A Microenterprise Sector Assessment and Development Strategy for A.I.D. in Zambia

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GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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A Microenterprise Sector Assessment and Development Strategy for A.I.D. in Zambia

by

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

A.I.D.	United States Agency for International Development
ATI	Appropriate Technology International
BoZ	Bank of Zambia
COMET	Copper Mining Enterprise Trust Ltd.
CSSFAW	Credit Support System for Productive Activities of Women — a UNDP project
CUSA	Cooperative Unions Savings Association
DBZ	Development Bank of Zambia
FAO	Food and Agricultural Organization of the United Nations
FMO	Netherlands Overseas Finance Company
FNDP	Fourth National Development Plan
GRZ	Government of the Republic of Zambia
GTZ	German Technical Assistance
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
IRWISPM	Improving the Role of Women in Informal Sector Production and Management (an UNDP/ILO project)
ITDG	Intermediate Technology Development Group
K	Kwacha, the Zambian currency (as of July 1991, 1 USD = 68 kwacha at the official rate)
MoCI	Ministry of Commerce and Industry
MSB	Management Services Board
ME(s)	Micro-enterprise(s)
MIS	Management Information System
NCDP	National Commission for Development Planning
NCG	Nordic Consulting Group
NGO(s)	Non-Governmental Organization(s)
NGOCC	NGO Coordinating Committee
NORAD	Norwegian International Development Agency
ODA	British Overseas Development Agency
PAID-ESA	Pan-African Institute for Development — East and Southern Africa
SELP	School Leavers Self-Employment Project
SEP	Small Scale Enterprises Promotion Limited
SIDA	Swedish International Development Agency
SIDO	Small Industry Development Organization
SNV	The International Development Agency of the Netherlands
SSI	Small-Scale Industry
SSIAZ	Small Scale Industries Association of Zambia
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VIS	Village Industry Service
WFTZ	Women's Financial Trust of Zambia Limited
WVI	World Vision International
YWCA	Young Women's Christian Association
ZAMS	Zambia Agribusiness and Management Support, A.I.D. project
ZFC	Zambia Federation of Cooperatives
ZFC(FS)	Zambia Federation of Cooperatives (Finance Services Ltd.)
ZNCB	Zambia National Commercial Bank

EXECUTIVE SUMMARY

The microenterprise (ME) sector in Zambia is ripe for assistance to expand its role in the national economy and generate income and employment. Additional assistance may be needed to accomplish this, especially credit, training and extension services for business management and technical skills, common site facilities and incubators, technology development and dissemination, and institutional capacity building. The team has identified specific actions that A.I.D. could implement over the next 6 months, after an 18-36 month project development cycle, and in the longer term of 36-60 months.

JUSTIFICATION FOR ME ASSISTANCE

Although the deteriorating macroeconomic situation in Zambia has created a difficult environment for business, it also creates opportunities for the emergence of MEs as parastatals start to lose their protected status and subsidies. The current credit crunch and shortage of foreign exchange in the country may have less of an adverse effect on MEs because they are usually better able to respond to changes in market demand and the availability of imported capital equipment, spare parts, and raw materials than large companies using technologies from developed countries. In many case, MEs also produce lower-cost products that are more appropriate for low-income consumers.

MEs are important in generating income and employment since they generally rely on labor-intensive technologies. Consequently, they can help mitigate the adverse social effects of the structural adjustment program, especially for vulnerable segments of the population. The unemployment problem in the country is expected to increase substantially due to the high rate of labor force growth and expected retrenchments in the large-scale parastatals, civil service, and mining industry. MEs can also contribute to more balanced development between urban and rural areas.

Although MEs had been suppressed in Zambia for two decades, there are no insurmountable cultural or policy impediments to entrepreneurship. Signs of a vibrant renewal of informal entrepreneurial activity are already springing up throughout the country. Government policy statements are now supportive of the sector and although additional reforms would be desirable, the current policy environment is not a barrier for creative and motivated micro-entrepreneurs.

TYPES OF ASSISTANCE

A.I.D. can provide a variety of assistance to help MEs make the most of their opportunities and ensure a successful transition from a command-driven economy to a market-driven one. A variety of organizations presently have ME assistance programs underway in Zambia that provide credit, training and technical assistance, and common site facilities. However, the current programs are limited in scope relative to the potential demand, which is increasing. Qualitative improvements are also needed in the delivery of this assistance.

Financing is often essential for MEs in many sub-sectors to get started or grow and lack of credit is constraining ME development in Zambia. The credit shortage facing all businesses in the country is likely to continue. Without special assistance, MEs are at a particular disadvantage in obtaining finance. Commercial banks are reluctant to lend to MEs because of the high administrative costs of screening, disbursing, and collecting repayments for a large number of small loans and a perception that micro-entrepreneurs are high risk borrowers. Unless the administrative cost problem is resolved through program funds or innovative institutional mechanisms (like NGO servicing of loans), commercial banks are generally not interested in these clients even if loan guarantees are available.

Existing special credit programs in Zambia that target MEs do not have enough funds to assist many clients, in part because of the decapitalization caused by inflation and the concessional terms offered. The smallest MEs and those owned by women have the least access to credit, even in the special financing programs.

Unless inflation stabilizes so that positive real interest rates can be achieved, as planned by the end of 1993, it will not be possible to maintain a sustainable loan fund in Zambia from a single injection of capital due to the negative real interest rates. This means that the real amount available for re-lending in the future from the repayments will decrease due to decapitalization. Nevertheless, provision of credit may still be desirable because of the resulting increases in production and employment. A.I.D. policy does allow lending at a negative real interest rate as long as the rate is at least as high as what commercial banks charge. Nevertheless, although A.I.D./Zambia could experiment with specialized ME credit programs in the near term, it may wish to defer extensive support of credit in the country until inflation reaches more moderate levels.

Most MEs fail due to poor management and an inability to handle cashflows well. In addition, MEs are often unaware of technologies that can improve their productivity and marketing. Because the limited experience of new micro-entrepreneurs could result in a high risk of business failure, training and extension services are especially important in Zambia. In rural areas, low levels of literacy and numeracy may hamper ME growth. Former salaried workers may have good basic skills, but might lack technical or managerial skills. Training programs for MEs in Zambia have been limited in extent and have not adequately focused on transferring specific technical or business management skills that could make a significant impact on business operations. There is a need to improve training materials and facilities and the skills of trainers. At present, extension services for MEs are difficult to obtain, except in a few locations. Training and extension services are usually most effective when tailored to specific subsectors and designed in accordance with a needs assessment.

Despite an abundance of land, there is a shortage of built-out workspace for small-scale production in Zambia because most of the available land is owned by District Councils or traditional local authorities. Zoning and other land use restrictions also limit home-based production and the construction of individual shops or factories in some locations. A shortage of workspace might prevent MEs from starting up, growing, or making the transition from the informal sector to the formal sector. Construction of common site facilities to provide dedicated, serviced workplaces until a business becomes well established can help remove this constraint. However, there are questions about whether common site facilities have development impact. In other words, do they allow activities to operate that would not otherwise be able to find space elsewhere or are they just perceived as long-term locations offering subsidized rent? The demand for a business incubator offering a broader range of business assistance services in addition to workspace also needs to be assessed.

A.I.D. could also assist MEs indirectly by increasing the capacity of small business development organizations to operate more effectively and on a wider scale. At present, there is a relatively small

number of major NGOs in Zambia and their capacity to meet the potential demand for the services is limited. The three main organizations, SIDO (a parastatal), VIS (an NGO), and SEP (a financial institution), have limited resources, overlapping functions and are subject to strong government influence. Their outreach to rural and peri-urban areas is limited. A large number of very small, local NGOs are scattered across Zambia, but little is known about their capacity. Furthermore, because donor activity in the ME sector in Zambia appears to be on the verge of a major expansion, A.I.D. needs to maintain better communications and coordination with other donors.

RECOMMENDED ACTIVITIES FOR A.I.D

The menu of activities listed below could be implemented in full or in part, but some stage two activities are contingent on completion of activities in the first category. The third category contains activities that, although important, either take longer to have a significant impact or have better prospects once the structural adjustment process is further underway. For each of the options, a priority level ranging from I (highest) to III (lowest) has been assigned.

A. Options That Could Be Implemented Over the Next Six Months

Priority Level I

1. Assess the capacity, needs, and resources of NGOs, financial institutions, and technology development institutions in Zambia to determine their ability to expand ME assistance.

2. Conduct a selective series of subsector analyses for MEs in strategic areas to identify the most promising ones for further A.I.D. support and assess the need for credit training, and technical assistance in these subsectors. The following subsectors may have a high potential in Zambia and should be considered for these studies: (a) food processing, (b) metal working and blacksmithing, (c) building materials and construction, (d) ancillary industries related to mining, (e) processing of forest products, (f) textiles, and (g) processing of fishery products.

3. Commission a study to (a) review the impact of existing common site facilities on the establishment and growth of MEs, (b) estimate the demand for additional shared built workspace, and (c) determine whether there is a need for the additional services provided by business incubators.

Priority Level II

4. Improve donor/GRZ/NGO coordination in ME assistance by sponsoring or participating in a quarterly forum to discuss ongoing and planned activities.

B. Options That Could Be Implemented Under the Regular Project Cycle Starting in 18-36 Months

1. Provide institutional support and staff training to existing major ME assistance organizations in Zambia (contingent on the findings of the study recommended in IV-E1a).

2. Develop a ME project that provides an integrated package of assistance in a few selected subsectors (based on the findings of the study recommended in A-1 above).

Priority Level II

3. Provide focused, industry-specific technical training for existing MEs through a small business trade association.

4. Finance the establishment or expansion of common site facilities or business incubators (if these approaches are supported by A-3 above).

5. Facilitate business linkages between MEs and larger-scale firms through subcontracting arrangements by providing a quick, dedicated line of pre-approved, short-term working capital credit for MEs tied to purchase orders or letters of credit from larger firms.

Priority Level III

6. Set up a PVO/NGO umbrella project to channel resources for ME assistance to small, local NGOs cost effectively through a larger, stronger NGO.

7. Improve the capacity of lead organizations for technology adaptation and transfer by upgrading financial and human resources.

C. Longer-Term Options With Good Potential 36-60 Months From Now

Priority Level I

1. Establish or support a minimalist credit program for small, short-term loans to the smallest MEs.

Priority Level II

2. Tap the A.I.D./PRE Loan Guarantee Fund or use mission resources to share the risk of expanding ME credit with commercial banks and cover part of the administrative costs of a portfolio of small loans.

3. Help build a sustainable financial structure for mobilizing local savings for ME investments through a credit union approach by providing technical assistance and covering part of the institutional development and promotion costs.

Priority Level III

4. Provide incentives for MEs to develop human resources by taking on apprentices to learn practical skills on the job.

5. Upgrade equipment and facilities at vocational secondary schools and polytechnics through grants-in-aid or provision of second-hand items from U.S. schools or industries.

I. INTRODUCTION

I-A. GENERAL ECONOMIC BACKGROUND

Zambia is facing severe macroeconomic problems and undertaking structural reforms in the economy that will require painful adjustment measures. Much of the economy has been directly controlled by the government; approximately 35 percent of the GDP is produced by parastatals. Parastatal activities range from rural abattoirs to urban department stores and most are unprofitable or inefficient. About 110 large parastatals fall under the umbrella of ZIMCO, the Zambian Industrial and Mining Corporation Ltd, including a 60 percent share of the Zambian Consolidated Copper Mines. ZIMCO accounts for 95 percent of national export earnings (Sigvaldsen, Kamuwanga, and Lintini 1991).

Previously, private enterprise was prohibited in many sectors of the Zambian economy, but it was allowed in the agriculture, construction, and banking sectors. Even in these three sectors, private enterprise was hamstrung by stringent price controls or other regulations, subsidized competition from parastatals, and exchange and trade controls.

Zambia has had a high level of domestic consumption of imported goods in urban areas. When revenues from copper exports were high, inefficiencies in parastatal operations and the import-dependent standard of living were sustained through revenues from copper exports and an overvalued domestic currency. Between 1973 and 1985, the purchasing power of copper exports fell by two-thirds in absolute terms and three-quarters in per capita terms (Harmon et al. 1991). Real GNP per capita decreased 2.3 percent per year during the 1970s and a total of 50 percent in the 1980s (Sigvaldsen, Kamuwanga, and Lintini 1991).

After copper prices fell, the GRZ attempted to maintain the accustomed standard of living through borrowing from abroad in the expectation that copper prices would recover. Since copper prices remained depressed, the result was an accumulation of debt that eventually became a large burden on the balance of payments. The overvalued currency made other exports infeasible, reduced rates of savings and investment, and encouraged a taste for foreign goods that could not continue indefinitely. Per capita GNP was $290 in 1988, less than the average for Sub-Saharan Africa of $330. Yet, the import bill amounted to 42 percent of the GDP. As a result, Zambia's per capita foreign debt is among the highest in the world, nearly $1,000 (Sigvaldsen, Kamuwanga, and Lintini 1991). At the end of 1989, the external debt reached $7 billion (Chigaga 1990).

Implementation of the structural adjustment program fell short of plans in 1989-90, but major improvements have been made in removing price controls on nearly all commodities, reducing currency overvaluation and liberalizing foreign trade, and opening up the economy to private enterprise. Progress has also been made in reducing the government deficit as a share of GDP from 7.0 percent in 1988 to 4.5 percent in 1990 (Sigvaldsen, Kamuwanga, and Lintini 1991).

Following the decontrolling of most prices and major devaluation of the kwacha, suppressed inflation emerged. The Consumer Price Index rose 154 percent in 1989, an increase from 64 percent in the previous year. Despite some improvements in the underlying inflation rate in the first half of 1990, the estimated increase in the CPI for the year ended up at 105 percent, due in part to higher petroleum

prices caused by the crisis in Kuwait (Sigvaldsen, Kamuwanga, and Lintini 1991). Interest rates are still regulated and are currently well below the inflation rate.

According to preliminary data, real GDP in 1990 fell 2 percent in total terms and 5.7 percent in per capita terms. Manufacturing accounted for 24 percent of the GDP in 1990. The Zambian economy is still very dependent on copper, its most important commodity. In 1989, copper provided 87 percent of export revenues and 20 percent of the GDP. Another mineral, cobalt, provided an additional 3 percent of export revenues (World Bank 1991).

Agriculture constitutes only 12 percent of the GDP and 1 percent of export earnings, but is a major source of income for 60 percent of the population. Small-scale farmers produce subsistence crops and cash crops such as maize and sunflowerseed. There are also large farms that are state owned or privately owned, mainly producing grains, beef, poultry, and tobacco (Harmon et al. 1991). Although unfavorable pricing policies have been removed for all crops except maize, the agricultural sector is still hampered by inadequate credit, shortages of inputs, weak training and extension services, and poor transport infrastructure.

Maize production fell 41 percent from 1989 to 1990 and the marketed share decreased even more, 48 percent. The marketed output of cotton, groundnuts, and sorghum also fell in 1990 (Chigaga 1990). The shortfall in maize supplies was made up by imports, mainly from Zimbabwe.

Between 1991 and 1993, the structural adjustment program calls for a significant reduction in inflation that will allow a positive real interest rate; a unified, market-clearing exchange rate; reform of maize and fertilizer pricing and marketing; and restructuring and privatization of parastatals. The financial community generally believes that rapid privatization could radically change the business climate for private enterprise in both the formal and informal sectors.

Although mining will continue to be the mainstay of the Zambian economy in the near future, the long-term prospects for copper revenues are less favorable. Copper production is expected to stabilize at 425,000 t per year in 1992-97 and then fall off sharply to 200,000 t per year. In 1990, copper prices averaged $1.20 per pound and government projections for 1991 are based on a lower price, $0.91 per pound (World Bank 1991). The long-term outlook for copper prices is unfavorable due to declining demand as a result of increasing substitution by plastics and fiber optics and recycling of previously manufactured copper items.

