution. Possible explanations for this position could be related to factors such as the size of enterprises, perceptions regarding bank interest rates and attitude towards borrowing, preference for grant-type funding or the possible prioritization of non-financial services. It is also possible that current financial products may not be responding well to MSME needs. This matter may need to be explored further in future studies that are specifically looking at MSME access to finance.

Nearly 87 percent of respondents indicated that they keep proper financial records through an outsourced accounting function, and 45 percent of the respondent had their financial records reviewed by external auditors. Most respondents so a role for financial institution to collaborate with BDS providers in ensuring that clear linkages could be established between MSMEs and providers of finance.

The study also attempted to ascertain levels of entrepreneurship amongst MSME operators. Though 82 percent of them feel satisfied or happy with the current state of their business operations, only about 37 percent provided indications of feeling in control of the fate of their business. The rest either pointed to external factors or to sheer luck/good fortune. Market risks (including competitor pricing) emerged as the leading external threat to enterprise development. While recognition of external risks is critical to enterprise development, the sense to which one sees the situations as being controllable (locus of control) is one indication of the levels of entrepreneurship.

When asked what strategies they used for client retention, three quarters ranked product quality highest as their chief means, with credit extension coming in as the least used. Pricing came in third at 32 percent frequency of mention. Given that most of these MSMEs target low-end markets which are generally very price-sensitive (and less sensitive on quality), it appears reasonable to have expected greater opportunities to lie around good price strategies. The focus on quality by most MSMEs raises concerns regarding their entrepreneurial abilities in identifying opportunities and developing appropriate strategies for their exploitation.

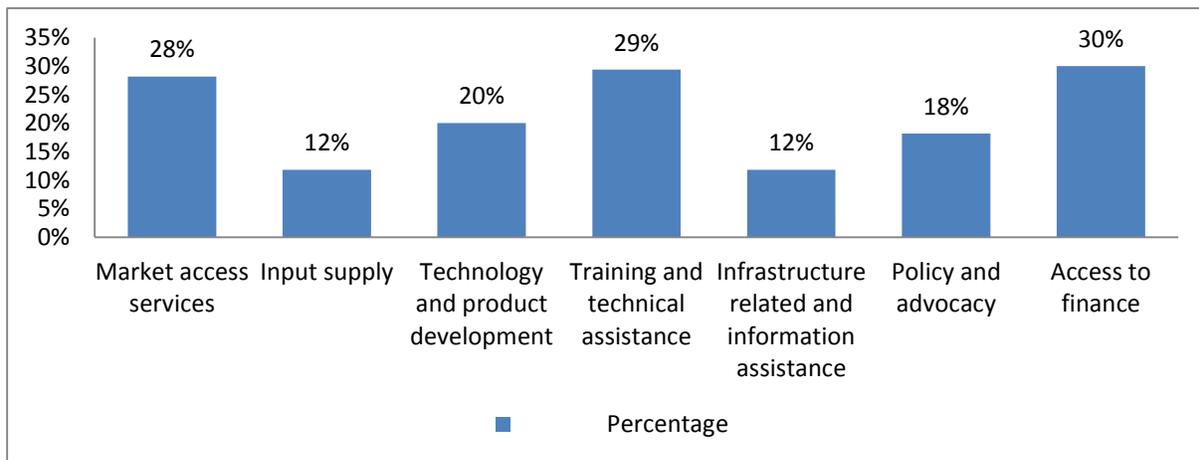
The majority of the MSME owners expressed willingness to collaborate with others and to even share ownership. This is an important positive aspect from an entrepreneurship perspective. But rather surprising is that only 4.5 percent would be willing to cede more than half of their business to others. Ideally, the need for achievement (an important entrepreneurial attribute) should imply that, amongst other things, the proportion of ownership be viewed as a secondary issue by an MSME operator. Also surprising is that, from the study outcomes, levels of entrepreneurship appear higher in Kabwe than Lusaka. It may be useful for future studies to try and understand what could explain this scenario and to ascertain whether occurrence of higher levels of entrepreneurship in peri-urban areas is the typical pattern for Zambia.

### 5.3 Access to BDS

Business-related training was used as a proxy variable to measure access to BDS. 49 percent of the respondents had in the past received at least one business-related training. This finding should be interpreted in the light of the various past and present BDS initiatives that have been running especially under ZDA, ZCSMBA and the ILO. The concept of BDS is itself even less understood, with only a quarter of the respondents indicating having come across it.

With regard to types of BDS accessed, below is a figure that shows the distribution across the key areas of BDS.

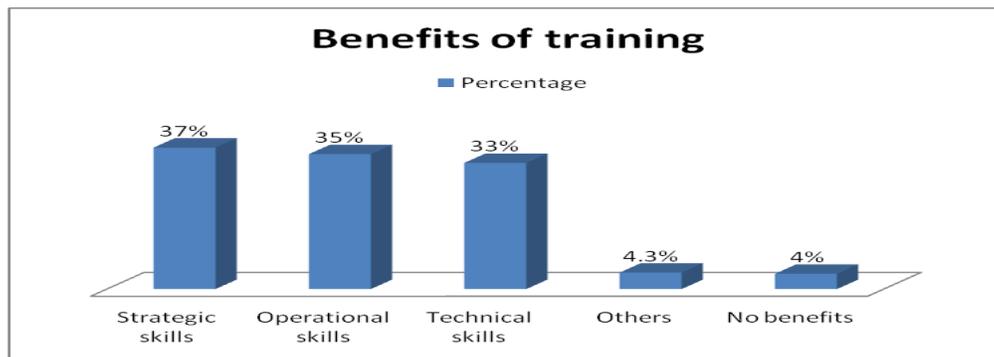
**Figure 2:** Types of business development services provided to MSMEs



The leading providers of BDS have been non-governmental organizations (NGOs, at 29 percent) and government agencies (at 24 percent). Only 3.5 percent of trainings were provided directly by private sector service providers, showing the low rate of direct penetration by private sector BDS providers into the MSME sector. The current scenario has been that most BDS providers engage MSMEs in a less direct manner – they are often contracted by NGOs and government agencies to provide service to the sector.

