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THE CURRENT STATE (SEPTEMBER, 1985) OF  
FACTORS AFFECTING THE DEVELOPMENT OF  
RURAL SMALL SCALE ENTERPRISES IN ZAMBIA AND  
OPTIONS FOR FUTURE ASSISTANCE BY USAID/ZAMBIA

FINAL REPORT

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## FOREWORD

This report is a covering report to the document entitled "Rural Small Enterprises in Zambia: Results of the RDSB Survey", September 1985.

The publication of the CDSS for FY 1985 in January 1983 drew attention to the Informal Sector in Zambia. "In view of its importance and its relative neglect by the GRZ and other donors, AID should help the GRZ sponsor some survey and analytical research work of the informal sector, both rural and urban. The Government needs to understand better how this sector works and how it might be encouraged to improve its productivity and increase employment. At a later date, AID should consider how it might be able to assist in the development of the rural informal sector, as an activity complementary to its efforts in agriculture.<sup>1/</sup>

The informal sector was discussed further in two reports produced by the Regional Development Services Office/East and Southern Africa (REDSO/ESA) during the first half of 1983.<sup>2/</sup>, <sup>3/</sup>. While a continual emphasis by AID on the agricultural sector was recommended in the Evaluation Report<sup>3/</sup> it was also recommended that a

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- (1) Country Development Strategy Statement - FY 1985 - Zambia. January 1983. AID/Washington. (Page 51)
  - (2) "Major Zambian Development Problems". C.S. Callison, D. Dijkerman and B. Robinson. REDSO/ESA. Nairobi, Kenya. April 1983.
  - (3) "Evaluation of AID's Assistance Strategy for Zambia". R. Aulakh, C.S. Callison, C. Claude and D. Dijkerman. REDSO/ESA. Nairobi, Kenya. June 1983.

close examination of the informal sector be carried out in view of its role in providing inputs, markets, consumer goods and services and off-farm employment. Emphasis was to be given to the rural and agriculturally-related parts of the urban informal sector. "Such an examination should provide basic information and analysis that can be used to design future development interventions to improve the informal sector's productivity and the incomes of those who depend on it".

The first stage of the examination was a report<sup>1/</sup> which investigated the role and definition of the informal sector in Zambia together with topics for future research. This was followed by a visit to Michigan State University to discuss the rural informal sector which the University had been researching under a Cooperative Agreement with USAID.<sup>2/</sup>

The "in-house" stage was concluded by a report on the rural informal sector in Zambia and the potential role of AID/Zambia should the Mission decide to proceed in a more formal way with the topic.<sup>3/</sup> The report identified and evaluated the GRZ policies towards the rural non-farm employment sector; reviewed the institutions involved with rural non-farm employment and identified those institutions that could carry out future field work and surveys. Further the report made recommendations to AID/Zambia

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- 1/ "Literature Review and Factors to be Included in an Informal Sector Survey of Zambia". B.C. Baldwin. Report for USAID/Zambia under Contract CO-611-30028. July 1983.
  - 2/ "Working Paper - Visit to Michigan State University to discuss Rural Non-Farm Employment". B.C. Baldwin. Prepared for USAID/Zambia under Contract CO-611-30015. January 1984.
  - 3/ "The Development of Rural Small Enterprises (The Rural Informal Sector) in Zambia and the Potential Role of AID/Zambia". B.C. Baldwin. Prepared for USAID/Zambia under Contract CO-611-30015 (Work Request No.2). April 1984.

concerning areas of research, policy dialogue and institutional assistance. On the basis of this report it was decided by AID/Zambia to proceed with research into rural small enterprises and closely monitor the GRZ policies and institutions affecting the sector. It was also recommended in the report to use the terminology - rural small enterprises - to identify the target group rather than some of the more ill-defined terms previously used. (1)

Subsequently a contract was signed (September 1984) between AID/Zambia and the Rural Development Studies Bureau (RDSB). The RDSB would "conduct a survey to obtain an accurate assessment of the type and extent of small enterprises in rural Zambia and prepare a report which will provide to the Zambian Government and other organizations interested in rural small enterprises information which is vital to planning development strategies".(2) The Director of the RDSB, Dr. J. Mulimo and an AID consultant, B. Baldwin, visited Michigan State University (M.S.U.) to discuss the proposed survey questionnaire and sampling methodology. An amendment to the Cooperative Agreement between M.S.U. and AID/Washington allowed M.S.U. to provide technical support both before and during the survey in the form of a M.S.U. staff member attached to the RDSB. On the

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1/ The term "informal sector has consistently required definition when used as it has different meanings to different people. The term, rural small scale enterprises, is meant to be a "neutral" term embracing all activities in an economy, regardless of official registration, type, legality and location. The only stipulation is that the enterprise employs less than 50 persons.

2/ AID/Zambia Contract No. CO-611-84-0011.

basis of the visit to M.S.U. a set of guidelines for the survey was drawn up which gave details of the questionnaire, sampling methodology, personnel and data analysis. (1)

The survey fieldwork commenced in May, 1985 and was completed in August, 1985. The data was analyzed on a mainframe computer under the auspices of the Central Statistical Office (C.S.O.), Zambia, and the report, entitled "Rural Small Enterprises in Zambia: Results of the RDSB Survey" was published in September 1985.

This present report, as stated initially above, is a covering report to the "results" report. It is useful, though not obligatory, to have the "results" report while reading this report. The purpose of this covering report, entitled "The current state (September 1985) of factors affecting the development of rural enterprises in Zambia and options for future assistance by AID/Zambia", is to enable the Mission to decide on what courses of action will be appropriate in the future. During 1986, the Mission will be formulating a new CDSS in which assistance in this area may well be included. This covering report first reviews the policies and institutions involved with, and affecting, rural small enterprises. In effect,

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/ "Guidelines for survey of Rural Small Enterprises in Zambia, April-August 1985" Prepared under Contract CO-611-30015 (Work Request No. 4) for AID/Zambia. January 1985.

this is an up-date on the evaluation of these policies and institutions carried out eighteen months previously.<sup>1/</sup> Monitoring the changes that have occurred during that time will give an assessment of the role of these institutions and policies as well as the overall GRE involvement in the rural small enterprise sector. The current state of the data base of rural enterprises is reviewed, in the light of RDSB survey, and the implications for future AID/Zambia assistance are identified.

Following this review and assessment the report will identify and comment on future AID/Zambia options. These will include further investigation, policy dialogue, project and financial interventions. A conclusion will make final recommendations.

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<sup>1/</sup> B.C. Baldwin, April 1984 'op cit'.

SUMMARY

Following the FY 1985 - Zambia CDSS, AID/Zambia has developed a program of investigation which has studied the policy and institutional environment affecting the development of rural small enterprises in Zambia and supported research into the scale, type and extent of such enterprises in Zambia. This report is intended as a covering report to the survey results of that research. The objective of this covering report is to review the current state of the factors affecting the development of rural small enterprises in Zambia and to provide AID/Zambia with options for future strategies. The factors include GRZ policies, institutions and the state of the data base of statistics and information. During the last 18 months (since the previous AID/Zambia assessment) there has been little development of the policies and institutional framework affecting the sector. While there has been no overt discouragement of small enterprises (both urban and rural) there has been little overt encouragement. SIDO, the main institutional initiative of the GRZ, has been created in a policy environment which remains unfavorable and there has been no concomitant initiative on policy.

The World Bank, in its recent study on Zambian Industrial Policy and Performance, identifies several key policy recommendations which if accepted by the GRZ could radically alter the industrial structure of Zambia. Such overall policy changes will affect the environment in which rural small enterprises operate as with agricultural policy, especially pricing policy. While pricing policy has become more realistic, low rural development expenditures, poor weather and

poor marketing have created a recession in rural areas with a corresponding disincentive to rural small enterprises. It is anticipated that the Fourth National Development Plan, to be published in February/March 1985 will give AID/Zambia a formal statement of GRZ policy towards rural small enterprises. These policy problems and potential changes are discussed in Chapter One.

Apart from the problem of SIDO being established in an unfavorable policy environment SIDO also has major funding problems compounded by poor planning and management. Consequently SIDO, despite its aspirations, has only developed limited services and confined these to Lusaka and the Copperbelt with only limited involvement in rural areas. No other institution, either public or private, has developed to assist rural small enterprises in an effective manner although Small Scale Enterprise Promotions Limited has begun to successfully develop larger small enterprises in Lusaka and on the Copperbelt. The developments in institutions relating to rural small enterprises are discussed in Chapter Two.

Chapter Three reviews the state of the data base concerning rural small enterprises in the light of the AID supported Rural Development Studies Bureau (RDSB) study. The results of the survey are briefly examined with the objective of identifying key points which will enable AID/Zambia to plan future assistance. The future studies of the Central Statistics Office are discussed and the final section in the Chapter identifies future data and information requirements for both GRZ planners and AID/Zambia.

The main options for future assistance by AID/Zambia concern policy dialogue and research. Although project interventions are discussed they are not recommended as the poor policy and institutional setting, the lack of background studies and lack of previous interventions do not promote the

ideal conditions for interventions. USAID experience in neighboring countries (Malawi, Botswana, Kenya) in rural enterprise supports this recommendation.

The establishment of a policy dialogue with the GRZ is recommended as it is already used by AID/Zambia to discuss other issues; the small enterprise sector (rural and urban), can benefit greatly from policy changes and initiatives. A policy dialogue agenda has been drawn up which could commence with the publication of the Fourth National Development Plan in February/March 1985. With the anticipated content of the Plan AID/Zambia, might encourage the GRZ to launch an internal review of the IDA Act, SIDO and VIS. AID/Zambia could support a series of amendments to the SID Act and support the policy recommendations of the World Bank for the overall industrial sector. At the same time AID/Zambia could continue to support realistic agricultural producer prices.