After years of declining agricultural production caused by an adverse policy environment, this important sector is expected to rebound sharply now that most of the unfavorable price and marketing policies have been reformed. However, agricultural production is still limited by shortages of credit and inputs. Increased domestic food production is desperately needed because per capita cash crop production has fallen. The resulting shortfall in urban food supplies has been made up by imports even though substantial domestic supplies of maize are stockpiled in rural areas.

Yet, Zambia has considerable unrealized agricultural potential. Unlike most LDCs in Sub-Saharan Africa, Zambia still has a lot of uncultivated arable land in areas with a relatively favorable climate, good water resources for irrigation, and productive soils. Substantial increases in the cultivated area of major crops have already begun in response to policy reforms. In addition, Zambia has significant forest resources; 53 percent of the land area is forested. The fisheries sector also has good growth potential. New processing opportunities could open up in both the forest and fishery sectors.

Zambia has one of the highest population growth rates in the world, 3.7 percent per year. The total population was 7.5 million in 1988. The age-structure of the population is skewed toward the young. Half of the population is 15 years of age below the start of being economically active (NCDP 1989). Youths between 15 and 25 years of age constitute another 21 percent of the population. The total population is expected to be 11.8-11.9 million in the year 2000. In 1990, the working age population (between 15 and 64 years of age) was 3.9 million and it is projected to grow to 5.7 million by the year 2000 (ILO 1991). Unemployment rates are already high in Zambia — 13.0 percent overall, 13.9 percent for rural women, 30.9 percent for urban women, 7.1 percent for rural men, 11.8 percent for urban men, and 20.4 percent for youths between 15 and 19 years of age (ILO 1991).

Already 53 percent of the population is in urban areas, which is the highest urban proportion in Sub-Saharan Africa. Moreover, the urban population is growing at 6.5 percent per year due to a high rate of rural to urban migration. As this labor leaves subsistence agriculture, new jobs will have to be created in urban areas to absorb it. Urban remittances to relatives in rural areas are generally small due to the low incomes of most migrants. About 30 percent of rural households are headed by women and women comprise 60 percent of the working age population in the countryside (ILO 1991).

Although the private sector provided nearly 71 percent of total formal sector employment in 1966, its share had fallen to less than 21 percent in 1985. The public sector took up 40 percent of the formal sector employees and parastatals another 40 percent (Harmon et al. 1991). The public and parastatal share is even more dramatic among professional/managerial workers, 93 percent, but it is lower for production workers, 65 percent. Many of these jobs will be at risk as government budgets are cut and firms are privatized (ILO 1991).

I-B. SIZE AND SIGNIFICANCE OF THE ME SECTOR

GRZ statistics on the informal sector are based on a nonconventional definition that includes subsistence farmers, self-employed workers, and private enterprises and cooperatives with five or fewer workers. Under that definition, the informal sector provided 267,000 jobs in urban areas and 1,589,000 jobs in rural areas in 1986. This amounted to 43 percent of the urban jobs and 91 percent of the rural jobs (Banda 1989). About 77 percent of the total work force is in the informal sector, but over three-quarters of them are in agricultural production and are at least seasonally underemployed (NCDP 1989).

Within the informal sector, 62 percent of the participants are self-employed, 23 percent are unpaid farm workers, 14 percent are paid employees, and 1 percent are owners. The sectoral representation is as follows:

Wholesale, retail, and food processing — 49 percent;
Agriculture, forestry, and fisheries — 21 percent;
Manufacturing — 14 percent;
Community, social, and personal services — 9 percent;
Construction — 5 percent; and
Other — 2 percent.

About 28 percent of the participants in the informal sector have no formal education and 54 percent have less than a fourth grade education. Only 10 percent have gone beyond the eighth grade. In general, the average education level is highest in urban informal enterprises and lowest in subsistence agriculture (NCDP 1989).

Half of the workers in the nonagricultural informal sector are in sales and many of them are considered to be underemployed. Over 42 percent of the labor force is engaged in petty commodity activities, but the income-generating potential of this sector is shrinking. Effective demand has declined while the pool of competing traders and vendors has grown and the cost of living has skyrocketed (ILO 1991).

In 1986, small-scale, nonagricultural industries were a larger source of employment than the formal sector. The estimated 350,000 small-scale nonagricultural enterprises in Zambia employed 500,000-600,000 people. About 80 percent of the total manufacturing employment in Zambia is in "small-scale industry", and the proportion is even higher in rural areas, 86 percent. Two-thirds of the small rural enterprises are part-time or seasonal activities of farmers for supplementary non-agricultural income.

The approximately 300 large-scale firms and 600 small- or medium-scale firms in the formal sector employ far fewer workers than the informal sector and the total number of formal sector jobs has been declining. There were only 361,000 workers in Zambia's formal sector in 1988, a decline from 381,000 in 1980 and 385,000 in 197[illegible] absorb the expected labor force growth, the formal sector would have to grow at the unlikely rate of 15-17 percent per year. Women's share of total employment in the formal sector is only 15 percent (NCDP 1989).

Formal sector manufacturing output only grew an average of 0.5 percent per year from 1984 to 1988, despite the Five-Year Plan's target of 8.0 percent p[illegible] year. The capacity use rate for public enterprises has averaged only 40-50 percent. With the continued meager performance of the formal sector, the informal sector will continue to provide the lion's share of employment in Zambia (NCDP 1989).

Milimo and Fisseha (1985) conducted a survey of small enterprises with fewer than 50 employees. The survey covered areas with a population of less than 50,000 in seven of the nine provinces; this excluded two major urban areas, Kabwe and Livingstone. Lusaka and the Copperbelt provinces, which have high concentrations of formal sector industries, were also excluded. In the study areas, 8 percent of all households were surveyed. One-third of the surveyed households were involved in small- or micro-enterprises. This study estimated that there were 375,000 small- and micro-enterprises in the study area, plus 110,000 in large urban areas and 10,000 in rural parts of Lusaka and the Copperbelt.

Of the firms surveyed, 99 percent employed less than six people. Two-thirds of the firms were one person owner/operators. The average number of employees per enterprise was 1.7. However, the limited geographic scope of this survey omitted the larger small- and micro-enterprises that may have the greatest employment and growth potential. Leather and ceramics firms had more than the average number of employees per firm, while catering and construction services tended to be one-person activities. Excluding the proprietors, family labor constituted three-quarters of the labor force in the enterprises. Much of this work was part-time and children were often involved. Hired workers were more frequently used in the towns. Less than 5 percent of the workers were apprentices and there was little of this except in the garment and repair subsectors.

The average duration of the surveyed enterprises was 9 years and the average age of the proprietor was 37 years. The current proprietor started the business in 86 percent of the cases. About 65 percent of the entrepreneurs were women, as were 55 percent of the employees. The women-owned enterprises tended to be smaller; 64 percent had less than 5 employees.

The principal subsectors for small- and micro-enterprises identified in the Milimo and Fisseha survey were:

1. Forest-based industry (basketry and mat weaving, pitsawing, carpentry, furniture making, and charcoal or fuelwood production).

2. Metal working (tinsmithing, blacksmithing, and welding).

3. Repairs (auto and bike, electronics and electric goods, jewelry and watches).

4. Foods (bakeries, confectioneries, and butcheries).

5. Garments (tailoring, dressmaking, knitting, and leather making).

6. Beverages (beer brewing).

7. Ceramics (pottery, brick, and block making, and stone carving).

8. Catering (restaurants, hotels, and bars).

9. Trade and vending.

10. Other services (construction; hair dressing, and dry cleaning).

The small-scale sector in rural areas and small towns was dominated by the beverage, forest-based, and trade and vending subsectors. Only 14 percent of the enterprises were in vending. The main problem facing these enterprises was raw material supply, according to 53 percent of the respondents.

II. JUSTIFICATION FOR ME ASSISTANCE

II-A. PROS

Foreign exchange is now in extremely short supply due to Zambia's high dependence on imports and the large amount of hard currency needed to service its foreign debt. Under these conditions, formal sector firms that require relatively large amounts of imported capital equipment, raw materials, or spare parts may be precluded from starting up or may only be able to operate at a low capacity use rate. In general, MEs are less dependent on foreign exchange because they typically rely on domestically produced equipment, tools, and resources.

MEs may need some imported inputs, but generally make do with what they can find available locally. Thus, they may be an important source of income and employment during a foreign exchange crunch. Although MEs generally use a much higher percentage of locally sourced materials than larger enterprises, they may still require some imported inputs that can only be obtained with foreign exchange. Many microenterprises are dependent on imports in some way; for example, a tailor requires zippers and a mechanic needs spare parts. In some cases, lack of foreign exchange for these imported inputs can stop production. It can take weeks or months to get imported items that are not available off the shelf in country even when the firms have foreign currency.

Cheaper goods produced by MEs, although often lower in quality, may fill the gap when the formal sector cannot meet the consumer demand due to chronic shortages of raw materials or spare parts. The structural adjustment program will eventually reduce shortages of goods produced by the formal sector, but it will boost their prices relative to goods produced by MEs.

As has been shown elsewhere in Africa (for example, in Tanzania and Ghana), MEs are quick to respond to a turnaround in the legal framework and incentives. Before independence, there was a tradition of self-help in Zambia. The team was impressed by the energy and drive expressed by owners and workers of MEs interviewed.

With massive retrenchments expected in the mining sector, large-scale parastatals, and the civil service, large numbers of salaried workers in Zambia will face layoffs or early retirement in the near future. These workers are likely to be relatively well educated and many will have technical or managerial skills. They constitute a substantial human resource that could contribute to economic development through self-employment and the creation of new enterprises that will start small but could grow over time. Those who bailed out early in anticipation of the layoffs to start their own businesses may have the entrepreneurial spirit needed. These new entrepreneurs would bring some understanding of how businesses work, but they might need technical and/or managerial training or credit. If aspirations for employment and entrepreneurship are thwarted in a large segment of the population, serious political instability could occur, especially in the Lusaka area.

In addition to providing jobs for those currently or soon to be unemployed, a large number of new labor force entrants will be seeking jobs each year. A ME development strategy based on labor-intensive technologies could generate new employment. Assistance to the ME sector also corresponds well with A.I.D.'s legislative mandate to assist the "poorest of the poor", who have the fewest alternative means of earning their livelihoods.

Despite the potential pitfalls that await MEs, niche opportunities exist even in dismal economic climates for the dynamic entrepreneur who is quick to recognize a possibility and transform it to reality. Small businesses are particularly important in local retailing and trading, customized production, and specialty services. Micro-enterprises are also particularly well suited to serving remote or small markets where larger enterprises cannot recoup their higher overheads. Although the low capital investment in MEs is sometimes a competitive disadvantage, it also means they are not hamstrung by heavy fixed costs and the pressure to keep capacity use rates high whether or not the end product is in sufficient demand.

A.I.D. has a real opportunity to foster economic growth in troubled times and help make the policy reforms permanent by contributing to the development of a strong class of productive MEs. When allowed to operate freely, MEs have easy entry and exit from specific economic activities and can often adapt rapidly to changes in raw material sources, market demand, and relative prices. Even under the most difficult economic conditions, the smallest firms functioning at the survival level can usually meet their minimal income expectations. In fact, when large-scale formal sector firms are being squeezed the most, the opportunities for MEs can be greatest. Moreover, the GRZ currently places a high priority on expanding the informal sector to fill the expected shortfall in employment by the formal sector.

II-B. CONS

In the recent past, the GRZ has wavered in its commitment to structural reforms and has shown a lack of political will to bring about the necessary changes. In 1987, Zambia broke relations with the IMF and World Bank. Over the past two years, the policy framework in Zambia has undergone considerable change and the country is on the verge of further reforms. Some of the policy changes now in the process of being implemented have been delayed, increasing the eventual pain of the adjustment process for businesses of all sizes. Another result of this backtracking has been a cutoff of multilateral and bilateral assistance. A.I.D. has limited its assistance in Zambia and the Brooke Amendment has periodically blocked activities. Although the reform process now appears to be back on track, the situation could change again. Further disruptions in aid programs could undermine ME projects, where consistent and reliable assistance is especially important in helping firms stay in business.

As the currency exchange rate reaches an equilibrium level, foreign exchange may become more readily available in Zambia, but at a higher price. However, at present, the country is still in an interim period of partial exchange rate reform combined with liberalized access to foreign currency. Since the kwacha is still overvalued, imports have actually increased over the past year. As a result, the ME sector is currently competing with artificially cheap products from overseas and large-scale domestic producers. Since the GRZ plans to allow the kwacha to float downward to an equilibrium level, this effect is likely to be temporary.

Zambia lost an entire generation of experience in running small-scale manufacturing and processing businesses due to their suppression by government policies since 1968. Under the regime of parastatal monopoly capitalism, the GRZ did not want its own companies to face competition from small, private firms. It banned some private productive activities outright or created conditions that them unprofitable, for example through stringent price controls and zoning laws. Enforcement of rules against small enterprises was political and selective. In some cases, entrepreneurs were physically attacked at markets or had their good confiscated or destroyed.

The resulting lack of ME activity did not stem from any cultural predisposition against entrepreneurship or hard work; it was the natural outcome of an irrational system. Nevertheless, the

limited experience of new entrants into the ME sector in Zambia will lead to higher risks of new business failure. These risks may be reduced through training and other nonfinancial assistance. However, low levels of literacy and numeracy, especially in rural areas, will make it more difficult for some MEs to succeed or to take full advantage of training and self-help opportunities.

The emerging class of potential entrepreneurs coming from former urban salaried workers might lack specific technical skills that they can apply in MEs or the drive and risk-taking that separates entrepreneurs from employees accustomed to regular paychecks. Relatively few salaried workers in Zambia have retained their links to operation of farms in rural areas or outside businesses in urban areas while being employed elsewhere. This situation is very different from that of Kenya where the legal and policy framework has been more favorable to agriculture and small business.

MEs generally have poor access to information, foreign currency, and overseas suppliers. They are usually too small to have enough cash for bulk purchases of inputs from domestic wholesalers. Consequently, they wind up buying materials and spare parts at the much higher retail prices. Frequently, micro-entrepreneurs try do everything as owner/managers and avoid hiring managerial staff because they do not want anyone to know what is going on in their business. Some do not understand how banks work.

A recent industrial sector study done for NORAD advised the that the future for business development assistance in Zambia, including MEs, is very risky. Despite NORAD's long commitment to the country, it was advised to take a cautious approach to further programming until the GRZ's commitment to structural reform is solidified. Nevertheless, that study recommended that NORAD take a leading role in helping Zambia toward privatization and a market-driven economy (Nordic Consulting Group 1991).

III. POLICY ISSUES AFFECTING MES

The Fourth National Development Plan (1988-1993) set the following objectives for government assistance to the informal sector:

1. Identify and promote informal sector activities [that] have potential for output expansion and employment generation in a manner that structurally integrates such activities to complement the formal sector.

2. Upgrade production, managerial, organizational and marketing capabilities of informal sector participant particularly among youth.

3. Identify a training scheme for youths in informal sector activities that have potential for production expansion, income, and employment generation.

4. Provide the necessary infrastructure for the operation of informal sector activities.

5. Promote, where possible, accessible credit facilities for informal sector activities that have a potential for growth in output, incomes, and employment.

6. Improve and expand production of the informal sector, particularly that of subsistence farmers and self-employed workers, in order to increase the level of their incomes.

The Plan also listed five strategies for achieving these objectives:

1. Providing collective services, infrastructure, and specialized tools and equipment for common use of related activities that have been identified as having relatively higher potential for increasing efficiency and productivity and for generating higher incomes and employment.