Almost all the participants indicated having gained from the trainings, with specific improvements being cited mainly in areas of institutional management (strategic and operational) and technical skills development. Strategic skills improvements related to: (1) the ability to analyze and diagnose a situation and to distinguish between cause and effect; (2) the ability to view the complexities of the operations of the organization as a whole including external factors; (3) and the ability to use the above in decision-making. Operational skills improvement includes positive change in areas such as developing interpersonal relationships in working with and through other people, and in exercising judgment in day to day activities. Technical skills relate to the application of specific knowledge, methods and skills in implementing various organisational tasks.

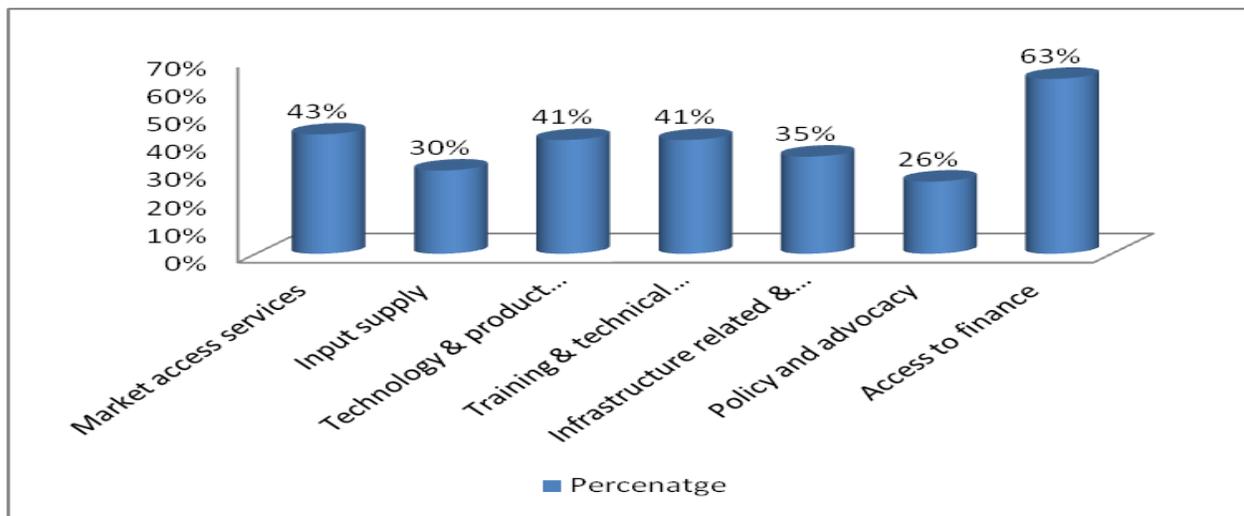
**Figure 3: Benefits of Training to MSMEs**



But while skills development is important, a greater goal of BDS is in ensuring a positive impact on enterprises in which these trained individuals operate. So, after further probing into this aspect, a lower 61 per cent (compared to 96 percent that said they had gained from the trainings) felt the trainings translated into a positive impact on their enterprises. What was nonetheless generally agreed (with a score of 80 per cent) was that BDS can have a positive impact on the performance of MSMEs.

In terms of the type of BDS perceived by MSME to be most needed, support in accessing finance is mentioned foremost at 63 percent, followed by support towards accessing markets at a distant 43 percent.

**Figure 4: Types of BDS Needed by MSMEs**



92 percent of MSME operators expressed willingness to pay for BDS. This rather high response may need to be further explored in future studies that also include actual experiences of all the other actors in the BDS sector, including government agencies.

With regard to government agencies providing financial and non-financial business support to MSME, it was still important for the study to try and establish the actual levels of visibility and accessibility of these institutions. Over 90 percent of the respondents had heard of ZDA and CEEC

and were aware of what these institutions engaged in. If Lusaka and Kabwe (the more peri-urban to rural) are looked at separately, Lusaka posts a 98 percent awareness level compared to Kabwe's 88 percent. The high rates and the differences between the two districts are probably what could have been expected. But probably more interesting is that whilst 47 percent have accessed one form of incentive or another from ZDA, 42 percent have not had any form of interaction with the agency. Also useful to note is that 6 percent have received funding from CEEC.

#### **5.4 MSME Performance**

The study utilized the following parameters to obtain the perceptions of enterprise performance: sales/revenue, profit, market coverage. The discussion is initially based on descriptive statistics before moving to econometric analysis.

The majority of the respondents indicated that their businesses experienced growth in each of these parameters, with the highest score (74 percent) relating to market coverage and the lowest (65 percent) relating to profitability. While these scores may appear significantly high, one could argue that because MSMEs ordinarily start small, some amount of growth should ordinarily be expected. Yet, at about 25 percent indicated static or drop in performance. In particular, 35 percent had indicated profitability had not increased from start-up point. A possible explanation for this could be linked to what was reported to be a significant increase (with 75 percent of the responses) in competition in the environment the MSMEs operate. Another factor could be linked to the fact that 76 percent of the respondents mentioned increases in operational costs. It was not within the scope of this study to explore what the major drivers of MSME costs are, and how closely related these might be to business practice and performance. But this is an aspect that could be pursued by future studies.

##### *Econometric Analysis of MSME Performance using The Ordered Probit Model*

In order to explore the matter of MSME performance further, a regression model was used to investigate factors influencing the performance of the enterprise in terms of profit level (*Decreased, Has not changed, or Increased*). Since getting responses for profit levels is difficult, the study used an alternative approach to getting ordered responses. Respondents were asked to describe the change from start-up to current. It is well-understood that assessment in which the responses for the dependent variable are qualitative, these are better analyzed with Non-linear models, often by probit or logit models (William & Kennedy, 1992). Probit or Logit model is used when the responses are binary or dichotomous. On the other hand when the responses are more than two but limited, the analysis requires consideration of another special model of Probit or Logit. The two most common and widely applied models for ordered dependent variables are ordered probit and ordered logit. The two models are by and large similar and the difference comes when the regression coefficients are interpreted.