The research recommendations involve AID/Zambia supporting further statistical research, based on the RDSB study, to improve the data used by GRZ planners. This also involves support to the Central Statistics Office (C.S.O.). The research recommendations also support further study on the characteristics of the constraints affecting the small enterprises and how best these problems can be alleviated/reduced. These options and recommendations, discussed in Chapter Four should allow AID/Zambia to develop a realistic and appropriate strategy towards the development of rural small enterprises in Zambia over the next 5 years.

## CHAPTER ONE

### REVIEW OF CURRENT GRZ POLICIES AFFECTING RURAL SMALL ENTERPRISES

#### 1.1. Introduction

This chapter reviews the GRZ policies that directly affect rural small enterprises and what changes have occurred in the past 18 months. However, the sector is also affected indirectly by policies that are aimed at the country as a whole. The state of the formal industrial (public and private) and agricultural sectors will strongly influence the rural small enterprise sector. Therefore this introduction will briefly review the current industrial and agricultural policies. The private industrial policies that directly affect rural small enterprise will be reviewed separately in a later section as will the basic outline of the future Fourth National Development Plan.

##### 1.1.1. Industrial Development Policy

Industrial strategy in Zambia has, since independence, been towards import substituting industrialization. This has produced a relatively large manufacturing sector (18% G.D.P., - only Zimbabwe and Ivory Coast are larger in Africa); a base of technological competence; and a relatively diverse manufacturing sector (especially with the chemical and metal products manufacturing). Yet the manufacturing sector still has the following, negative, characteristics:

- A dominance of the subsector manufacturing consumer goods, in particular food, beverages, and tobacco which account for 46% of total manufacturing output (1983 - current prices).

- A dominance of the subsectors manufacturing consumer goods, in particular food, beverages, and tobacco which account for 46% of total manufacturing output (1983 - current prices).
- Consequently, limited importance of basic industries producing intermediate inputs for other industries. Metal, textile and chemical products account for 15%, 14% and 11% of total manufactured output respectively (1983 - current prices).
- Relatively high capital-intensity of production;
- The neglect of locally available resources for production.

In a recent report<sup>1/</sup> the World Bank has identified three major areas where industrial policy has intervened since independence:

- i) by limiting the degree of competition, both internal and, particularly, external, to which the industrial sector has been exposed through a trade strategy which has emphasized import substitution supported by high levels of effective protection'
- ii) by reducing the role of market mechanisms (and relying on administrative mechanisms) in guiding the allocation of economic resources in industry;
- iii) by expanding the role of public investment in establishing both the level (large scale) and composition (public sector) of industrial development.

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1/ World Bank "Zambian Industrial Policy and Performance" Washington August 1984.

The effects of these policy interventions have affected rural small enterprises, as detailed in previous studies, and continue to do so. As an earlier World Bank report<sup>1/</sup> notes "the obstacles to the development of small-scale manufacturing industries in Zambia are formidable. In general, existing policies discriminate against indigenous small enterprises in relation to large public enterprises and to joint venture projects".

The recent (1984) World Bank report<sup>2/</sup>, however, has developed a strategy for industrial development with the principal objective of "reducing reliance on import substitution, administrative control, and public industrial investment". Specifically the main objectives in the short term are:

- (a) To strengthen the existing industrial structure by increasing capacity utilization, by making firms more competitive at international prices through restructuring investments, by phasing out those that cannot operate economically, and by enhancing managerial skills and productivity.
- (b) To initiate reform of the incentive structure by replacing quantitative restrictions with tariffs and by selective changes in the tariff structure.
- (c) To promote industrial exports by providing incentives designed to offset the present bias in the protective structure against exports.
- (d) To limit new projects in the public sector and to exercise strict economic criteria in their selection.

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1/ World Bank. "Agricultural and Rural Sector Survey". Vol. II, Annex 10. Washington. October 1975.

2/ World Bank "Zambia Industrial Policy and Performance" Washington, August, 1984

The policy recommendations in support of these objectives includes:

- i. Improvement of foreign exchange allocation system
  - improving foreign exchange budgeting;
  - eliminating the current overhang of import licenses not backed by foreign exchange;
  - shortening the maturity of import licenses;
  - separating allocations for capital goods from those for intermediates; and
  - introducing greater flexibility and responsiveness to users' needs in the allocation procedure.
  
- ii. Tariff Reform (Short Term)
  - establishing a "minimum tariff" concept by eliminating the zero-duty categories for capital goods and intermediate goods imports;
  - shifting the tariff basis from FOB to CIF; and
  - unifying domestic and import sales tax rates.
  
- iii. Tariff Reform (Long Term)
  - formation of a Tariff Commission (to oversee a comprehensive program of tariff reform);
  - import surcharges;
  - auction of import licenses.
  
- iv. Export Promotion
  - improved export retention schemes;
  - an export revolving fund for purchase of imported intermediates;
  - a workable duty drawback system;
  - a possible subsidy to value added;

- export credit guarantee schemes;
- marketing assistance.

v. Project Appraisal Unit

- to analyze new projects and existing performance in the public/parastatal holding companies.

vi. Review of Industrial Development Act.

(The final recommendation, intended to improve the balance between the public and private investments in industry, has specific consequences for rural small enterprises and will be discussed in a later section.)

Taken together, these policy recommendations represent the first major attempt to alter industrial strategy in Zambia since Independence. It requires both political priority and broad-based support if the industrial sector is to be reformed to fulfill its role in sustained economic growth. An improved export retention scheme is already working and a revised Industrial Development Act is currently before the Cabinet.

1.1.2. Agricultural Policy

Agricultural policy, and specifically agricultural pricing policy, will affect rural small enterprises. Research carried out by Michigan State University in Sierra Leone supports the contention that the scale of disposable rural incomes will affect the scale of the rural informal sector. "The rural income elasticity of demand for most small industry products is strongly positive; this result thus indicates that the demand for these products should be expected to increase strongly as

rural incomes increase".<sup>1/</sup> Subsequently, time-series analysis established that a 10% increase in agricultural incomes generated a 16% increase in demand for small-scale industry products in rural towns.<sup>2/</sup>

Over the last 2/3 years in Zambia the Government of Zambia has taken positive steps to improve the income earning potential of rural agriculture. Producer prices have been increased and the 'traditional' crops (cassava, sorghum and millet) have been given official producer prices. The USAID Zambia Multi-Channel Agricultural Marketing (ZAMCAM) Program will provide further incentive for the GRZ to promote realistic pricing and marketing policies. However, two further factors have affected the level of rural incomes in Zambia. The poor rainfall that affected agricultural production in the 82/83 and 83/84 seasons has been compounded in the 83/84 and 84/85 seasons by the marketing organizations' (the Cooperative Unions and Namboard) failure to promptly pay farmers for produce. During both the last two seasons, the Eastern Cooperative Union (ECU) has issued cheques to farmers which have bounced when presented to the local banks by farmers. This has produced an immediate drop in farmers' confidence whose reaction therefore is to only plant crops for subsistence requirements and not for the market. The GRZ must ensure that Namboard has sufficient funds both to buy crops direct and to disburse to Cooperative Unions.

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1/ Liedholm, C. & Chuta, E. "The Economics of Rural and Urban Small Scale Industries in Sierra Leone". African Rural Economy Paper No.14, 1976.

2/ Liedholm, C., Chuta E., Roberts, O., & Tommy, J. "Employment Growth and Change in Sierra Leone Small Scale Industry 1974-1980". Working Paper 37. Michigan State University. August 1981.

Although the RDSB did not investigate levels of rural income in their survey there was evidence to suggest that the rural areas are in recession. The forthcoming (April 1996) survey on household incomes and budgets to be conducted by the Central Statistical Office (C.S.O.) should provide the basic information to determine the situation as well as the extent of the recession.

## 1.2 The Small Industries Development Act (S.I.D.)

The S.I.D. Act, which established the Small Industries Development Act (S.I.D.O.) and the Industrial Development Act (I.D.A.) are the two GRZ policy initiatives which directly affect the rural small enterprise sector. Over the past 18 months the operations of SIDO have been adversely affected by the registration requirements of the S.I.D. Act. Small scale enterprises cannot register with SIDO unless they have a Trades Licence and less than 30 prospective enterprises have fulfilled this criteria.<sup>1/</sup> Non-registered enterprises cannot receive any SIDO services or assistance and would be ineligible for assistance from future SIDO operations, e.g., a credit fund.

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<sup>1/</sup> To receive a trades license an enterprise must meet a series of conditions governing the structure of a trading enterprise, e.g., a manufacturing license from the Ministry of Commerce and Industry; health regulations; water supply regulations; and to comply with the Town and Country Planning Act which enacts the land use zoning laws which, for example, prohibits small scale manufacturing activity in residential areas and the sale of goods from homes.

The Board of SIDO is currently studying a proposal to be presented to the Minister of Commerce and Industry which would amend the SID Act to delete the requirement to comply with the provision of the Trades Licencing Act. (If in agreement, the Minister would then petition the Minister for Legal Affairs). Instead, as in the case of "village enterprises" under the SID Act, very small scale enterprises registered by SIDO would be exempt from the "licencing" act. Such an amendment would be an important step for SIDO and increase its credibility with both enterprises and the public.

A further amendment that could also be considered is that all enterprises who register with SIDO would be exempt from all other Acts, e.g., the Market Act and the various "zorina" laws. Currently, many small enterprises face the possibility of prosecution under various laws, which, with the exception of health laws, are of little practical use. The Law Development Commission are still studying the laws affecting small enterprises but have yet to present their recommendations to the Ministry of Legal Affairs. The Commission, small staffed and poorly equipped, has yet to successfully promote one major legal amendment.

Apart from the registration requirement SIDO has been able to interpret the SID Act flexibly and function accordingly (e.g., no major problems have occurred concerning definition of enterprises). However, the SID Act still offers no real incentives to prospective enterprises apart from access to technical assistance. The financial incentives are available to registered enterprises from the Industrial Development Bank but as has been stated in earlier reports these incentives are without exception, of no benefit to rural small enterprises. Indeed, there are few enterprises of any scale or location who have benefited from the IDA.