2. Establishing innovative institutionalized credit facilities that are appropriately tailored to meeting the needs of informal sector participants engaged in potentially productive and dynamic activities, especially with respect to the purchase of input requirements.

3. Promoting the use of appropriate technology and the use of available local resources

4. Encouraging the formation of small co-operative unions or mutual assistance organizations for the bulk purchase of inputs, the sale and distribution of output, and the joint use of tools and equipment for which the elements of cost or efficiency demand a larger scale of production or more intensive utilization.

5. Promoting the upgrading of skills through formalized training schemes in terms of extension advisory services (NCDP 1989).

The level of resources that the government has been able to devote to assisting the informal sector is very low relative to the importance of the sector in increasing employment and income for the poor majority. Although the GRZ is beginning to recognize the importance of individual

entrepreneurship, the Fourth Plan still placed too much emphasis on collective enterprises. Work on the next Five-Year Plan and the annual update of the three-year Public Investment Program and Policy Framework Paper has been deferred until after the Presidential election scheduled for October of 1991.

A new industrial policy bill has been under consideration by Parliament and is expected to pass in the fall of 1991. This bill would modify registration and licensing procedures, subsidies, and taxation for firms of all sizes. It has special provisions for village- and small-scale firms as well as larger firms involved in agriculture, tourism, and input-substitution industries.

The new bill does not define village- or small-scale firms. The previous definitions still in effect are that the total investment in plant and machinery must be less than K 500,000 for village industries and less than K 1.5 million for small-scale industries. Due to the effects of inflation, the validity of these definitions has eroded over time. The Ministry of Commerce has the authority to revise them by statutory instrument, without Parliamentary action. SIDO has requested that the limits be raised to K 5 million and K 15 million, respectively, or changed to an employment-based definition with small firms having fewer than 50 employees.

III-A. REGISTRATION AND LICENSING

To qualify for assistance from VIS or SIDO, firms must be registered; they cannot be operating purely informally. SIDO requires that firms have legal designations as limited companies or certificates of registration from the Ministry of Commerce and Industry. Firms can register with SIDO and begin operations before obtaining a certificate of incorporation. Firms registering with VIS are provided with standard memoranda and articles of association for free. Yet, only 2,000 of the 350,000 informal small-scale enterprises in Zambia have registered with SIDO and another 2,500 have registered with VIS. At present, the procedure for formal registration of a small-scale or village enterprise is:

1. Register business name;
2. Publish in a newspaper the intention to apply for a trade license;
3. Obtain a Public Health license, if necessary;
4. Obtain a Trade License;
5. Obtain a Manufacturing License from the Ministry of Commerce and Industry, if necessary;
6. Obtain a Manufacturer's License from the District Council, if necessary;
7. Register with SIDO or VIS; and
8. Obtain a Certificate of Incentives under the Investment Act.

Without identified business premises, new firms may find it difficult to get registered. An inspection of the business premises is required for the Manufacturer's License, which can be the most difficult to obtain. Once established, firms will have to comply with health regulations, water supply regulations, and the Town and County Planning Act.

Some changes in licensing restrictions have already been made in Zambia. Export licensing procedures have been streamlined. New foreign investments are allowed greater dividend remittances. The Companies Act provisions barring free entry into existing markets, mainly those that would compete with parastatals, have been eliminated. The public monopoly on processing and export of gemstones has been terminated.

The new industrial policy bill would exempt small enterprises from licensing fees for registration of companies and would allow firms to operate without a manufacturing certificate for 5 years. It would also create a one-stop facility for applications for all required licenses and permits, as well as information on licensing requirements, tax incentives, and land availability.

III-B. LAND USE CONTROLS AND LAND TENURE

The system of land ownership and land use controls in Zambia has led to a shortage of built workspace for MEs. In many countries in Sub-Saharan Africa, the small amounts of land needed by MEs are readily available to them, either as backyard activities or by informal use of public land. In some countries, MEs on vacant land are harassed as squatters, but in Kenya, for example, they are now encouraged by public policy.

In Zambia, all land is owned by the government. Titled deeds for 99-year leases are available and are automatically renewable. Leaseholders pay a fixed ground rent, which is often very low. However, the District Councils have the power to refuse the issuance of leases. Furthermore, zoning laws that prevent manufacturing in residential areas and the sale of goods from homes have been stringently enforced in many urban areas.

The Local Administration Act of 1980, administered by the Ministry of Decentralization, gives considerable authority to District Councils in planning and provision of land, water, and access roads. District Councils have to approve all business premises and can require the demolition or alteration of buildings that do not meet the standards. They can prohibit or control "offensive, unhealthy, or dangerous trades". District councils enforce regulations concerning the manufacturing, preparation, storage, handling, sales, and distribution of food and drink. They also control and tax advertisements and signs in public places.

District Councils have some unusual powers in Zambia. They can establish and maintain businesses for manufacturing, wholesaling, and retailing. They can construct, purchase, and rent out buildings and take out loans for their construction. The Marketing Act gives District Councils authority to regulate the use of markets and market buildings, (1) prescribing the goods that can be sold, (2) limiting the sale of specified goods to particular areas of the market, (3) requiring that goods be sold in a certain manner (such as by auction), (4) setting the days and hours of operation, (5) carrying out health inspections of food items, and (6) imposing fees and taxes on sales.

Many business people and government officials in Zambia agree that industrial workspace in the country is expensive and in short supply. Although some land is often idle even in urban areas, disincentives and obstacles frequently make it difficult for small, production-oriented businesses to get space. The problem is exacerbated by rapidly accelerating building costs, land speculation fueled by inflation, and poor maintenance of infrastructure.

The registration of leaseholder rights for land is also an important issue for all MEs that want to borrow money from banks, which often insist on land as collateral. In addition, land tenure has important effects on the potential for MEs that process primary agricultural or natural resource products. Most farmland in Zambia is vested in the President with nominal control held by the local District Councils. Because arable land is still available, agricultural production could be increased if this land were made available to farmers. Yet, increases in agricultural production might not materialize if farmers cannot get credit because they lack leaseholder title to this land.

III-C. FOREIGN EXCHANGE ACCESS

Zambia has a dual foreign exchange system. In theory, anyone can now apply for foreign exchange from the banks, but, in practice, hardly any is available. Foreign exchange from exports is easily convertible. Copper revenues are converted at the first window in the dual system, at a higher exchange rate. Other firms are allowed to sell foreign exchange at the second window at a lower rate and customs duties are levied at this rate.

Under an **export retention scheme**, up to half of the foreign exchange earnings of firms may be sold to third parties or retained. A **no-funds licensing scheme** allows unrestricted imports of goods provided that no foreign exchange from the Bank of Zambia is required. The proposed new investment bill would allow all firms to retain 70 percent of their gross foreign exchange earnings for the first three years, 60 percent for the fourth and fifth years, and 50 percent for the subsequent duration of the investment.

Practically all of the banking representatives and formal sector business people interviewed listed access to foreign exchange as a serious problem. Given the expected decline in copper exports, the foreign exchange shortage will remain serious for many year to come, even if there is substantial debt relief and a significant increase in exports of agricultural products and gemstones.

Government policy may inadvertently create opportunities for some small businesses by causing shortages of imported commodities such as spare parts and consumer goods that require scarce foreign exchange. Although the GRZ has liberalized access to foreign exchange, the practical reality is that foreign exchange is often unavailable. On the blackmarket, dollars are valued at twice the official exchange rate. Some firms can offer a premium in local currency to intermediaries who can convert those funds to hard currency and travel outside the country to purchase goods that are hard to find in Zambia. This opportunity will evaporate when the official and blackmarket rates reach parity. At that time, purchasing officers will be able to resume their normal function and squeeze out the intermediaries who flourish in the current economic environment.

III-A4. Wages and Benefits

Small, informal sector firms in many LDCs have a cost advantage over formal sector firms because they can avoid payment of legally mandated minimum wages and benefits. However, this is not the case in Zambia because there is no minimum wage law or any national system for social security pensions or health insurance. Large firms and the civil service have pension plans that usually provide a lump-sum at retirement, but they have become inadequate for long-term support as a result of the skyrocketing inflation.

For a long time, the government felt that there was little need for mandated employee benefit schemes because education and health services were free and food costs were kept low. Now, private clinics are being allowed to start up and fees for public clinics have been announced, but not yet implemented. There is still controversy about whether school fees will be charged. Informal sector firms may also avoid factory standards for occupational health and safety. The standards have been poorly enforced in Zambia, in part because the government covers the costs of medical treatment and owns many large manufacturing companies.

III-A5. Price Controls

Until recently, Zambia had a long list of items under price controls. The price controls constituted a heavy implicit tax on production, especially for agriculture. Officially, all price controls have now been lifted, except for maize meal and fertilizer.

Nevertheless, there is still an "invisible hand" influencing prices of most domestically produced goods because many of the large parastatals consult with the government before major price increases. As a result, prices of food staples such as oil and sugar as well as transport fares have not risen as much as the inflation rate. There are also extensive cross-subsidies in pricing by parastatals. For example, government shops sell goods at the same prices regardless of differences in transport costs, even in remote areas.

III-A6. Subsidies

Under the new industrial investment bill, village- and small-scale enterprises in the priority sectors would be exempt from paying rent on factory premises owned by District Councils. This would even include charges for water, electricity, and other services. However, the bill does not require District Councils to provide or construct any serviced buildings for industry. There are no other across-the-board direct subsidies for MEs in Zambia.

III-A7. Taxation

At present, manufacturing companies are taxed at a 40 percent rate and service companies at 45 percent, but the government plans to make the corporate tax rate uniform at 45 percent. Companies also have to pay a stamp duty for registration, which is currently K 10 per K 200 of shares, but it is expected that the rate will be cut in half. On the other hand, the property transfer tax may be increased from 5.0 percent to 7.5 percent (Chigaga 1990).

Customs duties currently range from 0 to 100 percent. In addition, there is a sales tax of 20 percent of the taxable value, which is based on 125 percent of the value of the goods plus the customs duty. In the near future, the sales tax will be extended to a broader range of goods and services. However, the GRZ has proposed reducing the maximum customs duty to 50 percent, except for luxury goods such as beer, cigarettes, jewelry, perfume, and cosmetics. The basis may be reduced to 120 percent of the value. All goods presently charged a customs duty lower than 15 percent will be subject to a 15 percent duty, without the sales tax, except for crude oil, polyethylene and polypropylene for maize meal bags, hessian bags, fertilizers and raw materials for making fertilizer, medicines, and medical instruments.

Limited-duration tax exemptions were available to registered firms under the 1986 Investment Act, but only upon application and approval was not automatic. Registered firms lose their eligibility if found to violate any law or health regulation. Only 500 small-scale enterprises were entitled to incentives under this law (Bjerremand 1990).

The new investment bill would give small urban enterprises a three-year exemption from income taxes and small rural enterprises a five-year exemption. Areas other than Kabwe Urban District, Kafue Township, Livingstone Urban District, Lusaka Urban District, and urban parts of the Copperbelt Province are classified as rural. Small- and micro-enterprises would also be exempted from customs duties and

sales taxes on imported equipment for establishment, expansion, or rehabilitation and spare parts. All firms would be exempt from the tax on dividends and the tax on expatriate personnel for their first seven years.

Tax exemptions are irrelevant to informal sector firms, which usually do not pay any income taxes. The same applies to depreciation writeoffs for plant, machinery, and vehicles. Only as MEs grow and become more visible with a larger number of hired workers are they likely to register to obtain tax incentives.

III-D. PROBLEMS FACING MES IN THEIR ECONOMIC ENVIRONMENT

A survey of MEs in Zambia identified their major constraints in decreasing order of importance as lack of credit, lack of production equipment, lack of raw materials, and transport problems. Other key points made in the report were that:

1. ME production and sales are often home based. These firms need access to retail outlets or middlemen to increase sales.

2. Lack of credit is a major constraint to increasing production because it results in the use of less productive technologies and limits acquisition of raw materials.

3. A step-by-step learning method would be most effective in training micro-entrepreneurs.

4. Micro-entrepreneurs do not understand the importance of middlemen in the distribution process (Ikundi et al. 1991).

MEs in Zambia face a diverse set of problems depending on their size, technical and managerial capacity, location, and subsector. These problems include bottlenecks in production and marketing, insufficient amounts of credit for physical capital and working capital, and poor business management practices. For the smallest firms, especially those in rural areas, production is often more of a problem than marketing. Many firms are hampered by the unreliable supply of raw materials and the low quality of their products due to the traditional production technologies used.

Insufficient knowledge of how to exploit markets and expand sales is a common problem for MEs in LDCs. With their limited product mix and quality, these firms can find it difficult to compete with high quality imports. Nevertheless, there can be a market niche for MEs producing less costly products of lower quality. However, many MEs find that the transport and transaction costs and managerial skills required to reach new markets are too high.

Other common problems for MEs include high transport cost and poor infrastructure for transportation, lack of infrastructure for storage and production, difficulty of finding and retaining skilled labor, and inefficient production technologies. Lack of access to credit is frequently the main barrier for new entrepreneurs and existing MEs that would otherwise be ready to expand. The problems of the financial system in Zambia have gotten worse in the past few years, but there are conflicting views as to whether the capital crunch has reached its low point or will continue to deteriorate.

Working capital is particularly critical for MEs. Often, MEs could produce good for larger firms and more lucrative markets, but are unable to advance enough cash to cover the costs before

revenues are received. MEs are very vulnerable to delays in payments from the large firms or distributors that are standard business practices. For example, one firm reported that it had obtained a large order from a big company, but did not realize that it would not receive any payment until the whole order had been delivered. Halfway through production of the required volume, the ME ran out of working capital, jeopardizing all of its revenues from the order. Another firm complained that it takes twenty-one days for one major retail chain to pay for the goods after they are received. Clearance of the check can then take an additional nine days if drawn on a Lusaka account and up to thirty days if drawn on an account elsewhere in the country.

Microenterprises in LDCs frequently experience difficulties due to poor management of cash and inventories. Many microenterprises, especially the smallest ones, are family concerns run out of the home. Some entrepreneurs confuse revenues and profits and use cash holdings for any purpose — personal, family, or business. The result can be a speedy erosion of working capital and closure of the business. Investments made in the business may be lost through the use of business funds for ceremonial or emergency uses such as weddings or funerals. Another common example of this phenomenon is the small neighborhood shop that opens and quickly fails due to consumption of goods by the owner's family or cashflow problems caused by imprudent extension of credit to customers.

In most ME programs, businessmen are advised to manage their cash carefully to avoid the pitfall of commingling personal and business funds. Even after receiving training in cash management, some entrepreneurs still succumb to family and sociological pressures, which are much more immediate and personally compelling than the needs of the business itself.

In the best of circumstances, a microentrepreneur must have considerable vigilance and determination to overcome obstacles. In a poor country, where business difficulties are greater and the macroeconomic environment may be unfavorable, the obstacles are even greater. The current economic environment in Zambia adds impediments to small and large businesses alike — irregular access to raw materials and spare parts, and an extremely high rate of inflation that makes cash management difficult.

Microenterprises generally run on very tight cashflows and any extraordinary disruptions can jeopardize the entire venture. (For an example of this, see discussion of Rex Painting, Ltd. in Annex C.) In an economy with low inflation and positive real rates of interest, a formal sector business ideally would calculate an optimal proportion of cash and other less liquid assets so that all obligations can be met in a timely and regular fashion.