The ordered probit model involves qualitative responses for the dependent variable in which the response categories have some order or ranking. The application of ordering probits is usually done by coding the responses as 0, 1, 2, 3, 4, 5 and so on. In the case of this study, if the business

experienced a decrease in profit as compared to the establishment period the code of 0 was used. If there was no change in profit, 1 was used. Finally if the profit had increased, 2 was used. The codes 0, 1, and 2 simply reflect the ranking and do not mean, for instance, that the difference between 0 and 1 is the same/equivalent to the difference between 1 and 2.

The ordered probit model can be shown as follows. Suppose  $y^*$  is an unobservable index determined as;

$$y^* = \alpha + \sum \beta_i X_i + \varepsilon_i \quad (1)$$

Where the summation is over  $i=1, \dots, k$ , the  $X_i$ 's are  $k$  independent variables and  $\varepsilon$  is the disturbance term. The dependent variable has  $J + 1$  categories so that instead of observing  $y^*$  we observe:

$$\begin{aligned} y &= 0 \text{ if } y^* < \delta_0 \\ y &= 1 \text{ if } \delta_0 < y^* \leq \delta_1 \\ y &= 2 \text{ if } \delta_1 < y^* \leq \delta_2 \\ &\cdot \\ &\cdot \\ &\cdot \\ y &= J \text{ if } \delta_{J-1} < y^* \end{aligned}$$

the  $\delta$ 's are unknowns 'threshold parameters that must be estimated along with  $\alpha$  and the  $\beta_i$ 's. Estimation is undertaken by Maximum Likelihood, which in the case of the ordered probit model requires that  $\varepsilon$  be assumed to be distributed as a standard normal.

The probability of obtaining an observation with  $y = 0$  is equal to

$$\begin{aligned} \text{Prob} \{y^* = \alpha + \sum \beta_i X_i + \varepsilon \leq \delta_0\} & \quad (2) \\ &= \text{Prob}\{\varepsilon \leq \delta_0 - \alpha - \sum \beta_i X_i\} \\ &= \int_{-\infty}^{\delta_0 - \alpha - \sum \beta_i X_i} f(\varepsilon) d\varepsilon \end{aligned}$$

Where  $f(\varepsilon)$  is the standard normal density function. The probability of obtaining an observation with  $y = 1$  is equal to

$$\begin{aligned} \text{Prob} \{\delta_0 < y^* = \alpha + \sum \beta_i X_i + \varepsilon \leq \delta_1\} & \quad (3) \\ &= \text{Prob}\{\delta_0 - \alpha - \sum \beta_i X_i < \varepsilon \leq \delta_1 - \alpha - \sum \beta_i X_i\} \\ &= \int_{\delta_0 - \alpha - \sum \beta_i X_i}^{\delta_1 - \alpha - \sum \beta_i X_i} f(\varepsilon) d\varepsilon \end{aligned}$$

and so on.

The likelihood function is the product of such expressions for each of the data points. Maximizing this function with respect to  $\alpha$ , the  $\beta$ 's, and the  $\delta$ 's produces the maximum likelihood estimates. When  $\alpha \neq 0$  so that an intercept is included in the equation for  $y^*$ , identification is achieved by setting  $\delta_0$  equal to zero; specifying that  $\varepsilon$  has mean zero and variance one is also done for purposes of identification.

**Table 1:** The ordered probit regression result

Ordered probit regression		Number of obs= 138			
LR chi2(5) = 80.34					
Prob> chi2 = 0.0000					
Log likelihood = -83.557455		Pseudo R <sup>2</sup> = 0.3247			
Profit	Coefficients	Std. Err.	Z	P> Z	[95% confidence interval]
Training	.0277482	.240053	0.12	0.908	-.5905873 .6460837
Own other business	.4447567	.2547327	1.75	0.081	-.2113911 1.100905
Mkt coverage	.4431451	.1683549	2.63	0.008*	.0094916 .8767986
Sales	1.131434	.1686125	6.71	0.000*	.6971171 1.565751
Cost	-.1503185	.2016099	-0.75	0.456	-.6696311 .3689942
*The Variables are statistically significant at 99% of confidence level					

The likelihood ratio chi-square of 80.34 with a p-value of 0.0000 shows that the model as a whole is statistically significant, as compared to the null model with no predictors. The output further shows that an increase in current market coverage as compared to start-up stage is a significant variable with p-value of 0.008 in explaining the variation in the profit level experienced by the enterprise across time.

Given the profit change is ordinal, to say, it is measured by respondents as decreased, no-change, or increased, the ordered probit market coverage coefficient 0.443 is positively related to upward change in profit level and can be interpreted as a one unit increase in market coverage (i.e., as the enterprise's market coverage increases across time) leads to profit level change of 44 percent.

The other variable which is statistically highly significant with a p value of 0.000 is total sales/revenue. On average, for enterprises that have experienced an increase in sales/revenue, their profit has also increased roughly by 110 percent. The result shows very strong relationship between sales/revenue and profit.

Another important indicator variable of economic performance analysed is total cost. The higher the cost, the tougher it is for enterprises to increase profits. As expected, the variable has a negative coefficient. But what is interesting is that the variable is not statistically significant.

### 5.5 The Possible Interplay Between MSME Business Practice, Access to BDS and Performance

Part of the objective of the study was to consider the possible interplay between business practice, access to BDS and the possible effect these may have on enterprise performance. The study has identified particular practices amongst MSMEs that should potentially be targets for BDS

interventions intended to enhance enterprise performance. What follows is an attempt to identify possible linkages between specific practices, BDS and performance. Relevant institutional issues emerging from the study are also highlighted.

The fact that the majority of MSMEs remain unregistered has a direct impact on their ability to mobilise resources and improve performance. The preference by most MSME operators to retain majority stake in their enterprise may be an additional issue affecting performance. Overall, the findings provide indications that levels of entrepreneurship may be low amongst MSME operators, as evidenced by particular attitudes (such as low locus of control) and practices (such as not prioritizing price-related strategies in low-end markets) that may not support enhance enterprise performance.