In September 1984, a Workshop was held under the auspices of the Institute for African Studies of the University of Zambia on "Legal Constraints for Small Scale Enterprises in Zambia". Its recommendations contained proposals for amendments of the SID Act covering definition, registration criteria, licensing procedure and incentives. Instead of the current constraining registration procedure, it was proposed that an enterprise could be registered with SIDO if approved by SIDO as a small scale enterprise. To be approved as a small scale enterprise, the enterprise should have the potential to fulfill development priorities as defined by the GRZ; use local raw materials and labour intensive processes. Proposed incentives include preferential treatment for GRZ and parastatal purchasing as well as the granting of import licenses; rebate on excise and customs duty; and tax concessions. Following the Workshop, specific amendments to the SID Act were drafted and sent to the Minister for Commerce, Industry and Foreign Trade for consideration.<sup>1/</sup> No further developments have occurred.

### 1.3. The Industrial Development Act (I.D.A.)

The weakness of the IDA has already been discussed in earlier AID reports and World Bank studies. The IDA is "highly regulatory in tone and arbitrary in nature; in this sense it may discourage rather than encourage investors in industry".<sup>2/</sup> Its existence signifies both that the GRZ acknowledges the existence of the mixed economy in Zambia and the necessity to control it. Revision of the IDA, under World Bank technical assistance have been underway since November 1984. After discussion and redrafting a final version is currently before Cabinet for approval. In its broadest sense it is intended to

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1/ A copy of these amendments is given in Appendix I.

2/ World Bank 1984 'op cit'

be as unregulatory and non-discretionary as possible, in its narrowest sense it may specifically define a private sector subject to only the most basic government involvement. These radically new definitions are believed to be the reason for the continual re-drafting that has been required over the past nine months.

In final version it is unlikely that there will be specific clauses pertaining to rural small enterprises. There will only be details of tax incentives for rural location of industries. In this respect a revised IDA will have few incentives for SIDO registered enterprises and subsequently SIDO will still have little to offer apart from its own in-house services. However, a revised IDA, together with some of the policy reforms recommended by the World Bank would create an industrial environment which would benefit the rural small enterprise sector through backward and forward linkages, i.e. raw material supply; sub-contracting; markets.

#### 1.4. The Credit Guarantee Scheme

An amendment to the Bank of Zambia Act to allow the Central Bank to operate a credit guarantee scheme (C.G.S.) is currently before Parliament though it has not yet (9/1/85) been proposed. When passed by Parliament the Bank of Zambia will be able to launch the scheme. As reported in the previous study<sup>1/</sup> there were several drawbacks in the design of the scheme and it appeared to be a commercially unattractive proposition for local banks. Suggestions for changes in collateral conditions and other propositions (to increase the percentage of guaranteed loan loss to 80%, including principal interest arrears (up to three months) and all legal costs) were made in the report.

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<sup>1/</sup> B. Baldwin. April 1984 'op cit'.

Over the past eighteen months it appears that there have been few changes in the original design of the scheme and no more consultations with commercial banks have occurred. Therefore once the scheme is launched it is open to question how many lending organizations use the facility. Although the role of credit as a constraint in rural (and urban) small enterprise has not been fully examined there are high expectations in small enterprise institutions that such a scheme will be a panacea for small enterprise problems.

#### 1.5. Fourth National Development Plan

The Fourth National Development Plan (FNDP) will adopt the year 1984 as the base year and will cover the 5-year period 1986-90. A first draft will be submitted to Central Committee/Cabinet before the end of December, 1985. Publication will be February/March 1986. Guidelines for formulation were published earlier in 1985.<sup>1/</sup>

The primary objective of the FNDP is to achieve a viable and sustainable balance of payments equilibrium. This will be achieved through:<sup>1/</sup>

- i) restructuring agriculture and agro-based industries;
- ii) internal integration of the domestic economy through a systematic development of inter-sectoral linkages; and
- iii) intensified development of the three directly productive sectors of agriculture, mining and manufacturing.

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<sup>1/</sup> "Guidelines" for formulation of the Fourth National Development Plan". Office of the President. National Commission for Development Planning. Lusaka. March 1985.

According to the "Guidelines" the role of rural small enterprises is identified in the elaboration of strategy. In the agricultural sector, where the priority is increased production, resources will be channelled to specific programs, including the:

Establishment of industrial estates where feasible, providing accommodation and other service facilities to small scale industrial servicing agricultural machinery and processing local materials into finished goods for local consumption and surplus for exports.<sup>1/</sup>

The sectoral strategy for agriculture does not identify the role of agriculture in rural development, or in the context of income and employment generation for farm families.

In the manufacturing sector the role of small scale and village enterprises is to complement the large scale manufacturing sector in providing "intra-sectoral integration". This is to correct the past over-emphasis on large scale industrial plants and will be achieved "through setting up medium, small scale and village industries in all parts of the country based on locally available raw materials. Thus the small scale industries should play a crucial role in diversifying the manufacturing sector".<sup>1/</sup> The effect of this emphasis on small scale and village industries should develop the distribution of such enterprises "throughout the country and particularly in rural areas should enable absorption of a large part of the presently unemployed labour force into gainful employment and also make for wider spread of incomes and thus contribute to the building up of an egalitarian society.

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<sup>1/</sup> "Guidelines....." op.cit.

"The Industrial Development Act, the Small Industries Development Act and the Small Industries Development Organization (SIDO) set up under the latter, and the Village Industries Services (VIS) should be used as policy instruments for reorganization of the domestic manufacturing sector".<sup>1/</sup>

It is important to note that, with the exception of the Industrial Development Act, these "policy instruments" are in fact institutional "structures" whose effectiveness is a function of the management, finances and organization of the institution.

The "Guidelines" also indicate that the private sector will be allowed to play a "complementary" role in the development of the domestic economy. Small scale enterprises should be given all "assistance to grow and make their full contribution to the achievement of the Fourth National Development Plan targets".<sup>1/</sup>

#### 1.6. Conclusion

Over the past eighteen months there has been only limited changes in the actual policy environment affecting rural small enterprises. Conversely, there are several changes being proposed for the future but their effort and extent in practice can, at this stage, only be estimated.

The agricultural sector is the only sector to have had policy changes that effect rural small enterprises. Agricultural pricing policy has been modified but poor weather,

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<sup>1/</sup> "Guidelines ....." op.cit.

poor marketing procedures and generally low rural development expenditures have prevented rural incomes increasing and, per se, the development of rural small enterprises. At the same time as agricultural prices are maintained at realistic, unsubsidized levels, there must be continued GRZ expenditure for rural infrastructure and services and the necessary financial measures to ensure prompt and regular payment to farmers for produce.

As has been noted, the "Guidelines" for the forthcoming FNDP indicated that agricultural production is the primary objective for the agricultural sector. While raised farm incomes will stimulate the small enterprise sector there is also a requirement for continued, and improved, rural infrastructure expenditures.

The remaining policy changes are all future events and their input can only be estimated now.

The policy recommendations promoted by the World Bank, will, if accepted by the GRZ have a major effect on the industrial sector as a whole which will be transmitted to the small enterprise sector, both urban and rural. These recommendations are currently with the GRZ and it is assured that no further initiatives will be made by the Bank until the GRZ has responded. However, one of the recommendations, the re-drafting of the Industrial Development Act, has already been carried out and is now before Cabinet for discussion. It is likely that the revised IDA will contain some comments on small enterprise policy but there are likely to be of a general nature only. The only specific clauses may concern tax incentives for regional enterprise establishment. The World Bank recommendations could, therefore, stimulate radical changes in the industrial policy environment which will affect rural small enterprises in an indirect way.

The amendments to the SID Act could, however, affect small enterprises directly. There are two initiatives currently, one from the Board of SIDO and one from UNZA.<sup>1/</sup> The SIDO initiative, currently being studied by the Board of SIDO, consists of a proposal to amend the registration requirements for a small enterprise. If the Board approves the amendment proposal will be sent to the Minister of Commerce, Industry and Foreign Trade for consideration. The Minister has already received the UNZA proposal which includes not only a registration amendment but definition, incentives and the formation of a licensing committee amendments. The proposal amendments are already legally drafted (Appendix 1) and the registration amendment does not differ from the SIDO proposal. The UNZA proposal has potentially more impact on the SID Act and SIDO than the SIDO proposal. However, the issue is raised as to whether these amendments can be seen as policy changes or only as changes in the institutional structure of SIDO. Clarification of this issue comes from the "Guidelines" to the FNDP, where both SIDO and Village Industries Services (VIS) are regarded as "policy instruments" for reorganization of the domestic manufacturing sector. SIDO and VIS therefore are regarded as virtually small enterprise policy in themselves. In support of this is a recent comment by the Finance Minister concerning the establishment of the credit guarantee scheme which "was part of the government's programme to encourage people to take up self-employment in view of the prevailing economic recession. An encouraging start to make people go

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<sup>1/</sup> Initiatives through the Law Development Commission have been largely ineffectual and the steering committee formed to study the constraints affecting the small enterprise sector has never met.

into self-employment had already been made with the formation of Small Industries Development Organisation (SIDO), Village Industry Service (VIS) and the Small-Scale Enterprise Promotion (SEP) which falls under the Development Bank of Zambia (DBZ)<sup>1/</sup>

It would appear from this and the "Guidelines" to the FNDP that, when the full Plan is published in February/March 1986, the "government's programme" for employment and the intra-sectoral integration of manufacturing will be SIDO and VIS. The next chapter points out the weaknesses of SIDO and VIS which puts into doubt the anticipated position of SIDO/VIS in GRZ policy (and, per se, the policy). A close inspection of the FNDP will be required when it is published to ascertain what the policy is and what the position of SIDO/VIS is. As an advance check-list, the following are issues of small enterprise policy which should be clarified, as indicated in an earlier report.<sup>2/</sup> The issues<sup>3/</sup> are:

- a) What retailing framework is in accordance with Government policy and appropriate for small sector village enterprises? e.g. wholesale, private stall, or Government store.
- b) What enterprise structure best reflects the policy of the Government and is also appropriate for small scale and village enterprises? e.g., cooperative, company, partnership or individual ownership.