When inflation is very high, the normal allocation of assets no longer applies. A businessman who might otherwise hold enough cash on hand to cover his payroll, purchases and petty cash expenses cannot afford to do so when the purchasing power of liquid assets erodes daily. Businesses with high turnover or cashflow (for example, trading enterprises or service businesses such as milling) can mitigate the effects of inflation by frequently raising prices. However, input prices generally do not move up continuously in small increments. Consequently, MEs in processing or manufacturing may have to cope with large, irregular increases in input prices. If these businesses do not monitor price increases vigilantly, then sales revenues may not increase sufficiently to cover increased input costs.

Even if MEs do monitor rising input costs, their ability to raise prices is limited by competition and consumer demand. Or, MEs may be locked into specific prices by outstanding delivery contracts, if they are suppliers of other firms. As a result, profit margins may be squeezed or real net assets may shrink and the business could begin a downward financial spiral. An example of this is the effect of the recent increases in the price of cooking oil on restaurants. The price of vegetable oil rose by 35 percent in July 1991 after a 40 percent increase the preceding month. Even if a restaurateur has adequate stocks

of edible oil, this increase must be passed on immediately or a tightened cash situation will arise when stocks are replenished at the inflated costs.

This situation is exacerbated for manufacturing or processing concerns that have a slower turn of assets. Usually businesses want to avoid holding excess inventory which ties up their funds and incurs storage and holding costs. However, in times of high inflation, business decisions are distorted and firms may want to hold as much of their worth in non-financial assets such as inventory, plant and equipment that will appreciate with inflation. Inflation also hits MEs hard if they cannot control the timing of their revenues. They may have difficulty converting accounts receivable or non-cash assets to obtain the cash required for their payroll or purchases. Microenterprises rarely have the influence to compel debtors to quickly pay accounts receivable and may consequently become squeezed for cash. In the tight credit environment now prevalent in Zambia, MEs lack access to overdraft facilities or other short-term credit. Consequently, they may have to hold more cash in hand than they would want, even though it loses value each day.

The high rate of inflation creates a situation in which the wealth of a business could actually grow more quickly by sitting on real assets instead of putting them to use. Simply by holding non-cash assets, a business can at least keep up with inflation. Savvy management is required to avoid losing ground to inflation.

The high negative real interest rates in Zambia create another economic distortion in business practices. The more that firms borrow, the more money they can make. Those businesses lucky or well-connected enough to have access to credit, even at the maximum allowable interest rate, are given a de facto subsidy because the value of physical assets purchased with the loan proceeds goes up faster than the loan repayment obligation. An astute manager can also put inflation to advantage in other ways. In some instances, sales prices can be increased daily while increases in direct costs, such as wages, can be held off for weeks or months. In the meantime, the business's gross margin and profitability increase at the expense of employees whose real take-home pay falls daily.

Numerous businessmen and government officials in Zambia have remarked that MEs involved in production and processing cannot easily survive under hyperinflation, unless affiliated with a trading or high turnover business that dependably generates cash when needed. Although these high cashflow, ancillary businesses, such as local trading or importation of goods from overseas, are often handled by a relative, they can still be a distraction from the primary enterprise.

Another complication of business in a high inflation environment is the difficulty it causes with planning. Pro forma invoices are out of date within days and long before a loan application might be appraised. Plans to purchase imported raw materials or components are thrown off by frequent devaluations of the kwacha.

Ironically, the difficult economic environment in Zambia opens up other opportunities for MEs due to the rigidities and financial pressures facing the large parastatals. Large firms might not be able to respond to changes in the marketplace with the same speed and flexibility as small, labor-intensive businesses. The declining real per capita GDP of Zambia also creates opportunities for MEs that produce low quality or inferior goods that poorer consumers can afford (**Inferior goods** are products that consumers buy in larger quantities when their real incomes decrease).

III-E. INSTITUTIONS

The four main organizations assisting small businesses in Zambia are SIDO, VIS, SEP, and COMET. SIDO is governmental. VIS and SEP are NGOs that have a strong quasi-official role. COMET is a private business foundation with a more limited geographic focus on small businesses in the Copperbelt. There is also a large number of small, local NGOs. In general, ME assistance organizations in Zambia are relatively small and have only had limited resources. Due to the previous unfavorable policy environment of price and market controls that prevailed the necessary preconditions for a more expansive scope of assistance to MEs did not exist until recently. Although these organizations have been growing in size and capacity, they will find it difficult to meet the expanding potential demand for ME assistance in Zambia. Most institutions in Zambia are facing difficulties just meeting expenses in the extreme inflationary environment.

In addition, there is confusion about the delineation of service delivery among some of these organizations. For example, there is overlap between the client groups of VIS and SIDO. SEP has emphasized efforts to assist new businesses although a more logical role for this organization would be to help established businesses grow. Additional institutional strengthening is needed to make these organizations more responsive to the pressing needs of the ME development sector in Zambia. According to one donor representative, it would be more difficult for a new Zambian NGO to become registered than for a foreign NGO to open a branch office.

III-E1. Governmental Institutions

The largest organization with a nationwide mandate for small enterprise development is a government agency, the Small Industries Development Organization (SIDO). SIDO was created by the Small Industries Development Act of 1981, which specified the following functions for the organization:

1. Formulate, coordinate, and implement national policies and programs relating to small enterprises.

2. Carry out research programs.

3. Provide/assist in training entrepreneurs and employees.

4. Provide extension, management, and consulting services for small enterprises.

5. Promote local and foreign investment.

6. Assist in procuring equipment and raw material supplies.

7. Assist in locating and developing industrial estates and common facility centers.

SIDO's client group consists of small- and micro-enterprises that are generally larger than those targeted by VIS. SIDO clients must be registered enterprises that are or will be full-time operations (i.e. not cottage industries).

Other government agencies could have some important effects on MEs. The National Commission for Development Planning has a social Action Programme that may provide some assistance to MEs. The Zambian Bureau of Standards could set realistic manufacturing standards for the domestic market and provide extension services to MEs for testing and quality control. The National Council for Scientific Research and the Technology Development Advisory Unit could increase R&D activities relevant to technologies appropriate for MEs. The Ministry of Agriculture currently provides extension services for crop production, postharvest handling and storage, but not agricultural product processing.

III-E2. NGOs and Other Private Organizations

The NGO sector is relatively weak in Zambia, but it is gaining more experience and autonomy. In the past, Zambian NGOs were subject to strong governmental direction, but the GRZ is now allowing them to operate more freely. The total level of NGO assistance to MEs in Zambia is relatively low compared to other countries in East and Southern Africa. Although more is in fact going on than one would expect under the prevailing economic conditions, current ME assistance programs only serve a small minority of potential clients and the cost per client is high. NGOs find it difficult to plan resource allocations because donors come and go and are slow in delivering on promises. Many NGOs also have problems retaining staff because of relatively low salaries.

COMET, the Copper Mining and Enterprise Trust Limited, was established in late 1987 to assist people in densely populated mining towns in small business development. COMET'S main activity is running business incubators. The Non-Governmental Organization Coordinating Committee is a loose association of local women's organizations. The Small-Scale Industries Association of Zambia (SSIAZ) is a lobbying and mutual support organization for small industries.

Village Industry Service (VIS) is a quasi-official NGO in Zambia created to assist village-scale and cottage industries in rural areas. Over time its focus has shifted to more accessible urban and peri-urban clients. World Vision International (WVI) is a U.S.-based, church-affiliated NGO that has been working in Zambia for ten years. It has provided grants to community groups for enterprise projects, mainly in rural areas.

III-E3. Commercial Banks and Other Financial Institutions

Commercial banks in Zambia are facing serious operating difficulties. The central bank, the Bank of Zambia (BoZ), has tightened credit by setting a stringent reserve requirement of 30 percent and requiring commercial banks to invest an additional portion of assets in low-yielding, 18-month GRZ bonds. As a result, these institutions are retrenching. They have increased their fees and raised interest rates to the maximum allowed by BoZ, which is still well below the inflation rate.

The current policies of the BoZ pose major problems for financial institutions. The longer that the credit squeeze goes on, the less likely it will be that the banks can increase lending to any sector. The general economic and political instability make it extremely difficult for financial institutions to make a profit on the few loans they would risk making at this time.

Six of the major commercial banks are foreign owned, two are privately owned by Zambians, and two are owned by the government. The four largest commercial banks have strong balance sheets and by some measures, excess liquidity, that may allow them to wait out the current economic storm.

In decreasing order by asset size these banks are Zambia National Commercial Bank (ZNCB), Standard-Charter Bank of Zambia Ltd., Barclays Bank of Zambia Ltd. and Grindlays Bank (Zambia) Ltd. One small bank has already failed, and BCCI, a large bank, is in trouble worldwide. Other smaller banks might not survive the liquidity crunch.

Under these circumstances, ME clients have little chance to receive credit from commercial banks. At present, only the most creditworthy and profitable customers are receiving loans. During a credit squeeze, banks will continue lending even at a loss to keep long-term, large borrowers as clients until the situation improves. Nevertheless, commercial banks are looking toward the future and eventually see possibilities of lending to ME clients as new business opportunities open up for them through privatization or the shutdown of parastatals. The commercial banks believe the economic situation of Zambia will improve with political changes that have begun. They hope that privatization will take place as rapidly as possible to give a real and a psychological boast to the business climate.

The Credit Unions Savings Association provides a mechanism for mobilization of savings that could be tapped for ME development. The Small-Scale Enterprise Development Program (SEP) is a registered financial institution created in 1982 by the Development Bank of Zambia and a German foundation, the Friederich Ebert Stiftung.

The Women's Finance Trust Company of Zambia Limited (WFTZ) was organized, but it has to yet become operational due to lack of funding. The Zambia Cooperatives Federation Finance Services Ltd. is a financial services company that provides loans for MEs.

III-F. THE AVAILABILITY OF CREDIT FOR MES

Credit is often essential in enabling MEs to become established or grow. As long as the current macroeconomic regime in Zambia exists, there will always be more demand for credit than can be supplied. Interest rates normally determine what activities businesses finance through debt, equity, or not at all. In this way, they act as a screen to filter out activities with low or negative expected real returns. Projects that cannot cover the cost of interest and an expected profit margin are deferred or canceled. However, when interest rates are less than the inflation rate, they do not ration capital efficiently and loans constitute a de facto subsidy for those able to borrow money. Negative real interest rates create an artificial demand for credit wholly unrelated to the underlying needs of a business.

In an inflationary environment, businesses also seek credit for unproductive, speculative uses because investing in assets is a hedge against depreciating cash balances or financial instruments. Under these conditions, currency blackmarkets flourish because exchange rate devaluations often lag behind the rapid inflation. For example, a business that borrows money at 50 percent per annum may be able to invest it in rapidly appreciating assets such as real estate or consumer goods and earn 150 percent per annum. Even if the business puts up a 25 percent down payment, it can still make a 400 percent return on investment each year. If the blackmarket premium is 100 percent, local currency profits can be converted to hard currency for an annual gain of 200 percent. The result is that it becomes difficult for manufacturing and processing businesses, with slow moving assets and a relatively long payback period, to compete for finance or managerial know-how with quick turnaround trading opportunities known in Zambia as "briefcase businesses"

At the same time, the Bank of Zambia has squeezed credit by withdrawing liquidity from the financial system to meet debt repayment schedules and bring down the inflation rate. This policy is

carried out through a 30 percent reserve requirement on bank assets and an additional required investment of 17-20 percent of assets in low-yielding GRZ bonds. In addition, the commercial banks have a low ability to mobilize private savings due to the negative real interest rates and the absence of bank branches in many areas.

Given the shortage of credit for all borrowers in Zambia, banks will direct the loans that they are able to make to their most profitable clients. Usually, the most profitable clients are those who borrow in larger transactions and have demonstrated their creditworthiness. Since most MEs have no credit history, they are unlikely to receive credit from the rationed pool of finance. Even where interest rates and repayment rates are high enough to make ME lending profitable, such small loans are not the type of financing that builds a banker's career. The limited credit that is available might not be extended on sound business principles, but through personal contacts and the ability to extend favors or pay bribes. In this situation, MEs are at a disadvantage compared to large firms.

As in other LDCs, MEs have other difficulties in obtaining loans even when there is no particular credit crunch, including the:

1. High costs of screening loan applications from the large number of potential borrowers.

2. Inability to prepare and present credit applications and business plans that meet the banks' standards.

3. High administrative costs of disbursement and collection of loans from many scattered, small borrowers.

4. High perceived risk of business failure of MEs and the difficulty of assessing the specific risk of particular loan applications.

5. Limited track record of MEs in past borrowing due to the previous constraints affecting the sector.

6. Commercial financial institutions mostly lend for purchases of long-term physical assets and rarely offer the working capital that many MEs desperately need for short terms — 30 to 180 days.

As a result, most MEs are forced to borrow from relatives and friends or go without external financing. Less frequently, they turn to informal credit markets that charge very high rates of interest. Few raw materials suppliers in Zambia offer credit to their ME customers.

Since 1986, the GRZ has tried to partially redress the imbalance of supply and demand for ME credit by setting up special credit programs to target this sector and providing loan guarantees to encourage banks to lend by protecting them against losses. The total level of credit in these targeted funds was initially very small and has dissipated rapidly due to the ravages of inflation and poor repayment rates. As a result, the funds have less money to re-lend to other MEs in the future.

The concessionary interest rates often charged on targeted ME loans accelerate the decapitalization of these funds, especially when inflation is high. The BoZ set limits on interest rates. In mid-1991, the maximum effective interest rate that commercial banks were legally allowed to charge was 56 percent per year, and the allowable rate was even lower for ME borrowers, 36 percent. Around the same time, CUSA lent at a 12 percent interest rate and SIDO at 20 percent. Although one objective

of the structural adjustment program is to achieve positive real interest rates by the end of 1991 to reduce this problem, it is doubtful whether it will be achieved.

Although there are a few well-documented success stories of targeted small-scale credit programs, such as the Grameen Bank in Bangladesh and BKK in Indonesia, only a small fraction of MEs are able to obtain credit through targeted programs sponsored by governmental or development agencies. In many special ME lending programs, credit is treated as a social welfare good and little effort is made to collect repayments, particularly when a donor has indemnified the bank with a loan guarantee. In these cases, few MEs will voluntarily repay debts when their colleagues do not and this will reinforce the skepticism of the bankers.

Representatives of the four main commercial banks in Zambia reported high loan recovery rates in 1989-1990. They concurred that the businesses that have received bank loans, generally not MEs, understand that credit must be repaid and will do so as long as active loan collection efforts are made. Other financial institutions such as Lima Bank, ZCFFS, and the Credit Union Savings Association (CUSA) had much worse records, with repayment rates averaging 33 percent, 35 percent, and 24 percent respectively. The NGOs and other agencies providing targeted credit to MEs have also done poorly in this regard. SEP has written off 20 percent of its loans as unreceivable, but its actual arrearage rate may be 50-60 percent (Sigvaldsen, Kamuwanga, and Lintini 1991). Just 24 percent of the VIS loan portfolio was current in mid-1991.

For the most part, the ME loan guarantee programs in Zambia have failed due to lack of participation by commercial banks despite high guarantee percentages. A major cause of this problem is the administrative cost of servicing small loans, especially when they are widely scattered and in difficult to reach locations.

III-G. TRAINING AND TECHNICAL ASSISTANCE

Lack of access to cost-effective technologies is a common impediment for microenterprises. **Technology** encompasses equipment, tools, products, processes, materials, skills, and the organization of production and marketing. Production by MEs is often limited by inefficient machinery that results in low-quality products, a high rate of defects, increased costs, or reduced productivity. Larger competitors, with easier access to financing and technological know-how, are able to upgrade production processes and product lines, often leaving the inferior goods market as the only outlet for microentrepreneurs. In worst case situations, small businesses, trying to expand, might purchase inappropriate equipment that leaves them worse off than before. Table 1 lists what technological assistance can achieve for MEs. However, there are generally tradeoffs between the various attributes of a technology.