The majority of BDS provided to MSMEs has been around access to finance and to markets. These aspects mainly address issues pertaining to external (value chain) linkages and do not necessarily deal with institutional management issues such as the ones identified above (and which could very well be underlying factors affecting access to finance and markets). It appears MSME operators appreciate the importance of these institutional issues. This is evidenced by the fact that even though business training and technical support is not the most accessed type of BDS, it was by far the most appreciated. This has implications on the design and delivery of BDS so as to address key institutional issues (including operator mindsets and practices) that continue to affect MSME productivity, competitiveness and access to finance.

With regard to the potential impact of BDS on performance, the following findings are relevant. Though almost 70 percent of those that had accessed BDS reported increased profits, about 60 percent of those that did not access BDS also experienced increased profits. Save for the possible effects of other mitigating factors, it does appear that BDS may not have had as much impact on enterprise performance. As suggested above, the focus of BDS interventions may not be on the most critical aspects affecting MSME performance. Almost all those that attended BDS trainings indicate they benefited, but only about 61 percent could relate this benefit to improvement in their enterprise. In the econometric analysis undertaken above, the variable “Training” (representing BDS) is statistically not significantly related to the dependent variable “Profit”. This suggests that the current form and nature of BDS may not be a strong predictor of MSME performance. However, its positive coefficient shows that there is nonetheless a direct (albeit limited) positive relationship between BDS and profitability.

## **6.0 Discussion, conclusion and recommendations**

### **6.1 Introduction**

This study attempts to identify some of the institutional factors affecting the ability of MSMEs to provide a greater contribution to national development. It has particularly considered the current state of affairs with regard to business practices, access to Business Development Services (BDS) and enterprise performance. It is intended to be part of a research-based conversation that helps

enhance understanding of key issues related to the interplay between these three variables. The research process involved interviews with 187 MSME operators (25 percent female) in two geographical locations (Lusaka - 127, and Kabwe - 60). The examination was undertaken from five research and practice disciplines that include economics, business management, business law, entrepreneurship and finance.

This section builds on some of the discussion points emerging from the findings as presented in the previous section. A conclusion is also provided before putting forward specific policy, practice and research recommendations.

It is intended that various subsequent reports will delve deeper into the findings and provide opportunity for additional, more in-depth and more varied discussion. This is in recognition of the wide stakeholder constituency that is captured by the issues investigated under this study. This section therefore discusses only a selection of issues that are in no way deemed to be the most and only important ones.

## **6.2 Discussion of Findings**

Some of the key characteristics of Zambian MSMEs have a telling effect on their ability to enhance productivity, become competitive and even grow. While it is not surprising that the majority of them are in the micro category, it may be important to ascertain factors that either cause them to start so small or end up this way. Though choice by MSME operators could be one explanatory factor, it appears clear from the study that various institutional factors (internal and external to MSMEs) have contributed in a significant way. The following are just a few such factors that, based on the findings of this study, can be cited at the MSME level.

- (1) Not being formally (legally) registered affects a business in various ways, inhibiting its ability to enter into certain transactions (such as supply contracts and credit purchases).
- (2) The preference to hold majority stake by most MSME operators may not only limit access to share capital, but also human capital at decision-making level.
- (3) The age and education distribution in the MSME sector (younger and less educated) suggest this sector (and ultimately the economy as a whole) is deficient of human capital that may be needed to address some of the practice and performance issues identified
- (4) Overall, the seemingly low levels of entrepreneurship as evidenced by particular mindsets and practices towards identification and exploitation of opportunities appear to have had significant impact on enterprise performance.

Though the study did not focus on the external environment, the following insights were nonetheless obtained on institutional and policy issues that may be affecting MSME development in Zambia.

- (1) Heavy regulatory burden (whether perceived or real) on one hand, and little or no incentives on the other hand, will tend to discourage formal business registration.

- (2) The seemingly dominant NGOs and government presence (providing free and/or subsidised BDS) in a market where the demand side is indicating it is prepared to pay does affect not only the development of market-driven and market responsive BDS but also how this translates into improved MSME performance.
- (3) The direct public and developmental sector involvement in the financing of MSMEs, particularly where such is unwarranted, may not only lead to market distorting effects that ultimately affect sustainable low-end financial inclusion, but also reduce the performance-enhancing effect associated with accessing private capital.
- (4) Indications from the study are that current financial products on offer may not be adequately responding to MSME needs and circumstances. This view is based on the fact that whilst the MSME operators expressed need for finance, the majority did not see themselves going for any of the finance products on the market.
- (5) Most studies that present finance as the most binding constraint to MSME development are based on perceptions of MSME operators and not on independent expert evaluations that ascertain existing enterprise financing needs. There appears to be a knowledge gap that needs to be bridged if the demand and supply side to financial services are to be connected.

Econometric analysis shows a weak relationship between BDS and MSME performance. The effectiveness of BDS appears to be undermined by the fact that much of it is currently supply-driven. As such though almost all MSME operators appreciated trainings they have participated in, much fewer were able to link it to any impact in their enterprises. The study shows that sales/revenue and market share have a significant impact on MSME profits as a measure of performance. Though this may not be surprising (as it generally applies to businesses in a competitive environment), it may nonetheless be indicative of areas that harbour choke points that should be receiving concerted BDS intervention. Further, even though MSMEs may specifically point to areas such as access to finance and to markets as important for future BDS intervention, it is incumbent upon BDS providers to facilitate processes that help address underlying institutional issues that inhibit such access.

### **6.3 Conclusion**

This study has examined the MSME sector in Zambia and particularly considered the current state of business practices, access to Business Development Services (BDS) and enterprise performance. It has sought to help reduce knowledge, practice and policy gaps by beginning a process that places focus on key institutional issues related to the interplay between the three variables. The overall objective of the study is to enhance the ability of MSMEs to provide a greater contribution to livelihood improvement and to inclusive national development. The examination was undertaken from five research and practice disciplines that include economics, business management, business law, entrepreneurship and finance.