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1/ "Informal Sector May Get Loans". Zambia Daily Mail. September 10, 1985.

2/ B. Baldwin. April 1984. 'op cit'.

3/ Turner K. "The Legal Framework Within Which the Informal Sector of the Economy Operates". Institute of African Studies. University of Zambia. Lusaka 1982.

- c) What should be the appropriate criteria for the licensing and registration of enterprises that fulfill Government policy towards small enterprises (arguably this is employment and income generation) and encourages participation from a sector that traditionally distrusts authority and seeks to minimize official contact. Furthermore, what should be the level at which registration is required; compatible with Government and small enterprise characteristics.
- d) What should be the role of District Councils in promoting small scale and village enterprises that fulfill Government policy and also enables the Councils to carry out their functions under the Local Administration Act.

CHAPTER TWOINSTITUTIONAL CHANGES AND DEVELOPMENT RELATING  
TO RURAL SMALL ENTERPRISES2.1. Introduction

This chapter reviews the changes and developments that have occurred in institutions that are involved directly with rural small enterprises over the past eighteen months. The details of these organizations have been given in an earlier study.<sup>1/</sup> There is still only one main institution involved with small enterprises and that is the Small Industries Development Organization (SIDO), supported by the GRZ through the Ministry of Commerce and Industry. All other institutions are smaller (e.g. V.I.S.) and limited in scope of activities and furthermore are all connected to Government. There are no private organizations, such as exist in Kenya, to assist small enterprises.

2.2. The Small Industries Development Organization (SIDO)

SIDO, created by the SID Act of 1981, remains the only major GRZ institutional initiative in the development of small enterprises. During the past eighteen months, the inter-related legal, institutional and problems have continued to constrain the organization. The legal issues have been discussed earlier.

In January 1985, SIDO published a Five Year Plan (1985-1989) for Small Scale Industries. This included Plan targets; investment outlay; operational program; manpower projections; training centers and government policy implications. The targets are as follows:<sup>2/</sup>

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1/ B. Baldwin. April 1984. 'op cit'.

2/ SIDO "Five Year Plan (1985-89) for Small Scale Industries". Insak. 1985.

- i) to establish 500 small scale industries by the end of the plan period;
- ii) to create new employment opportunities for 3,400 persons;
- iii) to increase the contribution of the small scale sector to the national GDP from K51 million in 1985 to K130 million in 1989, which would constitute about 37.5% of the total industrial contribution to the GDP;
- iv) to set up 17 industrial estates by the end of the plan period. These estates are expected to accommodate about 170 small industrial units;
- v) to provide common facility services in each industrial estate;
- vi) to supply plant and machinery to small industries on hire purchase basis up to the value of K24 million during the plan period;
- vii) to procure and supply raw materials to small scale units of the value of K48 million during the plan period; and
- viii) to undertake an area survey of the whole country by 1986. The survey is meant to assess potentialities for the growth of various industries in the different parts of the country.

Despite the budgetary constraints that have severely constrained SIDO since its establishment the Five Year Plan puts forward a detailed financial plan to achieve these targets. It is estimated that K112 million will be required over the plan period as investment capital (84% "to be raised from financial institutions and others"). Furthermore, K52 million is required by SIDO for its own expenditure to cover its headquarters operations regional office plans, transport and recurrent costs. The 1985 SIDO requirement is K12.9 million whereas actual allocation<sup>1/</sup> has been K1.04 million (K45,000 as "capital expenditure" and K1 million as "grants and other payments"). This represents a 13% reduction from the K1.2 million allocated to SIDO in its first operational year (1983).

The shortfall in allocation of funds has obvious consequences for the operational program yet to date no contingency plan has been prepared. One of the main components of the operational program is the establishment of 17 industrial estates throughout the country to serve as centers for the development of small enterprises. There are no guidelines on how these estates will be established, operated, or how enterprises will pay rent. The budgeted fixed costs of these estates is K71 million over the five-year plan period for the creation of an (estimated) 3,400 jobs (i.e. K20,880 per job).

The funding shortfall has also affected manpower planning as the total staff in 1984 (69) was expected to expand to 125 in 1985 and 221 by 1989. Further, the training/production centers (six) will not be built with no subsequent skills training for the anticipated entrepreneurs (60 in 1985/86 rising to 110 in 1989/90).

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1/ "Estimates of Revenue and Expenditure" - January 1, 1985 to December 31, 1985. GRP. 1985.

Finally, the Plan identifies policy areas for the GRZ to consider taking action on. These include:

- i) to reserve production of certain items to rural areas and/or small enterprises;
- ii) improve rural production incentives, e.g., preferences in GRZ purchases/contracts; subsidy in transport costs; subsidy in workshop construction; exemption from certain taxes and concessional interest rates;
- iii) Amending the registration requirements of the SID Act;
- iv) Establishing the Credit Guarantee Scheme.

Some further generalized comments on policy conclude this section of the SIDO Five Year Plan. However, it is disappointing to note that there is no elaboration on the policies listed above and in their present state they remain vague, i.e., how is production "reserved" and how are "certain items" identified. More disconcerting, in the present Zambian economic context, is the recommendation that subsidies (transport costs, workshop construction and interest rates) be used as incentives for rural production.

The United Nations Industrial Development Organization (UNIDO) has had two projects associated with SIDO and has recently evaluated these projects. With specific regard to SIDO (as opposed to the UNIDO projects) the UNIDO mission comments that "It seems that at the present time SIDO should

not try to expand further, but rather consolidate its activities and concentrate on upgrading the capabilities of its staff. SIDO should concentrate on providing technical services to clients, supervise the implementation of projects and try to establish confidence in the capabilities of the organization. Specific attention should be given to the actual needs of the entrepreneurs and the most cost-effective ways to satisfy them."<sup>1/</sup>

The World Bank, in its latest report concludes, with regard to SIDO, that: "The Small Industries Development Organization (SIDO) is addressing itself to many important constraints on the development of small and medium enterprises, but such organizations are not automatically successful. SIDO was organized on a model suited to relatively abundant high-level manpower, which is extremely scarce in Zambia. It needs, rather, to concentrate its efforts on types of assistance that fill immediate needs of small enterprises, such as technical services and improving input supplies, rather than on identification and evaluation of new projects. Financial intermediation by SIDO is probably not appropriate".<sup>2/</sup>

### 2.3. The Cooperative Credit Scheme

A medium term loan program was started by the Zambia Cooperative Federation (ZCF) Ltd., in the 1980/81 agricultural season and has now been handed over to ZCF Finance Services to carry out the loan administration. Loan purposes include funds for hammermills, oxen and ox-equipment, wholesale and retail operations, hardware, cattle marketing and produce marketing. The loans are for a maximum of three years. K268,000 was lent in 1984 and K470,000 is programmed for 1985, (including 53,000 for village workshops in Southern Province). Table 2.1 gives a summary of these loans.

<sup>1/</sup> Report of Evaluation Mission to Zambia. Unpublished Draft. UNIDO. June 1985.

<sup>2/</sup> "Zambian Industrial Policy and Performance" World Bank. August 1984.

TABLE 2.1

Summary-Medium Term Loans - ZCF Sponsored (1)

(kwacha)

<u>Year</u>	1981-83	1984	1985	Total
<u>Item</u>				
Hammermills	141,020.00	112,000.00	172,000.00	425,020.00
Wholesale	--	44,000.00	30,000.00	74,000.00
Retail	--	22,000.00	84,000.00	106,000.00
Oxen	42,870.00	70,100.00	--	112,970.00
Marketing	--	--	30,000.00	30,000.00
Hardware	10,000.00	--	--	10,000.00
Cattle Marketing	--	--	45,000.00	45,000.00
Hammermillspare	--	--	55,000.00	55,000.00
Workshop	--	--	53,000.00	53,000.00
	193,000.00	248,100.00	470,000.00	911,990.00

(1) "Activity Plan 1985: ZCF Finance Services Limited, Lusaka February, 1985.

It should be noted that the largest loan item, hammermills, is concerned with agro-processing enterprises and that the wholesale, retail, marketing and hardware loan items will also provide raw materials and tools for other enterprises. (Agro-processing industries are regarded as rural small enterprises and have been included in the RDSB Survey). The CCS is the first institution to develop a lending program with the capacity to reach rural small enterprises. Due to the demand for medium term loans, one in every three acceptable loan applications is rejected.

## 2.4 Other Institutions and Donors

### 2.4.1. Village Industry Services

The problems noted in the earlier AID report<sup>1/</sup> and the Buijs report to AID/Zambia in December 1981 still affect VIS. Budgetary problems are still major and the GRZ contribution has been reduced from K70,000 to K60,000 (-14%) for 1985 operations. The Small Scale Enterprises Promotion Ltd. (SEP), has assisted VIS by giving VIS staff training in book-keeping skills and in also requesting VIS to assist SEP in the development of small enterprise industrial estates. If VIS can successfully participate in this program it will give an indication that VIS has begun to overcome the constraints that have hindered the past VIS performance and effectiveness.

### 2.4.2. Small Scale Enterprises Promotion (SEP)

Over the past eighteen months, SEP, with assistance from the Development Bank of Zambia, the Friedrich-Ehert Foundation (West Germany) and the Netherlands Development Finance Company has made good progress in "fostering and encouraging" the development of small industries. SEP has recently formed a private company, Minta Transport and Warehousing Ltd., (registered under the Companies Act) in order to transport and store essential raw materials for the enterprises now affiliated to SEP. The company will be run as a profit making organization and will not be subsidized by SEP. SEP has also formed SEP Real Estates Ltd. in order to establish a site for an industrial estate for SEP affiliated enterprises. It is this program which VIS has been requested to assist.

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<sup>1/</sup> Baldwin, B. April 1984. 'op cit'.