TABLE 1

WHAT TECHNOLOGICAL ASSISTANCE CAN ACHIEVE FOR MES

A. Increases in Productivity
   1. Faster Production to increase sales volume
   2. Savings in labor time
      a. Cost savings
      b. Freeing up unpaid household labor for other purposes
      c. Shifting of labor to higher valued uses
   3. Substitution of lower cost materials
   4. Increased process efficiency to extract more product from a given amount of raw materials or allow use of lower cost raw materials
   5. Reduced fuel costs
   6. Lower fixed capital or working capital requirements to reduce interest costs and the burden of debt
   7. Increased output to open up bulk markets
   8. Lower product prices for consumers

B. Improvements in Product Quality
   1. Improved product consistency and reliability
   2. Higher sales prices for producers due to better grade goods
   3. Allow a switch to higher valued products
   4. Better packaging, which may allow bulk markets to be reached
   5. Production of marketable byproducts
   6. Greater durability of products for consumers

C. Increases in Local Self Sufficiency
   1. Use of locally available materials
   2. Increased marketing independence
      a. Greater farm-level processing of agricultural products to reduce the need for immediate sale at peak harvest periods when prices are low
      b. Better organization of marketing channels to expand information on prices and customers or reduce transaction costs
   3. Greater capacity for local repair and maintenance of equipment
   4. Decentralization of power of fuel supplies for greater reliability
   5. Better availability of intermediate goods or consumer products

D. Development of Local Skills
   1. Increased capacity for further innovation
   2. Enhanced ability to enter new product lines or markets
   3. Creation of new possibilities for local manufacturing

Source: Summarized from Jeans, Hyman, and O'Donnell 1990.

In general, MEs do not have access to information on the range of choice in technologies or on ways to obtain technologies that they have heard about. MEs that manufacture equipment and tools for other firms do not have the ability to conduct their own R&D or testing of a new technology, unlike large firms. Most R&D work on technologies is sponsored by large, private firms in developed countries and does not produce technologies suitable for MEs. Despite the potential benefits from development of technologies for MEs, government and university or research institutes have generally focused research on technologies that are only appropriate for large-scale firms.

Even where research has been conducted on behalf of smaller scale enterprises, the next step of encouraging the commercial manufacturing and use of these technologies is frequently lacking. External assistance can play a catalytic role in upgrading traditional technologies for MEs as the investments needed for this purpose are not likely to be made by the private sector even though they are relatively small.

Although managerial skills are also critical for the survival and growth of MEs, many entrepreneurs in Zambia have low levels of these skills. Yet, they are receiving very little training and business assistance at present. Moreover, the effectiveness of some ME training programs has been limited because of the lack of relevant training materials that can be easily assimilated by client groups.

Experience in other countries has shown the difficulties of training recent school leavers to become entrepreneurs, especially through short, general courses. Many of these trainees are unable to effectively use the training for lack of entrepreneurial spirit, insufficient technical skills, or an inability to obtain financing and other missing business ingredients. To reduce the problem of wasting resources on poorly motivated young people who are unsure of what they want or are able to do, training is best focused on existing entrepreneurs.

Around the world, numerous short business training courses have been conducted for MEs. Despite claims of great impact in anecdotal reports, the actual utility of this type of training is uncertain. Last year, one expert in the field, Malcolm Harper, stated that he no longer believed in the efficacy of the intensive business management courses he had developed, which are widely used in ME training programs in LDCs.

No controlled, statistically sound studies of the impact of short-term business training on business practices and performance have been conducted. The impacts may vary with the size and nature of the enterprise. The smallest MEs might not get much out of business management training. Larger MEs with better prospects for expansion or growth into formal sector firms might find this training more useful. The quality and relevance of the training materials and instruction will also affect the impact on MEs. In many cases; effective training materials will have to be subsector specific or at least adapted to a particular subsector. Technical training often requires special equipment and tools.

Nearly all of the officials and business people interviewed agreed that the managerial and technical training given so far in Zambia has not been sufficiently focused to be of significant value to microenterprises. Common complaints were that the training programs have been too general or not very relevant to business needs. There also seems to be a greater demand for training that imparts specific technical skills with immediate applicability for production, rather than general business management topics and entrepreneurship motivation. Little follow-up has been done on any of the entrepreneurship development, management, accounting, or other ME promotion courses in Zambia.

Nevertheless, businesses cannot produce a well-documented financial analysis if they do not have sound financial management and accounting systems. As a result, these businesses will be excluded from

regular bank credit unless they receive special support from NGOs or government agencies in proposal preparation and analysis. In addition, entrepreneurs need to understand financial accounts well enough monitor whether anyone is stealing from the business. A financial management system can also indicate the existence or source of other problems in the business before it is too late. Finally, sound financial systems help entrepreneurs keep the business's money separate from the family's despite cultural pressure to commingle funds.

Little if any business or technology extension services are currently being provided to MEs in Zambia due to insufficient financial resources and a lack of trained personnel. Moreover, there is insufficient information on the specific extension needs of firms in particular subsectors.

The deteriorating state of the economy has also taken its toll on educational training facilities in Zambia. The country has many vocational secondary schools, including four that specialize in metal working and industrial arts. Unfortunately, much of the machinery and equipment at the vocational and technical training schools is no longer operational. The mining industry has been a source of technical training, but as this sector shrinks so will its need to train large numbers of Zambians. Business management theory is taught at the Cooperative College of Zambia, but with little practical involvement of the students and few micro-entrepreneurs have this formal background.

III-H. COMMON SITE FACILITIES/BUSINESS INCUBATORS

A **common site facility** is a property with basic infrastructure such as water, power, and communication hook-ups that is subdivided into shells that are rented to independent businesses. The businesses have to install their own equipment and determine how to finish the workspace. Savings are achieved as the businesses share common walls, loading and access facilities, and other structural resources that would be much more expensive for each company to construct individually. The site developer or sponsor may sometimes subsidize rents to encourage quick occupancy or promote development objectives. **Industrial parks or estates** are large versions of a common site facility.

Business incubators are common site facilities that come with a range of non-infrastructural services. At the most basic level, secretarial and bookkeeping assistance are offered, but they may also include engineering, drafting, marketing, and legal services as well as shared use of machinery, computers, and transport. The cost of these services is frequently subsidized by the sponsoring agency. In some cases, the incubator may provide financing to firms or take an equity stake in them. Incubators vary in size depending on the market.

Zambia's few common site facilities and incubators are fully occupied and have waiting lists. The demand for this space may be artificially enlarged by the below-market rents currently charged by these facilities. At least two of the organizations supporting common site facilities eventually intend to raise rents above market rates to encourage existing tenants to seek their own premises.

Some firms may resist joining an industrial estate because it might make them more visible and subject to regulation. Unregistered firms are often free from government intervention and taxation. On the other hand, MEs in a common site facility may be less prone to certain types of political intervention and harassment because the sponsoring organization can exert leverage on their behalf.

IV-A. IMPLICATIONS OF FINDINGS ON OPPORTUNITIES AND CONSTRAINTS

IV-A1. POLICIES

Are there any policy conditions that should be prerequisites for A.I.D. assistance to the ME sector? Although additional changes in the overall macroeconomic environment would be desirable, it is possible now for MEs in Zambia to start up, operate successfully, and expand under the current environment, which has undergone considerable liberalization. The excessive government interference that suppressed individual entrepreneurship in the country over much of the past two decades has ended. At present, there are no insurmountable policy barriers that would preclude successful ME development in Zambia. However, the appropriate mechanisms for this assistance may vary with macroeconomic conditions, particularly for credit.

IV-A2. CREDIT

Revolving credit funds are likely to become decapitalized when inflation rates are extremely high because the interest rates charged on the loans are usually well below the inflation rate. Decapitalization is undesirable because it limits the real value of money available for future borrowing by other beneficiaries. The magnitude of the problem is greatest for long-term credit programs. Because of uncertainty, potential borrowers are often reluctant to accept a loan with an extremely high nominal rate of interest. If they knew for sure that the high level of inflation would persist and they could sell their products at a correspondingly higher price, this would not be a problem. However, the fact that inflation was at a certain level last year does not imply that the trend will continue throughout the loan repayment period, especially when the government has made commitments to fiscal and monetary restraint.

In the interim period before inflation reaches more moderate levels in Zambia, ME credit programs are still important to help generate income and employment for economic growth. Credit can also help build human capital by increasing entrepreneurial capacity and employee skills. Since credit is important to stimulate new starts and expansion of MEs, the threat of real negative interest rates should not block the creation of a credit program, but the maximum allowable commercial rate should be charged. There is a range of definitions of sustainability in credit programs and most ME credit programs that are considered successful have not yet met the most stringent of these definitions (Rhyne and Otero 1991).

A.I.D. policy states that subsidized interest rates should not be charged when agency funds are used for loans, and that, at a minimum, the interest rate should be the same as that charged by commercial banks. Although A.I.D. encourages governments to foster the macroeconomic conditions that allow real interest rates to be positive, it does not require that A.I.D. funds be on-lent at such a high nominal interest rate. The agency's policy does not require the maintenance of credit funds in perpetuity.

A.I.D. should consider providing or guaranteeing credit as one important component of an ME project. One factor supporting this recommendation, is that Zambians have a reputation for paying their

loans when lenders make active efforts to collect them. In the near-term, it may be best to limit credit to relatively small amounts for short-term working capital loans. A more extensive, longer term credit program could be deferred until after the macroeconomic environment improves.

A.I.D./Zambia has many options for providing MEs credit at the maximum rates allowed by the BoZ. Credit could be disbursed through existing NGOs, commercial banks, a targeted government credit window, or programs of other donors. Or, A.I.D. could work with private financial services companies, which are exempt from the BoZ interest cap. A private financial services company could disburse credit at positive real rates of interest if a demand exists for credit on these terms. Alternatively, various loan guarantee schemes could be devised to support a fund for micro-entrepreneurs. One place to begin with a credit or loan guarantee program might be to target MEs that other donors or implementing agencies have identified as financially viable, but that have not received loans.

Regular access to small amounts of credit for working capital is often more important for MEs than large loans for new capital equipment, particularly for women entrepreneurs
Small amounts of short-term credit could be furnished to the smallest MEs, either by itself in a "minimalist approach" or together with other services. Similar credit programs elsewhere typically provide loans of less than $300 for three months or less. A small group lending approach has been successfully used in some African countries. These loans go to individuals for their own private businesses and should not be confused with loans for collective economic activities. The group first makes a single loan to one of its members. The next person in the group chosen to receive a loan cannot do so until the first borrower repays the group. The resulting peer pressure in a group of 5-10 members is often very effective in securing repayment of the loans.

Loan guarantee funds that cover too much of the bank's risk do not work well because they remove the incentive for effective loan monitoring and collection by the bank, once it has received repayment of its portion at risk. In addition, it is usually desirable for the entrepreneur to make an equity contribution. Entrepreneurs who do not have enough to lose may lack the commitment needed for a successful business.

Some important lessons have been learned in the design of credit projects for MEs. First, micro-entrepreneurs should be visited regularly by extension staff with business development training, who can also monitor loan repayments. In the early stages, these visits might have to be as often as twice a month, even before the first repayment is due. A strict approach should be taken on loan collection and the importance of timely repayment discussed with potential borrowers during the first interview and all subsequent meetings. The credit program budget must provide for sufficient resources, including transport, to actively service loans. Microcomputer software can be modified to make loan administration fast and simple so that the project staff can learn the loan status of any borrower at the touch of a few computer keys.

IV-A3. TRAINING AND TECHNICAL ASSISTANCE

For maximum economic impact, training should be designed to stimulate near-term business activities. The training of micro-entrepreneurs requires a focused, practical approach so that trainees are able to apply what they have learned immediately or else it may never be used. With better targeting and specificity of training, the course content can be more directly applicable and particular real-world constraints can be addressed. Training programs should also be more responsive to the expressed needs of the trainees. Once a microenterprise has reached a certain level, general instruction loses its relevance.

The course content should be developed after a needs assessment of the specified target group. Suggested areas for business training for Zambian enterprises are listed in Harmon et al. (1991). The trainees should also receive follow-up support. A first step to better meeting the training needs of MEs is to assess the capacity of Zambian NGOs and government agencies to provide this service.

Training should focus on areas that can have quick impact on improving how entrepreneurs run their businesses. Some entrepreneurs or employees will require technical training for production or repairs and maintenance. Larger MEs with potential for growth may benefit from business management training in financial management and accounting.

Training activities should include at least partial cost recovery for sustainability and maximum effectiveness. Experience elsewhere has shown that programs that charge clients more than a token fee for the service can screen out individuals who are less likely to make good use of the training. Trainees are often more assertive in stating their training needs and providing feedback on the relevance and quality of the training if they have to pay something for the courses. This does not mean that training programs must break even or make a profit, but cost recovery can also help sustain future delivery of the service.

An action training methodology is recommended, beginning with a needs assessment for the particular subsector. In preparing a needs assessment, the project staff would first visit existing businesses to gain an understanding of their specific opportunities, resources, constraints, and business knowledge. The training materials prepared in response to the needs assessment could be tested with a small group of entrepreneurs and refined. One of the best ways to conduct training is to enlist the participation of the trainees through small group learning cases and simulation exercises using actual business situations. Role playing may be used to emphasize certain points such as the importance of separating business funds from personal funds. In some cases, follow-up extension services can boost the impact of the training. During these visits, additional advice can be given and the impact of training programs monitored. The cost of a few such visits could be included in the fees paid to attend the training sessions. The entrepreneur may pay for additional support visits, if desired.

Extension services may stand alone or be part of a broader ME project. One approach for providing extension services for MEs would be to create a low-cost consultancy service through a business advisory unit. Services of this type basically do not exist in Zambia at present. The only extension that has been provided on a limited basis in Zambia is in helping entrepreneurs prepare business plans for presentation to financial institutions.

To encourage widespread adoption of a new technology, a "needs-based strategy" should be followed instead of a "technology push" approach. A needs-based approach emphasizes working directly with potential users and manufacturers, building on their own skills and locally available resources. Field testing and demonstration activities are important before extensive production and promotion of a technology. Before a ME changes its technology or a new enterprise is set up, the following factors need to be considered:

1. Demand for the products;

2. Trends in product prices;

3. Current and potential competition;

4. Availability and prices of inputs;

5. Skills required for production;

6. Systems for transport and distribution of the products; and

7. Effects of government policies on production and consumption of the goods.

A realistic assessment of the financial and economic viability of the technology is essential, including a sensitivity analysis of possible price trends and a range of likely capacity use rates. In addition to cash returns, time savings and reduction of the arduousness of labor should be considered because they can be important motivations for adoption of a technology. Even where the benefit-cost analysis is favorable, the affordability of the technology has to be considered. Financing may be necessary to bridge the gap between the time when investments are made and the returns are received. Techniques for assessing the expected social and environmental impacts of the technology are available (Hyman, Stiftel, Moreau, and Nichols 1988). Special attention should be given to the impacts of changes in technology on women (Downing 1990). The A.I.D.-funded ZAMS project is following this type of approach in the development of a spindle press.

Another good way to impart technical skills is through apprenticeship programs for learning on the job. Unfortunately, the practice of apprenticeship is relatively uncommon in Zambia, in part because of the absence of an extensive, well-organized informal sector. By contrast, there is a strong tradition of apprenticeship in other countries such as Kenya and the Sudan. MEs in Zambia that are only just becoming established are likely to be too busy with other things to want to deal with apprentices or may fear that they would be training potential competitors.

Although Zambia has a system of polytechnics and vocational schools, they are underequipped and undermaintained, which jeopardizes their ability to develop technical skills in the next generation of labor force entrants. A Canadian-funded project is providing some support for a vocational schools network, but there is much room for additional donor support to cover the costs of equipment and staff.