Key findings from the study highlight various aspects around formalization, individual MSME operator profiles, ownership structure and management that should ideally be the target of BDS and other policy interventions intended to enhance MSME sector development. For instance, the fact that most MSMEs remain unregistered with PACRA is a major issue for intervention. There are also notable human capital development issues around which various interventions could be designed. There is need clear need to create a conducive environment that attracts more experienced and educated individuals into the MSME sector.

Current BDS interventions do not seem to be well-aligned to key choke-point areas that could unlock the potential of Zambia’s MSMEs. As such, BDS is not currently significantly influencing enterprise performance. There are issues around the BDS institutional framework that will need to be considered. There is currently no clear policy framework that guides the various stakeholders operating in the BDS sub-sector. These stakeholders include the state, private sector BDS providers, development agencies, private sector enterprises that engage with MSMEs, and the various associations of SMEs themselves. Key potential effects of the absence of a policy framework are that roles may be misaligned and that actors may not be “pulling in one direction”.

In particular, the dominant role of government and development agencies (and the almost invisible role of private sector BDS providers) in the delivery of BDS has implications for MSME performance and also on the overall BDS market development. Further, emerging study findings suggest the need for private sector players, including financial institutions to engage with MSMEs in such a way as to better understand their internal and external operating circumstances. This could lead to better alignment of the various products intended for this sector, improving effective demand, catalyzing enterprise performance, and lowering risks associated with engaging with the sector.

An MSME performance assessment conducted show that enterprises (and associated BDS interventions) need to address strategic and operational management issues that impact on sales revenue, market share and cost management. Though there are relatively high levels of optimism about the future amongst MSME operators, low levels of entrepreneurship are likely to continue to hold down performance unless there is a deliberate effort to firstly clearly define how this concept will be understood and engaged with in the Zambian context.

## **6.4 Recommendations**

*“To improve access by MSMEs in rural and urban areas to business development support in key areas that facilitates enterprise stability and growth”- (Objective 4 of Zambia’s MSME Development Policy: 2011-15)*

Below is a brief outline of key policy, practice and research recommendations that emerge from the study, and which are intended to support the operationalization of objective 4 of Zambia’s MSME Development Policy as captured above:

- (1) There is a need for the development of a clear framework for engagement amongst the various stakeholders operating within the BDS sub-sector. Such a policy framework should provide

guidance not only on possible roles, but also facilitate the development of space for stakeholder collaboration around business development support to MSMEs. While the policy development may be led by a government agency such as ZDA, it will require significant participation from institutional representatives of the various actors engaging with MSMEs.

- (2) Research institutions have an important role in putting forward knowledge/evidence-based building blocks for the development of policy framework recommended above. Various studies should be undertaken within the framework of the Zambia's Private Sector Development (PSD) Reform Programme. Some specific areas of study may include the following:
  - a. Independent assessments of institutional factors affecting enterprise development in the MSME sector
  - b. Stakeholder mapping that locates each of the key actors within the BDS sector, and evaluation of the impact of the current state of affairs.
  - c. Contextualisation of global good practice in BDS to Zambia
  - d. Exploration of what entrepreneurship development entails in the Zambian context.
- (3) The study outcomes bring out financial institutions as a needing to work closely with BDS providers in managing knowledge, capacity and expectation gaps. A more formalized relationship between BDS providers and financial institutions should be developed to improve knowledge flows between MSMEs and financial institutions and capacity development for both categories of actors. This formalized relationship can initially take the form of a consultative forum at the level of the associations representing them and evolve towards individual institutions working closely in their engagement with MSMEs
- (4) Given the large proportion of MSMEs that fall within the agricultural sector, institutions representing farmers will need to play a more prominent and collaborative role (than may presently be the case) in processes seeking to achieve objective 4 of Zambia's MSME Development Policy. In particular, there is a need for a more consultative process by shifting traditional agriculture extension towards rural BDS that improves productivity and competitiveness of small-scale farmers.
- (5) Because of their extensive outreach, and their human, Knowledge and financial resources, developmental agencies have an important role to play in ensuring that the various intervention outcome from this and other related studies can be operationalized. Such agencies working with MSMEs will need to create space within their operations for supporting collaborative efforts seeking to achieve objective 4 of the MSME development policy. Specifically, it will be important for them to evaluate the extent to which their current strategies and activities are aligned to specific components of the MSME development policy and to identify how they are advancing it.

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## Annexure

### I – STUDY QUESTIONNAIRE

#### Mulungushi University and 3C Development Management Consultancy Business Development Service (BDS) Training, Mentoring, and Monitoring Study

*Dear Respondent*

Mulungushi University is conducting a research project titled: Examining the role of the state and the private sector in stimulating the Business Development Services (BDS) sub-sector that responds to the needs of Micro, Small and Medium Enterprise (MSME) development in Zambia. The research is being funded by the Investment Climate Business Environment (ICBE) of Trust Africa.

The objective of Zambia’s Micro, Small and Medium Enterprise development policy is to improve access by MSMEs in rural and urban areas to business development support in key areas that facilitates enterprise stability and growth. In implementing this policy, a question that arises relates to the role of the state and the private sector in facilitating the MSME access to business development services in the particular context of Zambia. In this regard, the study seeks to document relevant case-studies, best-practice principles and lessons, and attempt to draw out possible models for the Zambian context.

The outcomes of the research will create a platform on which a common understanding of key issues can be developed by all relevant stakeholders, thereby enhancing the prospects of attaining the objective of the MSME policy. Therefore, for this research to meet its desired outcomes, accurate response to the following questions will be very helpful to the study team.

District.....  
Interviewer name: .....  
Interview Date: .....  
Time started: .....  
Time finished: .....

#### SECTION 1: RESPONDENT INFORMATION

1. Name: .....

2. Sex: Male [ ] Female [ ]

3. Age Range:

16 – 25	26 - 35	36 - 45	46 - 55	56 - 65	Above 65
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4. Are you comfortable using English or Vernacular?