SEP however has only been involved so far with enterprises in Lusaka and the Copperbelt, i.e., essentially urban, and with enterprises that require, on average, loans of K80,000. The future plans of SEP envisage average loan size of K50,000 per enterprise. SEP take a 51% equity share and provide managerial and book-keeping seminars. The size of the enterprises that SEP has been involved with and the urban location has prevented AID/Zambia, with their present emphasis on rural small enterprises, from considering assistance to SEP. In the future SEP wish to expand their operations to other areas and smaller enterprises. (They currently have a small fund for loans of K500-K5,000 to smaller enterprises in Lusaka over a period from 30 days to one year). SEP have emphasized the use of unsubsidized private companies both to strengthen existing enterprises and provide services (cost effective) to these enterprises. In the future SEP would like their service companies to be available to all enterprises, not just SEP clients.

#### 2.4.3. International Labour Organization (ILO)

The ILO through the Southern African Team for Employment Promotion (SATEP) has examined small enterprises in Zambia but specifically in the urban (Lusaka and Copperbelt) areas. This has been part of the broad ILO investigation into the urban informal sector. SATEP has produced several reports on this sector.<sup>1/</sup> Over the past eighteen months a further report has been written (awaiting publication) on Youth Training in Zambia, focusing on the unemployment among Grade 7 school leavers and the lack of appropriate training and establishments. SATEP are currently diversifying and are concerned to

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<sup>1/</sup> B. Baldwin. July 1983, April 1984. 'op cit'.

develop project proposals rather than further study in the informal sector and plan to use the youth training study as the basis for a project.

#### 2.4.4. United Nations Industrial Development Organization (UNIDO)

UNIDO, as indicated earlier, has directly supported SIDO through two technical assistance projects and will extend the present project to the end of 1986. UNIDO has also given short-term technical assistance to VIS as well as both short-term and long-term technical assistance to the Ministry of Commerce and Industry and parastatals. Although no future project has yet been identified in SIDO it is likely that UNIDO support will continue in some form.

#### 2.4.5. The Role of Other Donors

Bilateral donors involved in integrated agricultural development projects have increasingly been aware of the role of rural small enterprises in income and employment generation in their project areas. Consequently the Dutch, Swedes and West Germans have developed small assistance programs for rural enterprises in their respective area projects in Western, Eastern and North-Western Provinces. The International Fund for Agricultural Development (IFAD) has a small enterprises advisor attached to its area development project in North-Western Province.

The Indian Government had seconded five experts to SIDO for a period of two years until September 1985. SIDO has "topped" up the salaries of the experts and has paid for their international travel and housing. All but one of the experts have left Zambia and have not been replaced. Unless...

suitable contractual agreement is arranged between SIDO and the Indian Government, it is unlikely that there will be further secondment of Indian staff.

## 2.5. Conclusion

Over the past eighteen months instead of the expected institutional growth of small enterprise institutions there has been relatively little progress. Primarily this is due to the slow development of SIDO because of the funding, management and legal difficulties of the organization. Evidence of these problems is apparent with the publication of the SIDO Five Year Plan. The Plan is financially unrealistic and as a planning document gives little guidance to SIDO staff, donors or non-SIDO institutions. However, to disregard SIDO is to ignore the first, major institutional initiative that the GRZ has made towards the small enterprise sectors, both urban and rural. Further, SIDO and VIS are regarded as the main "policy instruments" (together with the Industrial Development Act) for the reorganization of domestic manufacturing according to the Guidelines for the FNDP.

There is currently no institutional alternative to SIDO and bearing in mind the "Guidelines" it is unlikely that GRZ will create any more institutions. SIDO's mandate is broad enough<sup>1/</sup> to imply that another institution would be regarded as a direct competitor. The only institution that has shown progress over the past eighteen months, SEP, has similar objectives to SIDO and is now becoming regarded as a competitor. Consequently, the relationship between the two organizations has not developed as anticipated. As SEP is involved with larger, urban enterprises there is therefore no private institution

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<sup>1/</sup> For example, the SIP Act allows SIDO to "formulate, co-ordinate and implement national policies and programs".

that can provide the necessary skills and services required for the development of rural small enterprises (unlike Kenya where there are several) and no FVCS.

CHAPTER THREETHE DATA BASE FOR RURAL SMALL ENTERPRISES3.1. Introduction

This chapter examines the developments over the past eighteen months in the availability of data concerning rural small enterprises. The main change is the data gathered by the Rural Development Studies Bureau with the AID/Zambia supported rural small enterprises survey. A summary of the major findings is given, particularly with respect to the insights that are given to AID/Zambia in planning future AID/Zambia strategies. Prior to the RDSB survey there was no data available for GRZ planning purposes and the survey results fill an immediate gap. The Central Statistical Office (CSO) are planning future surveys which are relevant to small enterprises and these are discussed.

3.2. The RDSB Survey

## 3.2.1. General Survey Results

The report of survey results gives detailed findings from the survey and draws overall conclusions. The discussion below is intended to pick out specific points and trends that gives AID/Zambia the basis to plan future assistance.

Table 3.1 shows the overall survey results. A total of 50,800 households were visited in the three rural population strata of which 16,819 (33%) had a small enterprise other

TABLE 3.1

RURAL SMALL ENTERPRISES AND EMPLOYMENT IN ZAMBIA:  
SURVEY SAMPLE AND NATIONAL ESTIMATE BY POPULATION STRATA

STRATA	SMALL TOWNS (12-50,000)	RURAL TOWNSHIPS (0-12,000)	RURAL STANDARD ENUMERATION AREAS (SEAs)	TOTAL
<u>HOUSEHOLDS IN SURVEY SAMPLE</u>				
Households sampled	23,500	22,100	5,300	50,900
Sample households as % of total Strata Population	59	47	1	8
Households with small enterprise (% of sample)	8,572 (36)	6,857 (31)	1,390 (26)	16,819 (33)
Employment in small enterprises	15,215	11,705	2,300	29,220
<u>ESTIMATE FOR RURAL ZAMBIA</u>				
Total small enterprises (%)	14,281 (6.4)	17,145 (7.6)	192,564 (86)	223,990 (100)
Total employment in small enterprises (%)	25,359 (6.8)	29,262 (7.8)	318,642 (85.4)	373,263 (100)

than agricultural and/or livestock production. A total of 29,220 persons were employed in these enterprises. The survey divided the population into three strata to delineate the rural towns, townships and rural areas in order to focus on the distinctions in these population groups. The Provinces of Lusaka and Copperbelt were excluded from the survey as were the large urban towns of Kabwe and Livingstone; otherwise all other provinces and towns were included in the "frame" from which the survey sample was drawn.

From the first strata (small towns, 12-50,000) of which there are only 10 such towns in rural Zambia, 6 were sampled giving a 59% sample of this population group. Of the second strata (rural townships, 0-12,000) 47% of the households in this group were sampled. In the third group, 5,300 households were sampled, giving a 1% sample of the population group.

In the overall sample surveyed, one in every three households had a small enterprise. This was the case for the small towns and rural townships as well but in the rural areas there was one enterprise in every four households visited. The level of enterprises in the rural areas, although slightly lower than in the small towns and townships, kept at a consistent level in all the rural standard enumeration areas (SEA's) surveyed. Therefore, while the sample of rural areas is relatively low (1%) the similar enterprise level in each, despite widely varying geographical locations, allows the results to be a basis for an estimation of enterprises throughout rural areas. The trends evident from the rural areas are also evident

in the other strata which with their large sample size support the use of the survey data as a statistical basis on which to estimate rural small enterprises in Zambia.

From the survey data, it is estimated (Table 3.1) that there are 223,990 small enterprises in rural Zambia employing over 373,000 persons. The majority of these enterprises (86%) are in rural areas. However, as the bottom lines on both Tables 3.2 and 3.3. indicate, if the enterprises involving beverages (primarily beer-brewing) and vending (the selling of any item but essential in very small quantities) are excluded the estimates for rural Zambia are reduced to 101,700 enterprises employing 183,500 persons.<sup>1/</sup>

A 50% and 55% reduction in enterprises and employment respectively. Therefore the ratio of small enterprises to rural households changes from 1 in 3 to 1 enterprise in 7 households.

### 3.2.2. Estimated Size of Industrial Groups

Tables 3.2 and 3.3 give the estimated size of enterprise and employment in rural Zambia by industrial groups based on the RDSB survey results.<sup>2/</sup> As noted above the tables show the effects of excluding vending and beverages from the survey results. Although both enterprises provide income and employment their scale (vending in small towns and rural townships and beer-brewing in rural areas) can distort the overall survey results into giving an impression that does

1/ The rationale for the exclusion of these enterprises is given in the next section.

2/ The types of enterprise in each industrial group are given in Appendix II.