IV-A4. COMMON SITE FACILITIES/BUSINESS INCUBATORS

There is considerable consensus among government officials, NGOs, and business people in Zambia that the shortage of small-scale industrial workspace is a real obstacle for MEs. Yet, it is uncertain whether the small existing programs for establishment of common site facilities in Zambia have actually had a significant impact on businesses that would not have occurred otherwise. No studies have been done to determine whether tenants at common site facilities would have been unable to find alternative space elsewhere.

Supply, not cost, may be the limiting factor in small industrial sites in Zambia. There are differences in opinion on whether self-selection of firms for a common site facility or selection based on more restrictive criteria results in the most growth and expansion of MEs. MEs frequently have to pay retail prices on small volume orders of materials. Where there are enough complementarities in raw materials use by a group of firms at one location, the sponsoring organization or the firms themselves could buy raw materials in bulk at a substantial savings. However, most of the existing common site facilities contain a seemingly random set of industries with little contact among them.

It is also important to assess whether incubator tenants have done better in business than similar firms located in either commercial space or at their houses. In addition, it is unclear whether the subsidized assistance received by tenants creates an artificial demand and breeds dependence on subsidies. The comparative merits of common site facilities and the more extensive services provided by business incubators also needs to be evaluated.

IV-B. LOCATION OF AID ACTIVITIES AND TARGETING OF BENEFICIARIES

A ME project cannot simultaneously serve all possible target groups in many locations well. If it attempts to do so, its impact will soon become diluted as resources and expertise are spread too thinly.

The issues of choosing the location of A.I.D. activities and target beneficiaries for ME assistance programs in Zambia are complex.

The first question is whether to concentrate on enterprise development in or around large urban areas, smaller urban areas including rural market towns, or rural areas. The country is the most urbanized in sub-Saharan Africa. At the same time, the nation has many poor but less populated areas in remote, difficult to reach rural locations.

Given limited resources, a large impact on national economic development can be achieved more quickly by focusing initial efforts on urban and peri-urban areas with accessible locations. The first priority could be towns that serve as market center for rural areas along major rail and road lines. This does not mean that large urban areas are the only viable locations for ME projects. Population centers with good access to transportation and markets are ideal for ME projects. As a result of Zambia's high level of urbanization, resources and the labor force are concentrated in the Copperbelt, Central, and Lusaka provinces. Still, economic opportunities exist in small towns and rural market centers along all the major links of the transportation network. The roads have deteriorated in some areas of Zambia and these places will be less favorable for business development.

Rural MEs face some additional development problems due to low population densities, poor access to supplies and services, costly transportation, and limited infrastructure. In some rural areas, energy supplies are likely to be a problem for motorized technologies because of the absence of the electric grid and the irregular distribution of diesel fuel. The high cost of providing business development services far from the line-of-rail and road system will also make it more difficult and costly to target MEs in the more remote rural areas. However, rural and peri-urban MEs areas may have a comparative advantage over urban areas in processing bulky crops and forest, fishery, and mineral resources found in the countryside.

A second question is whether to concentrate assistance on established businesses or new enterprises. Should more help be given to those who appear to be on their way up or those who are struggling at the margin of viability? In general, the most cost-effective approach is to work with entrepreneurs who have already demonstrated their dedication, determination, and ability to succeed in business. Programs that start up new enterprises usually experience the highest failure rates.

By working with those who have already made it past the first hurdles, A.I.D. can direct more of its assistance to MEs that are most likely to still be in business five years later. In short, the team agrees with the recommendation to "Go with the winners" (Dembitzer 1990). Those people likely to

benefit the most from external assistance in a short period of time are those entrepreneurs who have already proved themselves by surviving the initial pitfalls that doom many business start-ups. These firms are usually located in areas with viable markets and good access to raw materials and ancillary services.

A third question is whether to assist firms involved in trade or vending as well as those in manufacturing or processing. Although trading and vending can be valuable economic services and can build entrepreneurial capacity, this sector is usually oversaturated in most LDCs due to high rates of unemployment and underemployment of labor. Under these conditions, providing assistance to one distributor might increase his or her profitability at the expense of a competitor. Processing and production activities, by contrast, can create new wealth and have stronger backward and forward linkages to the rest of the local economy. Consequently, A.I.D./Zambia should continue to focus mainly on manufacturing and processing enterprises.

IV-C. IDENTIFICATION OF PRIORITY SUBSECTORS

The prevailing view in the development assistance community in Zambia is that there is no shortage of opportunities for MEs in the country. The following subsectors may have a particularly good potential for making a significant contribution to economic development: (1) food processing, (2) metal working and blacksmithing, (3) building materials and construction, (4) ancillary industries related to mining, (5) processing of forest products, (6) textiles, and (7) processing of fishery products. Despite considerable consensus on these subsectors, more needs to be done to identify particular business opportunities, resources, and constraints. Some specific possibilities for MEs are discussed below for illustrative purposes, but pre-feasibility and feasibility studies are necessary before proceeding further.

Since it is costly to transport bulky crops and natural resources from their rural sources to large-scale, centralized processing facilities in urban areas, savings can be achieved through decentralized, small-scale processing in rural areas. After processing, these goods can be transported to urban areas at a lower cost because of the reduction in weight or volume or they can be used to help meet the previously neglected rural demand. Decentralized processing may also reduce spoilage losses in transport and storage. Economies of scale foregone in processing may be outweighed by the lower labor costs of informal rural enterprises and the use of more appropriate technologies. In addition, provision of local transport services can open opportunities for MEs.

Production and marketing of agricultural and natural resource products in Zambia could be stimulated by a proposed World Bank project for improvement of rural infrastructure. This $82.84 million project would (1) rehabilitate 2,130 km of feeder roads in southern, Central, and Lusaka provinces serving important agricultural production areas; (2) complete the Chipata-Mchinji railway in Eastern province; (3) finance the purchase of trucks, pick-ups, and tractor-trailers for small enterprises and farmers; (5) introduce standards for maize and animal feeds; (6) establish an agricultural marketing information system, and (7) construct rural market places (Kidane et al. 1991).

Food processing is generally seen as a high priority for MEs because of the large domestic demand for food and the great potential for expanding agricultural production. Zambia has prospects for increasing exports of cotton, tobacco, fruits, vegetables, flowers, cashews, and beef. As maize production rebounds to previous levels in provinces around rail lines, farmers in more remote areas could turn to other crops such as oilseeds, cotton, and beans. Tree farming, including pine plantations, could also be expanded since there is a lot of unused land in the Copperbelt along the border with Zaire.

Current production of fish is 60,000 t/year and the catch could grow to 80,000 t/year on a sustained yield basis (Sigvaldsen et al. 1991). The production of fishing boats may have to increase to support the expansion of fishing. Aquaculture also has potential; at present 2,500 small-scale fish farmers are producing 246 t of fish per year in 4,500 ponds (NCDP 1989).

Two food processing subsectors that are especially important in Zambia are grain milling and edible oil extraction. Consumers have been dissatisfied with the poor quality and lack of standardization of the available maize meal. However, the country may be facing an oversaturation with motorized hammermills following a major campaign to distribute this equipment. New uses besides maize grinding will have to be found for many of these mills if they are to operate profitably, and the ZAMS project is examining this issue. Some modifications in the screens or other parts of the hammermills may be necessary in milling cassava or the coarse grains, sorghum and millet.
Another area where improvement may be needed is in dehulling equipment to replace the laborious hand pounding required before milling coarse grains.

At present, Zambia only produces one-third of the vegetable oil consumed in the country. The domestic demand for edible oil has been estimated to be as high as 48,800 t per year in 1990. The medium-scale vegetable oil mills are operating at low levels of capacity use and most of the mechanically processed edible oil is consumed in urban areas (FAO 1991). Rural areas without good access to main road or rail lines do not receive regular supplies of cooking oil.

Yet, Zambia could become a net exporter of vegetable oil and the local market could be met through small-scale processing in rural areas. Sunflower is widely grown and other oilseeds such as groundnuts and sesame are also cultivated. Small-scale manual or motorized equipment are available for processing these seeds (Hyman 1991b). Oil palm is found in Luapula Province and a variety of other technologies could be used for small-scale palm oil extraction (Hyman 1990).

Zambia has small-scale dairy farmers and much of their production is not sold to the dairy parastatal because of the low prices paid. Cultured milk production may offer favorable opportunities for MEs. In the early 1980s, a simple method for producing high-quality, cultured milk in the absence of a cold chain was developed at the University of Nairobi. The product, called "mala milk" in Kenya, can be safely stored for up to four days without refrigeration and two to three weeks with refrigeration. The technology (1) is simple, easily assimilated, and environmentally benign; (2) does not require grid electricity; and (3) is well matched to the scale of production of a small group of dairy farmers.

At present, five small-scale mala milk plants are operating in Kenya with a capacity of 500 or 1,000 liters of milk per day. Some of these plants are owned by community groups and others by individual MEs. Decentralized production adds value locally to milk, the "evening milk", obtained from the second daily milking, which can otherwise be difficult to market. Because the production and transport costs can be lower than for fresh milk processed in large, centralized facilities rural consumers benefit from cheaper prices and more regular supplies (Hyman 1991a).

Other food processing activities that could provide good niches for rural MEs include processing of fruits, honey, vegetables, fish, meat, fruit bars, and oils and resins from spices such as ginger, turmeric, and chilis. Although there are opportunities in making jams and jellies and honey, site-specific issues of quality control, packaging, and marketability need to be addressed. In towns and rural market centers, bakeries can be highly profitable MEs. The FAO believes that there are good immediate opportunities in processing hides and skins for export and local sale, small-scale slaughterhouses, and processing of spices. It sees longer term opportunities in processing cashews and macadamia nuts. The International Institute of Tropical Agriculture (IITA) is currently conducting a multi-country study of post-

harvest processing of crops. Although this program is entitled the Collaborative Study of Cassava in Africa (COSCA), it is also examining a variety of roots, tubers, and grains. A geographic information system approach is being used to identify locations for processing activities (Nweke 1991).

New food products could be produced from maize or soybeans, but consumer demand would have to be developed. Possible maize products include cake flour, composite bread flour, tortillas, and maize beer. Soybeans are mainly used for livestock feed or vegetable oil in Zambia, but could be converted into soy flour to increase the protein content of maize meal or into soy milk, tofu, or texturized vegetable protein. The ZAMS project is looking into some of these uses of soy.

Metal workshops and blacksmiths producing equipment and supplies for small-scale farmers could be good complementary industries for agriculture. Examples include animal-driven plows, oxcarts, hoes, rakes, cultivators, tool sharpeners, grinders, small-scale irrigation devices, animal feeds and mineral supplements, and storage tanks for grain or water. Compared to other countries in the region, Zambia has relatively few skilled blacksmiths. VIS has established workshops for agricultural equipment and is working to increase local repair capacity in farming areas.

According to the Managing Director of Lima Bank, profitable MEs could be set-up to construct food storage facilities or animal dip tanks, and to rent out farm equipment services such as tractors, specialized plows, and small trucks. Lima Bank is also interested in repair shops and small hardware stores to supply agricultural tools and spare parts and produce and repair agricultural implements locally.

There may be potential for small-scale production of local building materials such as pressed bricks, hollow blocks, roofing tiles, and fire-resistant thatched roofing, and in metal or wooden fixtures for housing construction. Production of low-cost building materials could stimulate housing construction services, which could be provided by MEs under subcontract to larger firms.

Other ME opportunities that deserve further study include leather processing; manufacturing of shoes and bags; basket making, carving of wooden boxes; soap making; essential oils for perfumes; starch production from cassava; and pottery making. Tailoring, knitting, and sewing have good potential and can build on existing enterprises and skills. Good quality cloth is available from a parastatal, the Kafue Textiles Co., and clothing could be sold on the domestic market or exported. MEs may be able to compete with manufactured clothing from large-scale industry in both quality and fit.

Mwinga (1990) identified some products of small-scale industry that could be tied into large-scale industry for further processing, packaging, or distribution:

Food

Pectin
Mushrooms
Fish meal and oil
Milled rice
Soybean oil
Milled pulses
Cattle licks
Citrates from limes

Building Materials

Insulated bricks from rice husk ash
Hydrated lime
Wire netting
Tiles
Shutters, grills, and gates
Fire-retardant thatch for roofs

Chemicals

Rerefined engine oil
Baker's yeast from molasses
Rubber reclamation, molding, and extraction
Chlorine tablets

Rural Equipment

Sickles
Rope-making machines
Low-cost latrines

Engineering Industries

Aluminum casting
Electroplating
Galvanizing
Aluminum doors and windows
Brass fittings
Forging and foundry work

Wood-Based

Particle board
School furniture
Doors

Raw Materials

Explosives
Crushed limestone
Talc
Packaging materials
Soybean meal
Sunflowerseed cake
Cottonseed cake
Cotton lint
Polythene bags
Paint
Zinc chloride liquid

Plastics
Welding electrodes
Cans
Labels
Brewer's yeast
Urea
Polypropylene
Glue
Crates
Pallets
Tar

Miscellaneous

Hand-made paper
Ink
Paints and art supplies
Adhesives
Paper clips and fasteners
Shoe polish
Spectacle frames
Pencils and erasers
Nuts and rivets
Paperboard cartons
Printing

IV-D. CHOICE OF TYPES OF INSTITUTIONS FOR A.I.D. SUPPORT

The number of major ME assistance organizations in Zambia is small. At present, they are only reaching a few thousand enterprises per year, while the demand for ME assistance is growing. Increased financial resources and institution building are needed to expand the quantity and quality of these services.

Experience in other countries has shown that NGOs can often be effective in providing a wide range of assistance to MEs at the grassroots level. In some countries, however, donors have flooded small successful NGOs with money and responsibilities, with the result that the NGOs have lost their effectiveness. Without further support, major Zambian ME assistance organizations may be approaching this saturation point.

A.I.D. should avoid overstretching the capacity of any single NGO. There may be advantages to working with a diverse group of NGOs. First, it encourages innovation because a multiplicity of ME assistance approaches may be tried. Second, it may increase the efficiency of service delivery because an NGO can specialize in a particular type of assistance or concentrate its support in a specific geographic area. Third, the small size of many NGOs helps to maintain a strong sense of mission and prevent bureaucratic rigidity. Many of the most successful NGOs are effectively managed by a charismatic leader who founded them and hand-picked the staff for their commitment and motivation.

Having a strong field presence is important in reaching MEs outside Lusaka. The governmental agency SIDO already has branch offices in each of the provinces. SIDO's field staff want to do good work, but are constrained by lack of money, vehicles, fuel, and training. SEP, under its new management, is trying to demonstrate its seriousness as a financial institution. VIS is in the process of decentralizing some activities. A.I.D. could play a role in enabling these organizations to reach more microenterprises. Although several NGOs noted the importance of collaborating with a strong institution involved in technology development and technical assistance for MEs, they perceived that more needs to be done to strengthen Zambia's capacity in this area.

Zambia has a large number of small NGOs in rural areas, but A.I.D. and other major donors have not worked with most of them. The advantage of the small NGOs is their grassroots connection to local farmers and entrepreneurs. Their disadvantages include a shortage of resources and staff skills.

The importance of commercial banks in financially sustainable development should not be underestimated, but banks often do not understand the ME sector well enough to lend to this sector effectively. Under the existing credit crunch in Zambia, commercial banks are even less willing to lend money to MEs due to the perceived risk and unprofitability of a portfolio of small loans, even with loan guarantees. As a result, the BoZ recommends giving MEs access to a special credit window so that they are not shut out. Until the macroeconomic environment stabilizes, donor-supported, targeted credit programs may be necessary to encourage lending to MEs by commercial banks or government development banks.