English [ ] Vernacular [ ]

5. Highest formal education:

None	Primary	Basic	High School	Certificate/Dip	Degree/Prof	Masters & Above
------	---------	-------	-------------	-----------------	-------------	-----------------

6. Are you:

Sole Owner	Sole Owner and Manager	Manager	Other, specify: .....
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7. Are you fulltime or part-time in this business?

Full Time [ ] Part Time [ ]

8. Other than this business do the owners run other businesses or are they in employment?

Own Other Businesses [ ] Employed [ ] No Other Business [ ] Don't know [ ]

**SKIP INSTRUCTION: If the respondent is the sole owner of the business proceed to section 2)**

If the respondent is not the sole owner

9. Please state the gender and age range of up to 3 (other) active owners?

1	M	F	16 - 25	26 - 35	36 - 45	46 - 55	56 - 65	Above 65
2	M	F	16 - 25	26 - 35	36 - 45	46 - 55	56 - 65	Above 65
3	M	F	16 - 25	26 - 35	36 - 45	46 - 55	56 - 65	Above 65

10. What are the highest educational qualifications of up to 3 (other) active owners mentioned above?

1	None	Primary	Basic	High School	Certificate/Dip	Degree/Prof	Masters & Above
2	None	Primary	Basic	High School	Certificate/Dip	Degree/Prof	Masters & Above
3	None	Primary	Basic	High School	Certificate/Dip	Degree/Prof	Masters & Above

**SECTION 2: BUSINESS CHARACTERISTICS**

1. Name of the business: .....

2. Contact address of business: Telephone....., E-mail.....

3. Business sector (**MULTIPLE ANSWERS POSSIBLE**):

Mining/ Extraction	Agriculture & Livestock	Food Processing	Trading	Non-food Manufacturing	Services	Other Specify:
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4. Where do you operate along the value chain?

Primary Producer	Primary supplier	Processor/manufacturing	Wholesaler	Retailer	None
------------------	------------------	-------------------------	------------	----------	------

5. What is the main reason why you started the business in the stated business sector(s)?

Saw others making money	Demand higher than (or no) supply	Lack of employment	Not too many business options	Other Specify:
-------------------------	-----------------------------------	--------------------	-------------------------------	----------------

6. When was the business registered?

Less than a year ago	1 – 3 years ago	3 – 5 years ago	5 – 10 years ago	Over 10 years ago
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7. When did the business start operating?

Less than a year ago	1 – 3 years ago	3 – 5 years ago	5 – 10 years ago	Over 10 years ago
----------------------	-----------------	-----------------	------------------	-------------------

8. a. Did you receive any business advice before starting the business? Yes [ ] No [ ]

b. **IF YES**, from whom?

Family	Friend	Professional	Other, Specify
--------	--------	--------------	----------------

9. Is the business registered?

9a	PACRA – NO		PACRA – YES			OTHER - YES
9b	Sole Proprietor	Partnership	Sole Proprietor	Partnership	Private Limited Company	Specify
9c	If Company, what % of ownership is held by principal owner?					

10. Number of employees

At start-up.....		At peak.....		Current.....		Future expectation.....	
M=	F=	M=	F=	M=	F=	M=	F=

11. What category are the employees?

Worker Category	Legal status		Total No.	
	Signed contract	Verbal contract	Male	Female
No of Permanent				
No of Fixed contractual				
No of Temporal/casual				
Total No.				

### SECTION 3: QUESTIONS FROM SUBJECT AREAS OF RESEARCH

#### 3.1: Legal

1. a. Have you ever heard of the Zambia Development Agency (ZDA)?

Yes [ ] No [ ]

b. **IF YES**: What do you know about ZDA?

Score (by ticking) level of awareness on a scale of 1 – 2	1	2
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1= Aware 2= Not aware

2. a. Have you ever heard of the Citizens Economic Empowerment Commission (CEEC)?

Yes [ ] No [ ]

b. **IF YES**: What do you know about CEEC?

Score (by ticking) level of awareness on a scale of 1 – 2	1	2
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1= Aware 2= Not aware

3. How regularly do you interact/interface with the ZDA?  
 Regularly [ ]      Rarely [ ]      Not at all [ ]
4. a. Has your business accessed any fund from the CEEC?  
 Yes [ ]      No [ ]
- b. **IF YES TO a.**, how much was accessed?      KR.....
- c. **IF YES TO a.**, when did your business access these funds? .....
5. Has your business benefited from any other INCENTIVES offered by the ZDA or CEEC?  
 Yes [ ]      No [ ]
- If yes, please indicate the nature of the incentive(s) received .....
6. What legal authority does your enterprise need to do business?  
 License [ ]      Permit [ ]      Certificate of Registration [ ]
7. What is the cost of obtaining this legal authority license/permit/certificate of registration?  
 Very Expensive [ ]      Adequate [ ]      Cheap [ ]
8. What time does it take you to obtain this legal authority?  
 Very Long [ ]      Reasonable Time [ ]      Short [ ]
9. Does ZDA monitor your activities?  
 Yes [ ]      No [ ]
10. Rate the ZDA monitoring activities/mechanism at your business  
 Very Good [ ]      Good [ ]      Poor [ ]      Very Poor [ ]
11. Rate the role/services of ZDA to your business.  
 Very Good [ ]      Good [ ]      Poor [ ]      Very poor [ ]
12. Is there any provision in the ZDA Act which you think is a hindrance to the growth of your business? Yes [ ]      No [ ]      DK [ ]  
 If yes, specify .....
13. Is there any other law or statute which needs to be changed in order to develop or grow your business? Yes [ ]      No [ ]  
 If yes, specify .....
14. State the occasional disputes you have had with customers, suppliers, bankers etc. and how you settled them: .....

**3.2: Entrepreneurship**

1. How would you say your business is currently performing?

2. Poorly	3. Fair	4. Good
-----------	---------	---------

2. What would you attribute to your current business performance?

1.Luck/Good Fortune	2.External Environmental Factors	3.Internal Management Factors
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3. What do (or would) you do to make the same customers keep on buying from you instead of them going to buy elsewhere?