TABLE 3.2

ESTIMATE OF ENTERPRISES BY INDUSTRIAL GROUP  
AND POPULATION STRATA IN RURAL ZAMBIA

	Small Towns		Rural Township		Rural SEAS's		Rural Zambia	
	#	%	#	%	#	%	#	%
<u>MANUFACTURING</u>								
Garment	1,212	8.5	1,393	8.1	7,897	4.1	10,501	4.7
Forest Based	613	4.3	1,140	6.7	51,675	26.9	53,428	23.8
Metals	193	1.4	193	1.1	8,035	4.2	8,421	3.8
Repairs	263	1.8	305	1.8	1,662	0.9	2,231	1.0
Foods	942	6.6	1,290	7.5	5,126	2.7	7,358	3.3
Beverages	1,943	13.6	3,850	22.5	84,087	43.7	89,880	40.1
Leather	128	0.9	123	0.7	970	0.5	1,221	0.5
Ceramics	50	0.4	60	0.4	4,849	2.5	4,960	2.2
Other Mfg.	27	0.2	43	0.2	277	0.1	347	0.2
Sub total	5,371	37.7	8,397	49.0	164,578	85.4	178,347	79.6
<u>SERVICES</u>								
Catering	167	1.2	185	1.1	1,247	0.6	1,600	0.7
Trade	1,385	9.5	1,438	8.4	5,265	2.7	8,087	3.6
Other Services	128	0.9	110	0.6	3,325	1.7	3,563	1.6
Subtotal	1,680	11.7	1,733	10.1	9,837	5.0	12,250	5.9
VENDING	7,230	50.6	7,015	40.9	18,149	9.4	32,393	14.3
Total	14,281	100	17,145	100	192,564	100	223,990	100
Total without Beverages and Vending	5,108	--	6,280	--	90,328	--	101,716	--

TABLE 3.3

ESTIMATE OF EMPLOYMENT BY INDUSTRIAL GROUP  
AND POPULATION STRATA IN RURAL ZAMBIA

STRATA	SMALL TOWNS	RURAL TOWN- SHIPS	RURAL SEA	RURAL ZAMBIA TOTAL (ESTIMATE)	% FEMALE OWNERSHI OF GROUP
<u>MANUFACTURING</u>					
Garment	1,923	2,182	13,023	17,128	78
Forest Based	1,378	1,910	88,250	91,538	14
Metals	342	290	10,390	11,022	4
Repairs	662	595	1,940	3,197	1
Foods	2,012	2,607	13,257	17,876	70
Beverages	3,037	6,023	131,517	140,577	99
Leather	150	188	1,108	1,446	0
Ceramics	215	90	6,788	7,093	96
Other					
Manufacturing	55	83	277	415	1
<u>SUB-TOTAL</u>	9,774	13,968	266,550	290,292	63
<u>SERVICES</u>					
Catering	818	802	3,325	4,945	16
Trade	3,609	3,740	9,282	16,631	31
Other Services	318	322	11,638	12,278	5
<u>SUB-TOTAL</u>	4,737	4,864	24,245	33,854	22
<u>VENDING</u>	10,840	10,430	27,847	49,117	71
<u>TOTAL</u>	25,359	29,262	318,642	373,263	65
<u>TOTAL WITHOUT BEVERAGES AND VENDING</u>	11,482	12,809	159,278	183,569	

not reflect the scale and variety of all other enterprises. Neither enterprise can greatly increase 'value added' to either income or employment and their exclusion gives a more realistic estimation of the other enterprises, and especially manufacturing enterprises which are capable of increasing absolute income and employment.

The services sector is estimated to account for 61 of the enterprises and 93 of the employment in rural Zambia with 70% (approximately) of the service enterprises and employment occurring in the third, rural area strata. The point to note is the position of trade enterprises and employment in the small towns and rural townships. Excluding vending and beverages, trade is the major enterprise and employer (25% and 30% respectively for the towns and townships combined). Indeed, if only beverages are excluded the small towns and rural townships become distinct service and trade centers with manufacturing a secondary activity (only 28% and 34% of enterprises are manufacturing enterprises).

The predominance of the rural area strata, noted above, affects the estimates for all groups of enterprises. Excluding beverages and vending, 89% of enterprises and 87% of employment are in the rural areas. Furthermore, the rural areas strata have a greater proportion of enterprises involved in manufacturing than the small towns and townships (excluding beverages, 74% of rural area enterprises are manufacturing). The predominance of rural areas is due to the sample size but as stated earlier the continuity of survey results, the similar trends between strata and observation during the survey have established the survey as a basis for estimation at national level. In rural Zambia there are over 5,500 rural standard enumeration areas with

an average of 100 households in each area. This survey now estimates that (excluding beverages and vending) there is an enterprise in every eighth household and the majority (74%) are manufacturing enterprises. The scale and type of enterprises in rural areas, compared to the small towns and rural households, has implications for planning and assistance and these will be discussed later.

The estimates for manufacturing enterprises (excluding beverages) shows that there are approximately 38,500 manufacturing enterprises in rural Zambia employing 150,000 persons but the majority (90%) are situated and employed in rural areas. The primary industrial group of enterprises are forest-based (furniture, crafts, charcoal) and secondary enterprises include garments and foods (bakeries, food processing). In small towns and townships the forest based enterprises come third in importance after garment (1) and food (2) enterprises. The estimates indicate that the rural areas employ 135,000 persons in manufacturing (excluding beverages) as opposed to only 14,650 in the combined manufacturing enterprises of small towns and rural townships. As stated earlier, the small towns and townships are more trade/services orientated than manufacturing.

The estimates for the small towns and townships (based on large samples of 59% and 47% respectively) are both relatively and absolutely small for both manufacturing employment and enterprises. For example, throughout the small towns and rural townships in rural Zambia the estimated total for all metals, leather, repair and ceramics (including bricks) manufacturing enterprises is 1,315 with 2,532 persons employed. These towns and townships range from provincial towns (Kasama, Solwezi) to townships in the

center of rural areas (Kabompo) and from line of rail towns (Monze) to off-rail (Petauke, Isoka). The four manufacturing enterprises given above all represent potential income and employment generation industries, and metals and leather have been identified by SIDO as target industries. (Prior to the survey it was anticipated that the rural townships would have a greater concentration of enterprises and certainly more manufacturing enterprises).

The main manufacturing enterprises in the small towns and townships are garment, forest-based and food manufacturing and account for 83% and 82% of manufacturing enterprises and employment respectively. Garment enterprises are the most numerous (2,605) but food enterprises employ the most persons (4,619).

Table 3.3 also shows the percentage of female ownership of the groups of enterprises; 63% of manufacturing enterprises are female-owned as opposed to 22% of service enterprises. Within the manufacturing enterprises, garments, food, beverages and ceramics are all predominantly female-owned; with the exception of ceramics these enterprise groups are traditionally women operated.

Approximately 75% of enterprises are one man/woman operations and the remainder are 2-5 persons. The latter group are principally composed of service enterprises. The enterprises are nearly all run throughout the year, the average operational time is between 10-11 months a year.

For 66% of manufacturing enterprises the income from the enterprises was only a minor source of household income. Of the remaining enterprises, 31% regarded the income as major

and 3% the same. Conversely, in service enterprises (excluding vending) for 59% of enterprises the income was a major source of family income compared to 35% for whom it was a minor source.

### 3.2.3. Conclusions on Survey Results

The estimates for rural Zambia, based on the survey results, give a clear indication of the type, extent, and employment of small enterprises in three distinct population groups. This is the first time such information has been available in Zambia and it can have an immediate impact on both planning and research. There are several conclusions to be drawn from the survey results and estimates with implications for AID/Zambia. The main conclusions of the survey are presented in the report of survey results.

It was anticipated before the survey that the rural townships may have the highest concentration of small enterprises, and consequently the rural areas would have relatively few enterprises. However, on the basis of the survey results it is estimated that throughout rural Zambia the dispersal of enterprises is approximately 1 in every 7 households, (enterprises excluding beverages and vending) and this dispersal is evenly distributed among the three distinct population groups (Ratios of 1:8, 1:9, 1:8 for small towns, rural townships and standard enumeration areas, respectively).

With the even distribution of enterprises among households, the rural areas (where population is approximately 3 million) are represented by the majority of enterprises. (Hence the estimate of 90,200 enterprises :

rural areas compared to 11,400 enterprises in the small towns/townships combined.) Furthermore, the majority of these rural area enterprises are manufacturing with the potential for generation of further employment and income, all other factors being equal.

The institutional and policy initiatives that have occurred in Zambia, insofar as they have been directed to rural areas have concentrated on the small towns and rural townships. With the prominent position of rural areas now identified there will have to be attention given to developing this potential against the background of a major constraint, the dispersal and small scale of these enterprises. Conversely the potential role of the small towns and rural townships is lessened due to the estimates (now available) of the strength of the services and trade enterprises as opposed to manufacturing. Secondly the absolute (and relative) small numbers of enterprises in the small towns and rural townships means that planning and policy initiatives must be clearly defined in order to target on specific enterprises and remain cost effective. For example the SIDO plan to establish regional offices should now be considered in relation to the scale, distribution and type of enterprises estimated from the survey results. This will economically allocate the scarce resources of SIDO to achieve the optimum generation of employment and income from the relatively few manufacturing enterprises. In this respect SIDO may consider the role of the rural township rather than the small towns.

The service/trade and vending enterprises of the small towns and rural townships will not offer the best potential for employment and income generation. Yet bearing in mind

the prime enterprise constraints-supply of raw materials and tools - there may be an opportunity to utilize these enterprises to alleviate these constraints. This could be a cost effective way of assisting both local manufacturers and manufacturers in surrounding rural areas.

### 3.3. Central Statistical Office (CSO) Surveys

In 1986 and 1987 the CSO will carry out two surveys which will further develop the data-base of rural enterprises. In April 1986 the CSO will carry out a national (sampled) survey of household budgets, the pilot study has already taken place. The survey will record time series data on household member's primary and secondary occupation, incomes, household consumption and expenditure, and barter trade. An additional questionnaire will be carried out in rural areas to record agricultural production costs and returns, source of non-agricultural income, constraints of agricultural production and local infrastructural facilities. The same industrial codes, to record primary and secondary occupation, will be used in this survey as were used in the RDSB survey.

The C.S.O. Labor Force National (sampled) Survey will not commence until June 1987 although a pilot study, to be done in Lusaka, will begin before the end of 1985. The survey will record details of all household members including education, technical training, economic activity, self employment, apprenticeship, income, nature of unemployment, and migration.

Both surveys will use the C.S.O. "master frame" to draw their samples which will ensure that rural areas are included. The RDSB survey was based on a sample drawn from

the same "master frame". Therefore the results of these studies will develop the data-base already established and add further information and insights. Although the C.S.C. will not carry out a national agricultural census the C.S.C. will continue with the annual agricultural (sample) survey. Each year specific "schedules" may be added to this survey concerning other aspects of agricultural production.