Eventually, as economic conditions improve, some MEs may grow and enter the formal sector, gaining access to regular bank lending programs. However, in other LDCs, relatively few MEs assisted in targeted credit programs have graduated to formal sector sources of finance. Rather than graduating clients, it may be necessary to scale up the targeted credit programs and put them on a more solid financial footing so that they can have a wider impact. It may also be feasible for decentralized NGO branches to take on a new role of screening, disbursing, and collecting loan repayments for credit offered by commercial banks to reduce the administrative costs and risks of the banks.

At present, the existing NGOs in Zambia have a limited ability to successfully manage a major new credit program, but this could be improved through institutional building. The BoZ has expressed concerns about the need to upgrade the quality of the financial appraisal capacity of ME assistance organizations to support loan guarantee applications. The BoZ has also stressed the need to improve the ability of loan officers at commercial banks to analyze the special needs of micro-entrepreneurs and provide more follow-up and extension services.

Another approach that deserves further exploration is for A.I.D. to support a private financial services company. These companies are not presently subject to interest rate regulations of the BoZ. A financial services company could create and test different approaches to providing credit services to various ME target groups at more realistic interest rates.

Few MEs in Zambia have many linkages to large-scale industry. Organizations assisting MEs could help facilitate subcontracting arrangements by providing short-term, pre-approved working capital credit. Small business set-aside programs have been successful in helping small firms grow in the United States. A small business set-aside could also improve the efficiency by increasing their capacity to produce low-cost goods and services of adequate quality.

IV-E. MENU OF ACTIVITIES FOR A.I.D.

The team developed a menu of possible activities for A.I.D./Zambia to consider in ME assistance. The phasing and timing of these activities are considered in three categories: (1) options that could be implemented over the next six months, (2) options for development over the regular cycle that takes 18-36 months, and (3) options for 36-60 months from now. Some or all of these activities could be selected, but a few of the activities in the second category are contingent on completion of assessments in the first category. The third category contains activities that, although important, either take longer to have a significant impact or will have better prospects later once the macroeconomic adjustment process is further underway. Within each category, a priority rating ranging from I (highest) to III (lowest) has been assigned.

IV-E1. Options That Could Be Implemented Over the Next Six Months

Priority Level I

a. **Assess the capacity, needs, and resources of financial institutions and technology development institutions in Zambia, to determine their ability to expand ME assistance activities.**

NGOs have proved to be a useful conduit elsewhere for ME assistance. However, there are relatively few large NGOs in Zambia and some other ME assistance organizations are governmental or quasi-governmental in nature. The larger NGOs may soon receive much more funding and responsibilities than they have handled in the past because of growing donor interest in the ME sector. The ability of the major NGOs and government agencies to handle this expansion should be assessed. Particular attention should be placed on assessing the ability of the organizations to manage credit programs, by themselves or in conjunction with formal financial institutions, and to offer training and technical assistance programs. The capacity of business and trade associations as possible vehicles for ME assistance programs also needs to be assessed.

Much less is known about the capabilities of the small, local NGOs at the grassroots level. There are a large number of small NGOs, many with church affiliations. A.I.D./Zambia has not yet worked with many of these organizations and is not familiar with their needs and resources. It is likely that the staff of the small NGOs may lack certain technical or managerial skills. Some may need assistance in making the transition from a social welfare orientation to a businesslike approach.

Since some of the small NGOs are church-related, two issues need further investigation before a decision by A.I.D. to support them — do they offer services to people of all religious denominations and have they adopted a businesslike approach or a social welfare orientation? Some small NGOs that are not religious have a predominantly agricultural focus and would need to broaden the scope of their activities to play a role in off-farm enterprise development.

An assessment of the capacity of the organizations involved in ME assistance in Zambia should address issues relating to general management, project planning and appraisal, implementation, training, and monitoring and evaluation. This will enable A.I.D. and other donors to make more informed judgments about what can realistically be accomplished in the short- and medium-terms and what sort of assistance they will need to increase their effectiveness over the long term.

b. **Conduct a selective series of subsector analyses for MEs in strategic areas to identify the most promising ones for further A.I.D. support and assess the need for credit, training, and technical assistance in these subsectors.**

Some subsectors offer better possibilities for MEs than others. Subsector analysis is a tool that can help identify where an intervention can have the most impact on MEs and what other complementary changes would be necessary to take full advantage of the opportunity. It can also identify the potential client groups (Boomgard 1991).

This approach begins by examining the vertical and horizontal relationships between suppliers, primary producers, processing firms, the distribution system, and markets so that the bottlenecks limiting a whole subsector can be resolved. The channels for raw material transformation and delivery of intermediate and final products are traced. Often, leverage points can be identified where interventions can influence a large number of small firms in a location cost effectively, for example, where large amounts of products pass through a small number of input suppliers or output distributors.

The following subsectors may have a high potential in Zambia and should be considered for these studies: (a) food processing, (b) metal working and blacksmithing, (c) building materials and construction, (d) ancillary industries related to mining, (e) processing of forest products, (f) textiles, and (g) processing of fishery products.

c. **Commission a study to (1) review the impact of existing common site facilities on the establishment and growth of MEs, (2) estimate the demand for additional shared built workspace, and (3) determine whether there is a need for the additional services provided by business incubators.**

Conditions in Zambia are different from other African LDCs in terms of access to built workspace for MEs. In Zambia, most land is owned by local government authorities and leased to users and restrictive zoning controls limit backyard industries. Thus, common-site facilities might be needed to provide places for MEs to become established.

Because the anecdotal support for common site facilities and incubators is strong in Zambia, a study should be done to assess whether they do make a difference in the formation and growth of microenterprises. This study could also compare the different approaches that have been taken in Zambia and other countries to provide this type of assistance. A market assessment can determine whether these facilities actually help spur business expansion or are mainly sought by firms that could have found alternative space elsewhere but want to take advantage of below-market rents. This assessment should also consider whether the additional impacts of the broader range of services provided by a business incubator outweigh the extra costs and whether more complete cost recovery mechanisms could be viable. The assessment could also identify more cost-effective ways to structure such a facility and examine the importance of locational choice to the firms.

Another issue in operating common-site facilities or incubators is how to choose the participating firms. Will the results be better through self selection of those MEs who express an interest and complete the procedural hurdles first or through purposive selection by the implementing agency with specific criteria for participation? At what stage in the life cycle of an existing ME can a firm benefit most from these services? Are there economies of agglomeration from grouping certain types of firms with complementary products or requirements for raw materials or technologies?

Priority Level II

d. Improve donor/GRZ/NGO coordination in ME assistance by sponsoring or participating in a regular forum to discuss ongoing and planned activities.

The Deputy Director of Industry at the Ministry of Commerce and Industry chairs a quarterly meeting to coordinate small-scale enterprise initiatives in Zambia. On occasion, donors have been asked to attend specific meetings, but are not considered regular members of the coordinating body. Because there is no other mechanism for donor coordination in Zambia, some overlapping studies on MEs have been performed unnecessarily due to insufficient knowledge of what work has already been done. Although donor coordination is not a glamorous option, it is important in preventing duplication of efforts and rationalizing assistance. It would also be useful for one person to systematically collect relevant government documents, staff and consultant reports prepared for donors and NGOs, and ME training and promotional materials.

NORAD will have a full-time small-scale industry advisor in country beginning in October of 1991. A NORAD report suggested that this advisor take a leading role in coordinating donors in Zambia involved in ME assistance. A.I.D. could become an active participant in that coordination effort.

If NORAD's plan for coordination fails to materialize, A.I.D. could take on this role itself to help maximize donor effectiveness. This activity would cost little; it just requires regular involvement of one A.I.D. staff person or contractor in periodic meetings. However, it may be difficult for A.I.D. to establish itself in a coor[illegible]role in the ME sector until it has a demonstrated program commitment in this area. Coordination could increase collaborations between A.I.D. and other donors in designing a project or expanding an activity that has proven successful.

IV-E2. Options That Could be Implemented Under the regular Project Cycle Starting in 18-36 Months

Priority Level I

a. Provide institutional support and staff training to existing major ME assistance organizations in Zambia (contingent on the findings of the study recommended in IV-E1a).

If the organizational capacity assessment indicates a need for this, A.I.D. could provide training and direct assistance to help NGOs and governmental organizations improve their operations. Assistance

might be provided in revamping administrative procedures and financial controls; strategy development and planning; and project identification, appraisal, implementation, monitoring, and evaluation.

It might also be desirable to help organizations create their own partial funding base through establishment of a system to charge fees for services. Governmental agencies involved in ME assistance might need help in seeking greater flexibility in their operating rules and more independence from political intervention. Although institution building can be of vital importance in creating a framework for sustainable indigenous activities, its impacts on ME development are only likely to become evident over the long term.

Priority Level II

b. Develop a ME project that provides an integrated package of assistance in a few selected subsectors (based on the findings of the study recommended in II-E1b).

A piecemeal approach providing credit or training alone to diverse MEs might be less cost effective than a more comprehensive program of coordinated assistance in a few selected subsectors. In general, specialized commodity subsector projects have been more successful than multipurpose geographic area based projects. With subsector projects, specific interventions can be designed that are more likely to have a significant impact than a series of unrelated economic activities. In addition, they can generate economies of scale by organizing MEs and small producers in the same subsector. It may also be easier to influence governmental policies affecting MEs when representation is made on behalf of a trade or subsector rather than unrelated businesses in a particular location. Furthermore, subsector-focused strategies are more likely to focus on critical market and technology issues. A business advisory service with expertise in specific subsectors could also be established.

c. Provide focused, industry-specific technical and financial management training for existing MEs through a small business trade association.

At present, little focused technical training is being provided for existing firms in Zambia to help them upgrade their technologies. Most of the business training programs are too general. The limited and very basic technical training offered to date has mainly been geared for new entrants into a trade. Entrepreneurs have complained that no one is giving them the technical training they need.

A.I.D. could support the training of entrepreneurs and workers by itself or a part of larger ME projects. One approach for making training more effective may be to design and implement programs in collaboration with existing small-scale industry groups. Business people may have more hands-on experience to offer micro-entrepreneurs than NGO staff. A small business trade association (such as the Small-Scale Industries Association of Zambia) could assist A.I.D. in identifying specific technical needs and entrepreneurs interested in receiving training for themselves or their employees. A tie-in with training could help strengthen the trade association's recruitment activities, but the service should also be made available to nonmembers who are willing to pay for it.

One organization that A.I.D. could collaborate with to provide this training would be the International Executive Service Corps. Another mechanism for obtaining training expertise would be through a buy-in from the central A.I.D. HRDA project.

The preparation of subsector-specific training materials for Zambia and the training of trainers (TOT) to use those materials is another way in which A.I.D. could contribute to ME development. Short-term technical assistance provided by outside consultants working directly with Zambian counterparts could boost Zambian training capabilities effectively. Because of the multiplier effect of TOT programs, a large number of micro-entrepreneurs could be reached.

d. **Finance the establishment or expansion of common site facilities or business incubators (if these approaches are supported by IV-E1c).**

If this study reveals that the common sites and incubators are effectively reducing a serious business constraint for establishment and growth of MEs, A.I.D. could provide support for expansion of existing facilities or development of new ones. Such facilities could be erected in a relatively short time, yielding concrete impacts soon afterward. It would take more time to develop a business incubator than a common-site facility because systems have to be put in place for provision of more services. A.I.D. should coordinate any such activities with NORAD and other development organizations interested in this approach.

e. **Facilitate business linkages between MEs and larger-scale firms through subcontracting arrangements by providing a quick, dedicated line of pre-approved, short-term, working capital credit for MEs tied to purchase orders or letters of credit from larger firms.**

A private sector approach of increasing collaborations between MEs and larger firms could have significant economic benefits that can be sustained over time after project activities have been completed. A.I.D./Zambia could request the Private Enterprise Bureau to provide information on agency experience in other countries in facilitating linkages between MEs and large-scale private or parastatal firms through subcontracting or other arrangements. One way to develop these linkages would be through short-term working capital credit that can be provided rapidly to meet specific needs.

UNIDO is considering a project that would help link small businesses to larger firms through subcontracting arrangements. Although this subject has been discussed with SIDO, SSIAZ, and the Zambian Association of Chambers of Commerce and Industry, no details are available yet because a possible project is still in the planning stages. UNIDO has requested a proposal from GRZ and a document is being developed by the Chamber of Commerce. A.I.D. should track this effort to determine whether it would complement or overlap the recommendations made here to A.I.D.

Priority Level III

f. **Set up a PVO/NGO umbrella project to channel resources for ME assistance to small, local NGOs through a larger, stronger NGO.**

Small, local NGOs have good grassroots contacts in many rural areas and small towns and they may be well motivated to help people in their locations. Because of the centralization and limited number and size of the major NGOs in Zambia, A.I.D. may want to rely more heavily on the small NGOs, especially for work in rural areas.

If the organizational capacity study confirms a potential role for the small NGOs in implementing A.I.D. ME assistance programs, the complexities of dealing with a large number of distant small organizations could be handled by contracting with a larger NGO to interface with these little NGOs. This arrangement has been done in the A.I.D. regional Natural Resources Management (NRMS) Project. Later, as the small NGOs grow and A.I.D./Zambia gains a better understanding of their capacities, individual institutional support awards could be made. The larger NGOs could also benefit from additional resources and institutional strengthening. A.I.D. might also consider supporting U.S.-based NGOs interested in establishing local offices in Zambia to contribute to these efforts.

g. Improve the capacity of lead organizations for technology adaptation and transfer by upgrading financial and human resources.

The existing capacity in Zambia for R&D and transfer of technologies appropriate for MEs is limited. More financial resources and technical training are needed to improve this situation. Technology institutions will also have to become more interdisciplinary, incorporating economists, sociologists, and anthropologists on their staffs. Increased reliance should be placed on international networking so that Zambia can benefit from the experience gained in other LDCs and avoid "reinventing the wheel". International sources of expertise on technologies such as Appropriate Technology International, the Intermediate Technology Development Group, and the international agricultural research institutions under CGIAR could be tapped.

IV-F. LONGER-TERM OPTIONS WITH GOOD POTENTIAL 36-60 MONTHS FROM NOW

Priority Level I

a. Establish or support a minimalist credit program for small, short-term loans to the smallest MEs.

Commercial banks will remain unwilling to meet the demand of the smallest MEs for small amounts of short-term credit because of high transaction costs and lack of adequate collateral. This demand is also unlikely to be met by existing or planned programs of government agencies or NGOs. Moreover, special attention will be needed to give women and informal sector entrepreneurs access to credit especially when bank liquidity is deteriorating. As a result, a minimalist credit program is unlikely to duplicate the efforts of other credit sources in terms of target clients and loan sizes.

Relatively small amounts of money for short periods of time could have an important impact on cash-starved MEs. The team does not recommend specific or rigid limits in loan sizes or terms. Micro-credit is most applicable for businesses with relatively high working capital requirements and quick turnover rates. A group lending approach may be desirable. Later, as the smallest MEs grow, their future expansion may be more limited by other factors such as technology or management capability, so other forms of assistance may be needed.

There is no obvious implementing organization for a minimalist credit program in Zambia since there has been no experience with this type of program. The new UNDP/OPS project resembles this model, but it will only be on a pilot project scale. A.I.D. may wish to observe how that project is working before planning a project of this type. The Women's Finance Trust of Zambia has been trying to organize something along these lines, but so far nothing has materialized despite the potential availability of some financial support from Women's World Banking. AFRICARE/Zambia has also expressed an interest in carrying out such a project with A.I.D. support, but has no prior experience in this area. Nevertheless, staff and consultants of A.I.D./W and some missions have considerable experience in designing and implementing minimalist credit projects.