Pricing	Credit Facility	Quality of product/Service	Advertising	Customer Handling
Other, specify:				

4. Do you (or would you be willing to) ask other businesses or individuals to assist you produce or supply services that are being demanded? Yes [ ] No [ ]

5. Would you accept to share ownership with someone else in order to improve your business? Yes [ ] No [ ].

If yes, up to what percentage? Less than half [ ] Up to half [ ] More than half [ ]

6. Do you save money from your business activities periodically?

If yes, why do you save?	
If no, why don't you save?	

7. Indicate which contracts you have and would wish to have with the following and the reasons for entering into the contract.

Item	Contract		Nature of contract		State reason for entering contract
	Yes	No	Signed	Verbal	
Suppliers					
Customers					
Employee					
Government					
NGO					
Wholesaler					
Retailer					
Processor					
Creditors					
Social investor					
Other: Specify					

8. State up to 3 of what you see as the major risks in your business and how you overcome or intend to overcome them.

Risk	Method for overcoming risk
Market Risk	
Price Risk	
Weather Risk	
Exchange Rate Risk	
Political Risk	
Other, specify	

9. How would you order the following in terms of importance to your business (*USE SHOW CARDS*)?

	Resource	Priority Order #
1	Labour	
2	Capital	
3	Raw Materials	
4	Land	
5	Managerial Skills	
6	Technology	

10. How do you go about with planning the future of the business?  
 Formal/written plan [ ] Informal/unwritten plan [ ] No planning [ ]

11. How do you see the future of your business?

1. Worse than now	2. Same as now	Better than now
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Briefly explain the reason for your answer: .....  
 Who determines price of raw material and price of product/service you sale?

Item	Buyer		Seller	
	Yes	No	Yes	No
Raw material				
Finished product/service				

12. How often does the price of the product/ service you sale change per period of time?  
 Very often [ ] Often [ ] Not often [ ]

13. Which one is a major source of your seed capital and working capital

Item	Seed capital		Working capital	
	Yes	No	Yes	No
Own savings				
Bank loan				
Returned profit				
Friends				
Relatives				
Grant aid (Donation)				
Microfinance loan				
ZDA				
CEEC				
Other: Specify				

14. What channels do you use for selling your product/services?

Channel	Own channels	Partner channel	Combination	None
Response				

15. What have been the major challenges the business has faced in recent years? .....  
 16. How do you envisage overcoming these challenges?.....

### 3.3: Management

- Where do you get information or advice for your business?.....
- Have you ever heard of Business Development Services (BDS)? Yes [ ] No [ ]
  - IF YES**, what do you understand by BDS? .....

3. a. Have you in the past received any business training or other support from any organisation?

Yes [ ] No [ ]

**IF NO, THEN SKIP b to d BELOW**

- b. Which organisations have these been (**MULTIPLE ANSWERS POSSIBLE**)?

1.Gvt	2.NGO	3.VC Player	4.BDS Provider	5.MSME Association	Other, Specify:
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- c. What are some of the types of business support that have been covered during the business training or other support that you have received (**MULTIPLE ANSWERS POSSIBLE**)?

#	BDS AREA	TICK
1	Market access services	
2	Input supply services	
3	Technology and product development services	
4	Training and technical assistance	
5	Infrastructure-related and information services	
6	Policy and advocacy	
7	Access to finance	

- d. In what ways do you think you and the business have been benefited the most by the support mentioned above?

#	Business Aspect Benefited by BDS	Tick
1	Strategic Skills (i.e. decision-making skills etc)	
2	Operational Skills (i.e. planning, formulating goals, motivating, negotiating, human resource ,accounting etc)	
3	Technical Skills (i.e. Creativity, experience and knowledge within the field)	
4	Other, specify:	
5	No benefit, little benefit or no specific area that I can think of	

4. a. Are there particular types of support that you think you and your business may still need in order to enhance business success?

Yes [ ] No [ ]

- b. **IF YES**, which particular types of support (**MULTIPLE ANSWERS POSSIBLE**)?:

#	BDS AREA	TICK
1	Market access services	
2	Input supply services	
3	Technology and product development services	
4	Training and technical assistance	
5	Infrastructure-related and information services	
6	Policy and advocacy	
7	Access to finance	
8	Other, specify	

- c. Would you be willing to pay for them (and in what proportion)?

Yes in full [ ] Yes in part [ ] Not at all [ ]

5. What has been the impact of training on practice and performance?

Positive [ ] Negative [ ] None [ ]

6. Is there any difference in terms of performance between trained MSMEs and untrained?  
 Yes [ ] No [ ] Not Aware [ ]
7. a. Which types of organisations do you think are best suited to provide these services?  
 Government agencies [ ] Private organizations [ ] NGOs [ ]  
 Others, please specify: .....
- b. Why?.....
8. Which of the following professional services have you used in the last one year in your business operations and how frequently?

	Monthly	Quarterly	Semiannually	Annually
Accounting & Auditing				
Warehousing				
Legal				
Advertising				
Manpower Training				
Market research				
Distribution				
Transportation				
None				

### 3.4: Marketing

1. If you have a good product, marketing is not necessary. Do you agree?  
 Yes [ ] No [ ]
2. How do you rate marketing Research?  
 Very Important [ ] Important [ ] Not necessary [ ] Do not know the concept [ ]
3. How do you rate the importance of market segmentation?  
 Very important [ ] Important [ ] Not necessary [ ] Do not know the concept [ ]
4. Are you familiar with the process of market planning?  
 Very familiar [ ] Do not understand [ ] It is not necessary [ ]
5. Have you ever produced a marketing plan for the products you sell?  
 Yes [ ] No [ ]
6. Are you familiar with the role of packaging in the distribution of products?  
 Yes [ ] No [ ]
7. How familiar are you with the purpose of branding?  
 Very familiar [ ] Familiar [ ] Do not know what branding is [ ]
8. Which of these do you use to promote your product? Please tick from the options below  
 Advertising [ ] Public Relations [ ] Direct Marketing [ ]  
 Personal Selling [ ] Sales Promotion [ ] Do not use any [ ]
9. What methods do you use to distribute your products?  
 Direct [ ] Indirect [ ]