#### 3.4. Future Data and Information Requirements

While the RDSB survey has given the first estimates for rural enterprises in Zambia and this will have an immediate "audience" with planners (1) there is further data and information that is now identified as being required. This data will provide more information on the characteristics and problems of small enterprises for improved planning and design of appropriate assistance measures. The RDSB estimates showed the predominance of the rural areas for small enterprises, especially manufacturing enterprises. The largest group of manufacturing enterprises, forest based, account for 64% (excluding beverages) of manufacturing enterprises in rural areas and employed over 88,000 persons. The Food and Agricultural Organization (FAO) of the U.N., together with the RDSB, plan to carry out a survey of this group of manufacturing enterprises in detail. The results should be available by December 1985 giving valuable information on the largest manufacturing enterprises and also identifying potential areas of assistance.

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1/ The National Commission for Development Planning (NCDF) will use the data in the preparation of the forthcoming Fourth National Development Plan

The other manufacturing enterprises in rural areas are small in comparison with forest-based activities (64%) but include garment (10%), metals (10%), foods (6%), and ceramics (6%). Two of these enterprise groups, metals and ceramics, are relatively more numerous in rural areas than in the small towns and townships. Conversely garment and food enterprises are more numerous in towns (and in fact are first and second largest manufacturing enterprises). With the predominance of the rural areas strata, the role of manufacturing in income and employment generation, and the relative importance of metals and ceramics enterprises in rural areas as opposed to small town/townships, these two enterprises should be researched further. Metals (including agricultural implements) and ceramics (including roofing and building materials) are acknowledged as typical rural enterprises in Zambia and a survey, initially based on the RDSB sample would identify the main development constraints.

The supply of raw materials and tools is regarded as a major constraint to Zambian small enterprises and observations during the RDSB survey supported this assumption. Further, while credit is not a constraint that affects all small enterprises (in some its importance is negligible) it can be the major constraint for a selected number of enterprises. More information is needed about all these inputs, the extent to which they are a constraint (especially credit) and how best the constraints can be alleviated and what assistance may be required.

## CHAPTER FOUR

### OPTIONS FOR FUTURE ASSISTANCE BY AID/ZAMBIA

#### 4.1. Introduction

This chapter concludes the discussion on the current position of the rural small enterprise sector in Zambia. The discussion has covered three main topics and has specifically focussed on changes that have occurred over the last 18 months on these topics, the topics being the:

1. GRZ policies affecting rural small enterprises;
2. institutions involved; and
3. current level of data and information concerning the scale and dynamics of rural small enterprises.

The objectives of reviewing these three topics has been to present to AID/Zambia the salient, current situation that determines the state of development of the sector in order that AID/Zambia can best determine its future strategies.

Based on this review, this concluding chapter analyses the various options that AID/Zambia may consider as future strategies, and makes recommendations.

#### 4.2. Policy Dialogue on Rural Small Scale Enterprises

A policy dialogue initiative by AID/Zambia has two immediate positive aspects. Firstly, policy dialogue is an established part of AID/Zambia strategy in promoting development in Zambia and secondly, experience has shown

that the policy environment surrounding rural small enterprises sector is the key determinant of the development of that sector.

The GRZ with the creation of SIDO through the SID Act in 1981 made the first, major public step in the development of small enterprises. Initially, the creation of SIDO was regarded as an institutional initiative and not a policy initiative; there are no clear policy objectives in the Act. The purpose of the SID act was to establish SIDO. Yet it is increasingly apparent that the creation of SIDO is now regarded as an unannounced policy initiative. Press releases, statements from Party and Government officials and the "Guidelines for Formulation of the FNDP" all support the contention that SIDO is central to the GRZ policy on small enterprise. The SID Act allows SIDO to "formulate, coordinate and implement national policies and programs ". Further, there is no overt discouragement of small enterprises and this is regarded by some small businessmen as Government approval of private, small enterprise.

However, the overall industrial policy environment has remained unchanged and therefore SIDO has been attempting to establish and operate a new institutional/policy initiative for small industry when the overall policy environment has favored large scale public/parastatal ownership. (This policy bias is confirmed in the Guidelines for the FNDP when outlining the requirement to broaden the type and scale of the manufacturing sector. "In the past, there has been emphasis on setting up large scale, capital intensive, industrial plants based on imported raw materials"). Moreover, in reality, policy formulation by SIDO would only be done with the Ministry of Commerce and Industry and it is

unlikely that the other institutions and levels of the Party and Government would allow SIDO to implement national policies. SIDO realizes it is not in a position to "formulate national policy" and in the recent 5 Year Plan of SIDO the organization states that "the implementation of this plan will greatly depend on the Government's support mechanisms particularly around the following policy directions".

From the Guidelines for the FNDP it appears that SIDO and VIS will become the main policy instruments, together with the Industrial Development Act, for small enterprise development. This will be confirmed with the publication of the FNDP in February/March 1986. If, as expected, SIDO is given the major policy instrument role then the problems noted earlier on SIDO's performance together with the admission by SIDO that it is not in a position to formulate policy will immediately cause problems for the implementation of the FNDP.

#### 4.2.1. Policy Dialogue Agenda

The topics for a policy dialogue between AID/Zambia and the GRZ are outlined below in a recommended agenda of action for AID/Zambia to follow.

##### -- Item One:

The start of action will occur with the publication of the Fourth National Development Plan in February/March 1986. AID/Zambia should review the Plan and note the policy recommendations for the agricultural and manufacturing sector. The role of the Industrial Development Act (IDA), SIDO and VIS should also be noted. It is anticipated that

the Plan will establish broad policy goals for small scale and village industries and the role of the IDA, SIDO and VIS as the policy instruments to achieve these goals.

Effectively however, AID/Zambia will have a formal statement of GRZ policy towards rural small enterprises and will be able to react accordingly. The main issue that AID/Zambia can raise with the GRZ based on the anticipated content of the FNDP, concerns the substance of the policy and the role of the IDA, SIDO and VIS.

If the IDA, SIDO and VIS are identified as the main "policy instruments" there is serious doubt that SIDO and VIS can carry out their responsibilities effectively - based on this report and past evaluations. The IDA in its current format has little effect on the industrial sector and its anticipated redraft will have few real incentives for rural small enterprises. Despite these problems the GRZ will undoubtedly wish to retain these "instruments" as central to implementation of policy. Therefore AID/Zambia should encourage the GRZ to carry its own internal review of SIDO and VIS in order that the GRZ should recognize the inherent weaknesses of its main policy instruments. Until the GRZ recognizes that the two main policy instruments of the new Plan cannot fulfill their expectations the GRZ will continue to promote rural small enterprise development to no effect. AID/Zambia should offer support for this internal review financially, should consider defining a scope of work, and make available reports and information that AID/Zambia regard as appropriate.

AID/Zambia should also encourage the GRZ to review the role of the IDA in the assistance that it gives to rural small enterprises as part of the above review. AID/Zambia

should indicate that improved incentives should be considered for rural small enterprises, as identified in Agenda Item Two.

-- Item Two

The second item on the agenda for policy dialogue concerns the support of AID/Zambia for amendments to the SID Act. This should not become a subject for policy dialogue until the GRZ has agreed to an internal review of SIDO and VIS. The amendments concern enterprise definition, registration criteria, incentives and a licensing committee (Appendix I). At this stage, AID/Zambia should also discuss with the GRZ the funding problems of SIDO so that SIDO will be in line with its planned financial position and not totally bereft of funds as at present.

As a final issue in this agenda item, AID/Zambia should request the Government that the Law Development Commission be fully staffed and supported and the 'ad hoc' committee on constraints in the informal sector be convened.

-- Item Three

AID/Zambia should support, and enter into a dialogue concerning, the World Bank policy recommendations concerning the restructuring of industry. The recommendations (discussed in Section 1.1.1.) are more a creation of new policy than an amendment of old but could have a fundamental impact on the industrial sector.

-- Item Four

AID/Zambia should continue the dialogue with the GRZ on realistic agricultural prices and rural development.

expenditures complemented by a commitment by Government to ensure sufficient funds for regional marketing institutions to purchase produce from farmers.

#### 4.3 Project Interventions

There are continued project requests for assistance to rural small enterprises being directed at aid donors in Zambia at the moment. The requests range from a few thousand kwacha for a specific project to several million from institutions such as SIDO who are trying to establish entire assistance programs. Specific projects include funding of private industrial estates where individuals wish to establish areas of 'common facilities' for small enterprises and cannot raise the necessary funds from commercial sources. Existing estates are already successfully operating and are having to turn away prospective clients due to lack of capacity. SIDO requires funds to carry out its basic functions and is the Government's principle institutional initiative in the small enterprise sector. However, unless the policy and institutional framework are correct, unless all aspects of the project have been analysed and understood and unless the donor has some experience in the sector the project may be a failure at worst or only have minimal (rarely cost effective) impact at best.

USAID has rural enterprise projects in three neighboring countries, Kenya, Botswana and Malawi and all projects have been conceived and established in conditions currently not present, or sufficient, in Zambia. In all countries, for example, the Government has a clear policy to assist small enterprises e.g., the Botswana Fifth National Development

Plan. identifies rural employment projects in small-scale industry and the Malawi Government has emphasized the need to promote smaller scale private sector development. All countries have institutional support (Kenya and Botswana both have Rural Industrial Extension Offices funded and operational in rural areas). Moreover USAID interventions were based on detailed research and previous interventions. The Malawi rural enterprise project was based on four main research reports and previous experience. The reports included work on the various types of assistance needed to expand rural enterprises (AFRICARE; demands for small enterprise loans and loan institutions assessments (Deloitte, Haskins and Sells); Credit Cooperative assessment (Private Consultants); Analysis of Malawi Union of Savings and Credit Cooperation (Price Waterhouse). All reports except the Africare report were USAID/Malawi financed. Finally, USAID/Malawi has experience with small rural entrepreneurs through grants to private voluntary organizations (P.V.O.'s). Therefore until these conditions are associated with a project in Zambia, AID/Zambia can have no confidence that a project intervention can have the impact intended, to the extent intended or the target group intended. Policy dialogue may develop the process of policy and institutional development but there will have to be concomitant advances in background data and research before the first project intervention can be identified.