10. How is your understanding of Electronic Marketing?  
 Have an Idea [ ]      Very Much [ ]      Do not Understand the concept [ ]
11. Do you segment your market?  
 I segment my market [ ]      I do not segment my market [ ]  
 I do not need to segment my market [ ]
12. Do you have a deliberate policy to understand customer behavior?  
 I already know my customers [ ]      There is no need to research consumer behavior [ ]  
 Attempting to understand what consumer behavior is [ ]
13. How familiar are you with product life cycle (PLC)?  
 I am familiar [ ]      I am very familiar [ ]      I am not familiar [ ]      It is irrelevant [ ]
14. How is your understanding of product development process?  
 I understand the process [ ]      I understand the process very much [ ]  
 I have an idea on the process [ ]
15. Do you know the benefits of international trades?  
 I know the benefits of international trade [ ]      I don't know the benefits of international trade [ ]

**3.5: Accounting/Finance**

1. Have you ever borrowed capital from  
 Close relatives [ ]      Friends [ ]      Business partners [ ]      Banks [ ]  
 State agencies [ ]      Other, please specify:.....
2. Have you had any difficulties paying back the loan? Yes [ ]      No [ ].
3. What is your annual turnover as at last year? .....
4. What is the asset base of your business/company? .....
5. Which cost is most important in your business?

Characteristic of cost	More important	Less important
Fixed cost		
Variable cost		
6. Is the Price of your product or service affected by		
	Yes	No
Economies of scale (doing things efficiently)		
Economies of scope (selling different products/services)		

7. State the unit selling price of any one of your product and also the price offered by other firms?

	Price	Price variation if any		
		Low	average	High
Your price offer				
Price offered by other firms				

8. Do you keep financial records and account?      Yes [ ]      No [ ]

9. Does your establishment have its annual financial statement reviewed by an external auditor?

Yes [ ] No [ ]

10. Does your company or you (micro enterprises/sole proprietorship) maintain a bank account with any financial institutions? Yes [ ] No [ ]

11. Which of the following type of finance are you currently using in your business

Only debt finance [ ] Only equity finance [ ]  
 Both debt and equity [ ] Venture capital [ ]  
 Leasing [ ] Others (specify) [ ]

12. Please rate the different types of finance in order of preference and state reasons for your choice.

Type of Finance	Reason (why)
Debt Finance	
Equity Finance	
Both Debt and Equity	
Venture Capital	
Leasing	

13. With respect to leasing, how satisfied are you? Would you say you are (tick one only)

Very satisfied [ ] somewhat satisfied [ ]  
 Neither satisfied nor somewhat dissatisfied [ ] Very dissatisfied [ ]

14. If you have never used leasing before, would you be interested in using lease arrangement to finance your equipment needs?

Yes [ ] No [ ]

15. Using 1 (frequent); 2 (not frequent); 3 (not needed), how would you rate your demand for the following financial services.

Short-term overdraft facility [ ] Medium term overdraft facility [ ]  
 Short term loan [ ] Long term loan [ ] Short term advances [ ]

16. Which of the above facilities have you used or been using in the last three years?

Short-term overdraft facility [ ] Medium term overdraft facility [ ]  
 Short term loan [ ] Long term loan [ ] Short term advances [ ]

17. With respect to debt financing, which of the following debt instruments are you using to fund your operations at the moment? (Tick a minimum of one)

Line of credit [ ] Revolving credit agreement [ ]  
 Short Term loan [ ] Banker's acceptances [ ] Long term loan [ ]

18. From which of the following financial institutions do you source your debt financing instruments?

Development finance institutions [ ] Export – Import banks [ ]  
 Commercial Banks [ ] Community banks [ ] Microfinance Institutions [ ]

Finance companies [ ] Savings & Loans associations [ ]  
 Multilateral financial institutions [ ] Insurance companies [ ]

19. What is the loan's approximate annual cost/ rate of interest? .....

20. What is the duration (term) of the loan? .....

21. Do you have an overdraft facility or any line of credit? Yes [ ] No [ ]

**SKIP INSTRUCTION: If answer to question 21 is NO, skip question 22 and 23**

22. For the most recent loan or overdraft, did the financing require collateral or a deposit?

Collateral [ ] Deposit [ ]

If collateral, what kind (e.g. land, buildings, machinery, home)? .....

23. What was the approximate value of collateral required as a percentage of the loan value?

Collateral	Value of Collateral required as % of the Loan value
Land	
Buildings	
Machinery	
Home	
Others (Please Specify)	

24. Are you satisfied with the services you are getting from your bank? Yes [ ] No [ ]

25. Are you aware of the CEEC funds? Yes [ ] No [ ]

If yes, what constraints did you encounter in trying to access the funds? .....

### 3.6: Economics

1. Were any of the business owner's relatives involved in business before or at the start-up stage?

Yes [ ] No [ ]

If yes, please specify: .....

2. How do you rank the following as most costly to your business? (*Enumerator: rank in chronological order, as 1, 2, 3 ...*)

Transportation [ ] Inventory [ ] Storage [ ] Electricity [ ]

Telephone [ ] Other, please specify: .....

3. How do you identify the position of your business, as of today, compared to the start-up time in terms of?

	Has increased	Has decreased	Has not changed
Total sales/Revenue			
Total cost			
Profit			
Market coverage			
Competition			

4. Does the business experience seasonal variation in employment? Yes [ ] No [ ]

If Yes, please specify the season and the reasons.....

5. Does the business experience seasonal variation in Sales/revenue? Yes [ ] No [ ]

If the answer is yes, please specify.....

6. How do you see the future of your business? Why?.....

*Enumerator: This is the end of the interview, Thank you very much for your time.*