#### 4.4 Research

The research options that AID/Zambia should consider can be divided into two categories, research that will develop the data base of rural small enterprises and research that will provide more information about specific characteristics of the rural small enterprises sector. The research that

develops the data base will primarily be of use to CPZ planners and researchers and continues to fulfill the objective set out in the CDSS FY 1985 for Zambia to assist the GRZ to understand better how the sector works. The research that provides information on characteristics of enterprises will also be of use to the GRZ but will also provide AID/Zambia with some of the necessary background information needed to design a project intervention.

#### 4.4.1. Data-base Research

AID/Zambia should consider supporting the following studies in order to further develop the data-base for rural small enterprises established by the RDSB Small Enterprise Survey:

- The C.S.O. household budget survey (as described in Section 3.3). Estimated cost K300,000, excluding transport, (\$140,000)
- The C.S.O. labour survey (as described in Section 3.3). Estimated cost, 1987 prices, K650,000, excluding transport, (\$300,000).
- A survey to be carried out by the RDSB to study in greater detail the metal and ceramics enterprises in the rural areas as established in the RDSB Survey. Estimated cost, K100,000 (\$45,000).

#### 4.4.2. Background Studies

AID/Zambia should consider supporting the studies to provide background information not only to the GRZ but as a basis for future projects. These studies include:

- A study by the Co-operative Credit Scheme of the Zambian Cooperative Federation (ZCF) of the present and future demand for small and medium scale rural enterprise loans. The study would also examine how the C.C.S. would deliver such assistance to entrepreneurs, if the study identified that credit supply was a constraint to certain small enterprises. (Estimated Cost K15,000 and \$11,000).
  
- A study by a U.S. Non-Profit Organization (e.g., Technoserve, Africare, Partnership for Productivity - all AID registered) of the raw material supply and tools availability constraints among rural small enterprises in Zambia. The study would suggest alternative assistance measures (based on AID experience) to overcome these constraints. Estimated cost \$80,000.
  
- A study that will summarize the relevant experience for AID/Zambia of the USAID project interventions in Kenya, Botswana and Malawi concerning rural small enterprises. Estimated cost \$12,000).

#### 4.5. Recommendations

The current state of the policies and institutions that affect the rural small enterprise sector combined with the limited availability of background data and information on the sector does not favor a project intervention by AID/Zambia at this stage. USAID experience in neighboring countries in rural small enterprise assistance confirms this. However, there are various institutions and projects in rural small enterprises which do require immediate funding assistance and while all previous discussion remains valid AID/Zambia should be prepared to state its position to the GRZ as to the circumstances under which project interventions would be considered.

The development of a policy dialogue therefore becomes an important issue, both to state AID/Zambia's position and as a strategy to create the optimal policy and institutional environment for the development of rural small enterprises. The policy dialogue agenda will be based on the publication in February/March 1986 of the GRZ's Fourth National Development Plan. It is anticipated that SIDO, VIS and the IDA will be identified as the main "policy instruments". As the first item on the agenda, AID/Zambia will encourage the GRZ to internally review these three policy instruments in order that GRZ realize that their small enterprise development policy is unlikely to be attainable with the current performance of the main policy instruments.

The second item for AID/Zambia to raise concerns the amendments to the SID Act. These amendments will make it considerably easier for small (both urban and rural) enterprises to register with SIDO and offer the small enterprises realistic incentives and support.

The third item on the agenda for policy dialogue with the GRZ will be support for the World Bank policy recommendations (details section 1.1.1.). Finally, AID/Zambia should continue the policy dialogue with the GRZ on realistic agricultural producer prices and an adequate marketing system..

As an indication of continuing AID/Zambia interest and assistance for rural small enterprise development in Zambia AID/Zambia should continue to promote research and studies in the sector. There is an identified requirement for further statistical data (based on the findings of the AID supported RDSB study) that will be of direct relevance for GRZ planners, and for further background studies for GRZ

planners. The background information will also provide necessary information for AID/Zambia to begin preliminary formulation of project interventions, if the policy and institutional environment is supportive. The research would look at specific enterprises in rural areas of Zambia, household budgets and the labor force and the studies would look at the constraints of raw materials supply, availability of tools and credit. The studies would examine the nature and extent of the constraints and how to alleviate/remove the constraints.

This 'portfolio' of recommendations should allow AID/Zambia to develop a realistic and appropriate strategy towards the development of rural small enterprises in Zambia over the next 5 years.

DRAFT AMENDMENTS TO THE SMALLINDUSTRIES DEVELOPMENT ACT NO. 18 OF 1981 1/

## 1. PROPOSED AMENDMENT TO SECTION 2 (DEFINITION)

'Small scale enterprise' is an enterprise in respect of which SIDO is satisfied that it

- (a) is meeting or has the potential to meet development priorities as established from time to time in the National Development Plan;
- (b) uses local raw materials as far as practicable;
- (c) uses labour intensive processes as far as it practicable; and
- (d) has capital assets not exceeding three hundred and fifty thousand Kwacha excluding land and buildings, or such other amount as may be set by the Minister from time to time.

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1/ If and when USAID/Zambia consider formally putting this draft amendment to the GRZ as a topic for policy dialogue the permission of the authors of these proposals shall be obtained. They are Dr. John Mulwila (School of Law, UNZA), Jonathan Kokowe (Small Industries Development Organization), Kaye Turner (School of Law, UNZA), Norman Shachile (for Opa Kapijimpanga, Small-Scale Enterprises Promotion Ltd.) and Beate Forster (Institute for African Studies, UNZA).

2. PROPOSED AMENDMENT TO SECTION 18 (REGISTRATION PROCEDURES AND CRITERIA)

- S.18 (1) An enterprise shall be registered as a small scale enterprise if it is approved in writing by SIDO as a small scale enterprise.
- (2) Application for registration under this Part may be made to SIDO and shall be in the prescribed form.
- (3) In assessing applications for registration, SIDO shall have regard for the following criteria:
- (a) that the enterprise in question satisfies the definition of a small scale enterprise as set out in Section 2 of this Act;
  - (b) that the enterprise in question, or the proposed enterprise, is economically viable;
  - (c) that the entrepreneur/s involved in the enterprise or the proposed enterprise is/are appropriate person(s) to be engaged in the type of business concerned;
- (4) SIDO shall give in writing reasons for its decision in the event of a decision to refuse to register an enterprise as a small scale enterprise.

- (5) An appeal against refusal to register any small scale enterprise may be made to the Minister in the manner prescribed, and the decision of the Minister shall be final.

3. PROPOSED AMENDMENT TO SECTION 19 (INCENTIVES)

- S. 19 (1) Any small scale enterprise registered under the provisions of this Part may apply in the prescribed manner for any of the following incentives:
- (a) preferential treatment with respect to Government and parastatal purchasing;
  - (b) preferential treatment with respect to the granting and processing of import licenses;
  - (c) rebate on excise and customs duty and relief from sales tax on capital equipment and locally produced intermediate goods;
  - (d) favorable adjustment to export tariff rates for small scale enterprises which are also exporting enterprises;
  - (e) in order to encourage reinvestment in the enterprise, enhanced capital and investment allowances after the tax holiday period is ended, as follows:

(i) capital allowances

- industrial building: wear and tear at 30% on written down value each year;
- plant, machinery and equipment: wear and tear at 50% on written down value each year;

(ii) investment allowances

- industrial buildings: 50% on cost in the first two years of ownership;
- plant, machinery and equipment: 50% on cost in the first two years of ownership

## 4. PROPOSED NEW SECTION (LICENSING COMMITTEE)

A Committee shall be established for the purpose of assessing applications for licences by small scale enterprises registered with SIDO, composed of representatives from the following institutions:

- Small Industries Development Organisation (chair)
- The Ministry of Commerce and Industry
- Small Scale Enterprises Promotion Limited
- The Division of Provincial and Local Government
- The Bank of Zambia
- The Inspectorate of Factories, and
- The Inspectorate of Public Health

APPENDIX II: ENTERPRISE GROUPINGS

- |                        |                               |                           |
|------------------------|-------------------------------|---------------------------|
| 1. <u>Garments</u>     | 5. <u>Foods</u>               | 11. <u>Trade</u>          |
| Tailoring              | Bakery                        | Wholesale                 |
| Dressmaking            | Meat processing               | Grocery                   |
| Knitting               | Milk processing               | Hardware                  |
| Crotcheting            | Condiments                    | Forest-Products           |
| Other Garment          | Grain mill                    | Garments                  |
|                        | Confectionery                 | Other                     |
|                        | Other foods                   |                           |
| 2. <u>Forest-Based</u> | 6. <u>Beverages</u>           | 12. <u>Other Services</u> |
| Logging                | Traditional beer brewing      | Dry cleaning              |
| Motor sawmilling       | Tea                           | Hair Dressing             |
| Pitsawing              |                               | Construction              |
| Carpentry              | 7. <u>Leather</u>             | Plumbing                  |
| Furniture              | Shoemaking                    | Others                    |
| Upholstery             | Leather                       |                           |
| Carving                | Other                         |                           |
| Basket/mat making      | 8. <u>Ceramics</u>            | 13. <u>Vending</u>        |
| Basket/mat making      | Pottery                       |                           |
| Charcoal               | Bricks                        |                           |
| Bamboo-cane            | Blocks                        |                           |
| Twine/rope             | Stone Carving                 |                           |
| Other forest-based     | Other                         |                           |
| 3. <u>Metals</u>       | 9. <u>Other Manufacturing</u> |                           |
| Coppersmith            | Chemicals                     |                           |
| Tinsmith               | Photo studio                  |                           |
| Blacksmith             | Printing                      |                           |
| Welding                | Other                         |                           |
| Other metals           | 10. <u>Catering</u>           |                           |
| 4. <u>Repairs</u>      | Restaurants                   |                           |
| Auto                   | Bars/Taverns                  |                           |
| Tyre                   | Hotels                        |                           |
| Bicycle                |                               |                           |
| Electronic             |                               |                           |
| JewelleryWatch         |                               |                           |
| Other repairs          |                               |                           |