Priority Level II

b. Tap the A.I.D./PRE Loan Guarantee Fund or use mission resources to share the risk of larger ME credit with commercial banks and the entrepreneurs, and cover part of the administrative costs of a portfolio of small loans.

One way to stretch a limited pool of money for financing is for A.I.D./Zambia to offer loan guarantees to financial institutions that offer ME loans. To provide the banks with an incentive for prudent screening of loan applications and vigorous repayment collection efforts, a guarantee fund should not take on more than 70 percent of the risk of defaults, but it should cover both principal and interest. In addition to the guarantee, the additional constraint of the high administrative costs of making many small loans also has to be addressed to motivate commercial banks to participate. NGOs with good capabilities of reaching local borrowers could be brought in to screen loan applications, monitor the businesses, and collect repayments. A.I.D. could cover the administrative costs of the NGOs in this program or share them with the banks.

c. Help build a sustainable financial structure for mobilizing local savings for ME investments through a credit union approach by providing external assistance and covering part of the institutional development and promotion costs.

Credit unions are a proven mechanism for mobilizing local savings and providing loans to the members. There is a credit union movement in Zambia, but it needs some strengthening. Furthermore, the idea that this is a resource for productive investments by MEs rather than just loans for consumer goods and services needs to be promoted in Zambia. The World Council is one organization that could be brought in to provide assistance to Zambian credit unions.

Priority Level III

d. Provide incentives for MEs to develop human resources by taking on apprentices to learn practical skills on the job.

In many African countries, such as Kenya, there is a strong tradition of apprenticeship in artisanal crafts that is absent in Zambia. Yet, one of the best ways to provide training is through longer-term, on-the-job production rather than short training courses. In this way, the skills can be applied and refined in use after they have been learned. The entrepreneur benefits by obtaining low-cost labor;

usually at a cost of room and board only. It may take a long time for an apprenticeship system to develop naturally in Zambia without external assistance. Recently established MEs generally want to focus their attention on production rather than supervising apprentices and may fear setting up potential competitors. A.I.D. could design a system to provide financial incentives for MEs to have apprentices.

This is an option with a relatively long-term impact, but it could be a very cost-effective and innovative training method. Also, other inputs such as credit may be needed before trained apprentices can establish their own businesses. The first step is to find out whether successful MEs involved in skilled production activities in Zambia would be interested in having apprentices and what incentives would be needed to encourage this. In the initial stages, A.I.D. may wish to limit the program to a few subsectors. Some subsectors that would be very conducive to this form of training would be the metal working, blacksmithing, and pottery making.

e. **Upgrade equipment and facilities at vocational secondary schools and polytechnics through grant-in-aid or provision of second-hand items from U.S. schools or industries.**

Anecdotal reports indicate that the ability of vocational secondary schools and polytechnics in Zambia to develop the technical skills of their students is low because of the poor condition of equipment and facilities.

A.I.D. has historically been a strong supporter of primary school education in many countries, but greater attention to secondary school education could have faster impacts on economic development. A.I.D. could support the costs of spare parts and repairs for equipment that is out of commission and the purchase of equipment and tools at vocational schools. It could also fund salary and transport costs for specialized technical teachers who could travel a circuit of schools.

One mechanism for this is through grants, but second-hand equipment from U.S. schools or industries could also be useful and low in cost. This support could eventually have important impacts on ME development, but the impacts are likely to be long term. Vocational education can benefit large numbers of people in a practical way. However, major changes may also be necessary in the structure, staffing, and curriculum of these schools to increase their effectiveness.

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ANNEX A

SUMMARY OF CURRENT ME ASSISTANCE PROGRAMS IN ZAMBIA

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SUMMARY OF CURRENT ME ASSISTANCE PROGRAMS IN ZAMBIA

I. DESCRIPTION OF KEY GOVERNMENTAL AGENCIES AND NGOS

A. Governmental Agencies

Bureau of Standards

Few quality standards are on the books in Zambia. However, the Bureau of Standards could play a positive role for MEs by setting realistic manufacturing standards for the domestic market and providing extension services to MEs for testing and improving the quality of their products. ME products could then be made more consistently to meet consumer preferences or the specifications of large firms using them as intermediate goods. This approach has worked in other countries, for example in Nepal, where dyes for carpets were standardized.

National Commission for Development Planning

The National Commission for Development Planning (NCDP) is in charge of the Social Action Program (SAP) to mitigate the adverse effects of the structural adjustment process. The GRZ has proposed including a credit program under the SAP for on-lending to small- and micro-enterprises through VIS, SIDO, and SEP, but this has not yet materialized. The SAP will also support some labor-intensive road construction and social welfare expenditures.

National Council for Scientific Research

The National Council for Scientific Research (NCSR) could play a greater role in developing technologies for the ME sector if given additional resources. It has done a limited amount of work on small-scale technologies, for example for production of school chalk, stoves, and wine. However, it has not been active in preparation of feasibility studies, the identification of financing, or business outreach. The NCSR needs to increase its collaborations with other organizations to get technologies out of the lab and into commercial use.

SIDO

SIDO began operations in 1983. It has a head office and nine district offices with a total staff of 172, about one-third of whom are project officers. Each of the regional offices has three project officers, one technician, one manager, and one vehicle. The small staff size restricts what the agency can do and the limited transport resources keep most of the staff deskbound. SIDO's budget for 1991 was K 80 million.

SIDO is divided into six departments: project development, project extension, finance, administration, legal and the director's office. The project development department is primarily responsible for computerized feasibility studies using financial analysis programs such as COMFAR and PROPSPIN prepared by UNIDO and others. The project extension department is responsible for marketing, entrepreneurship development, monitoring and evaluation and loan disbursements. A research department has been eliminated.

SIDO does feasibility studies for new and existing businesses, charging but the entrepreneurs must pay a fee of 2 percent of the loanable funds for this service. SIDO has had little influence in convincing banks to issue loans to allow businesses to start up activities after feasibility studies have been completed. SIDO has done sectoral assessments for food processing, sericulture, and the leather industry. Six tanneries and leather related businesses have been established based on SIDO's analysis. However, it does not provide much in the way of advisory services for existing businesses.

SIDO's capacity is currently being overextended by the requirement of the overambitious GRZ hammermill program. SIDO has provided good support under the A.I.D.-funded ZAMS project especially in management and business training for hammermill enterprises. For the year ending October 1991, SIDO's target is the distribution of 1,200 hammermills. As of July, it had distributed 700. The recipients are supposed to repay the costs of the mill with interest SIDO management recognizes that the problems in the hammermill program, in particular the lack of market assessments and site-specific commercial viability analyses. In some areas, SIDO may have gone beyond the activities mandated in its enabling legislation. For example, it is undertaking direct management of a leather tanning facility at Kabwe, which is competing with potential private sector activities.

In 1991, UNIDO completed a long-term institutional support project for SIDO. UNIDO experts worked with SIDO to improve its monitoring and evaluation capacity and assisted SIDO with the installation of a management information system and development of computerized financial analysis tools. SIDO has submitted a proposal to UNIDO for further institution building, which is now under consideration.

SIDO's decentralized offices and qualified staff offer considerable potential for assisting MEs in each province. It could become a strong extension organization, but at present is too overextended with the hammermill program. SIDO agreed that Zambian microentrepreneurs have valid complaints about lack of credit and workspace, but it lacks the money, staff resources, organizational structure, and political independence to have a large impact on these problems. SIDO recognizes that its project officers need training in project appraisal and technical skills to evaluate business proposals. In particular, it would like to strengthen its ability to manage credit. As a governmental organization, SIDO has often faced liquidity problems due to budget shortfalls.

TDAU

The Technology Development Advisory Unit (TDAU) is effectively the only organization in the country concerned specifically with technologies for MEs. It was originally part of the University of Zambia, but became autonomous in 1990. At present, it is primarily funded by the University and the Government of the Netherlands. It expects to be fully independent of the University and self-supporting by 1994 from donor aid and royalties from proven technologies. It currently has a staff of 16, including Dutch expatriates, and an operating budget of K 4 million.

TDAU is involved in the adaptation and redesign of imported equipment, primarily for agricultural production and agricultural product processing. TDAU manufactures and sells prototypes from its own headquarters workshop, six rural workshops, and a mobile workshop. It also makes jigs and technical drawings available to other manufacturers. Recently, it conducted a survey of small- and medium-scale private manufacturers of agricultural equipment in Zambia; this report will be available in late 1991.

Some of the technologies that TDAU has been working with include manual oil presses, an animal traction grain mill, a hand-operated maize mill, windmills, oxcarts, animal traction plows and ridgers, nut shellers, and wheat polishers. It is currently doing a study of small-scale irrigation pumps, including a rope and washer pump, the VITA hand-diaphragm pump, and the Bangladesh treadle pump.

B. NGOs and Other Private Organizations

COMET

COMET was created by the Zambia Consolidated Copper Mines Ltd (ZCCM), a subsidiary of the large parastatal holding company, ZIMCO. Although financially dependent on ZCCM and closely tied through key staff members who remain on the ZCCM payroll, COMET is an independent, tax-exempt company bound to use all its profits for development purposes. COMET provides assistance to new businesses in mining communities affected by the decline of the copper industry. It has formed a sister company, COMET Finance Ltd., which has been chartered as a financial institution. COMET Finance Ltd. has not yet begun lending operations since it does not have the funding.

COMET is headed by an Executive Director and a Manager of Operations, both of whom are ZCCM executives. Reporting to them are the directors of Regional Development, Finance and Administration, and Engineering Services. COMET has five regional enterprise advisors at its incubators in Kabwe, Kitwe, Chingola, Luanshya and Mufulira, all mining areas.

COMET directs its efforts toward entrepreneurs who have retired or been laid off from the mining industry and who have business ideas that can generate employment. COMET's main services include (1) business planning and financial planning, (2) provision of business premises at subsidized rates, (3) provision of loans or leasing of equipment, (4) assistance in importing equipment, (5) assistance in marketing and the legal area, and (6) initial bookkeeping. Other services that COMET occasionally provides are (1) tapping overseas experts for specialized training, (2) bulk purchasing of materials, and (3) day-to-day business advice.

NGOCC

The Non-Governmental Organization Coordinating Committee (NGOCC) was created in 1985 after the UN Decade for Women. The NGOCC's membership consists of more than 20 local NGOs, mainly women's organizations concerned with health, religious or family life issues. NGOCC has received limited donor funding in the past and its coordinating capacity is weak.

SSIAZ

The Small-Scale Industries Association of Zambia (SSIAZ) was registered in 1982. The organization reached its peak membership in 1986, when it had over 300 paid members. At that time, the stronger members (primarily Zambians of Indian extraction) split off and formed their own organization, the Zambian Manufacturers Association. The SSIAZ has not recovered from this schism. It currently has 85 members who range from one person businesses up to a 50 employee engineering firm. SSIAZ's mailing list, however, includes over 1,000 small-scale industries.

The SSIAZ's current membership is divided across industries as follows:

Garments/clothing	23%
Agro-industry	18%
Timber and woodworking	18%
Engineering/Foundry	10%
Leather goods	6%
Crafts	6%
Construction	4%
Electrical	6%
Service businesses	5%
Chemical	3%

The SSIAZ has encouraged its members to avail themselves of GRZ programs such as SIDO's assistance in preparation of feasibility studies and the BoZ guaranteed credit scheme, but few of its members have been able to benefit from either program. The SSIAZ believes the ME sector has received temporary support during periods of political expediency and has then been left without support. It is represented on the small-scale industry coordinating committee headed by the Deputy Director of Industry, but believes that this coordination has not yet had a major impact on government policy in Zambia. The SSIAZ would like the GRZ to put more financial support behind the promotion of small enterprises. Without GRZ set-asides and direct support, it believes that the small-scale sector will continue to stumble.

The SSIAZ's leaders commented that many of its members have taken "Improve Your Business" courses sponsored by the ILO and SIDO, but that these courses have not generally helped many businesses expand or improve operations. Yet, the SSIAZ believes there is a great need for more focused technical and managerial training more directly relevant to its members' businesses.

VIS

Since the Village Industry Service (VIS) began operations in 1977, it has received support from and provided services to GRZ, the UN, Oxfam/America, A.I.D., NORAD, and others. Currently, A.I.D. is supporting VIS through an institution-building project with a U.S.-based NGO, Volunteers in Technical Assistance (VITA). A.I.D. has helped VIS establish a Training Department, which is conducting programs for trainers from other organizations as well as entrepreneurs. That agreement ends in August 1991, but a two-year extension is being negotiated.

VIS has a staff of around 100 and offices in 8 provinces. It was created primarily with funding and seconded staff from the government to address the needs of small village industries using labor-intensive processes and local raw materials. In practice, this was defined as rural and peri-urban artisanal enterprises and co-ops with assets of currently less than K 500,000. VIS places a heavy emphasis on agriculture-based industries.

VIS provides (1) access to credit through the BoZ Guarantee Scheme and its own revolving fund for raw materials or machinery financing; (2) technical and economic aid; (3) project design, development, and implementation; (4) training in technical and management skills; (5) assistance in marketing, sourcing of raw materials, and acquisition of equipment; (6) supervision and extension services; and (7) development and transfer of appropriate technologies.

VIS is active in many subsectors — agricultural product processing; honey making; building materials production; and crafts such as pottery making, leather making, tailoring, and knitting. It works with A.I.D.'s ZAMS project to provide training for grain milling and vegetable oil production units. VIS is now the primary institution working with the ILO/SELP project to professionalize the training staff of institutions participating in that project. This has been done through two fee-based contracts with the UNDP/ILO. It has also trained MEs for UNIDO and the Pan-African Institute for Development/East and Southern Africa. VIS operates a common site facility at Chinika.

VIS has had a major project for integrated rural development in the Northern Province since the early 1970s, supported by NORAD, the Norwegian development assistance organization. This project includes a 100 percent loan guarantee scheme run through two commercial banks. Since 1988, this project has generated employment for nearly 300 people in about 100 enterprises. NORAD expects to continue this project. VIS has a Small Enterprise Development Project in three districts, which is also funded by NORAD.

New management at VIS made a concerted effort to refine and implement the mission of the organization and instill a team spirit. Increasing attention is being given to training activities as part of client services and as a strategy for income generation. VIS is currently undergoing an important shift in its personnel. When it was created, VIS depended heavily on staff seconded from GRZ. Over the past year, VIS began a determined effort to hire its own staff. In mid-1991, one-third of the staff still consisted of seconded government employees, but the proportion is gradually being reduced to zero, even as the total staff size is growing. VIS also needs to continue upgrading the economic and technical skills of its staff and continue decentralizing its activities. A pressing issue for VIS is implementation of a long-term financial strategy to become self-reliant.

VIS is constrained by insufficient funding, a low capacity to leverage or provide credit to its clients, and the inability to identify or develop new appropriate technologies for MEs in Zambia. It only has vehicles at three of its provincial offices, which significantly hampers its ability to provide training and extension services to clients.

WVI

World Vision International (WVI) has projects in approximately 100 rural locations in Zambia. It has 75 employees and an annual budget of $2.2 million. WVI has supplied approximately 60 hammermills to community groups around the country. In addition, it has supported the start-up of sixty community grocery shops in rural areas. WVI's support is extended on a grant basis.

One lesson that WVI has learned is that most rural communities do not have people with the leadership and management ability needed to ensure commercial success of an enterprise project. WVI's successes have been generally limited to communities where a capable, retired civil servant has taken charge. SIDO has conducted management and technical maintenance training for WVI in two locations. WVI has found that very few of its community groups have taken adequate responsibility for the business projects. This may be partly a result of its reliance on grants rather than loans or equity financing.

WVI is re-evaluating its entire approach to small business development. The intensive supervision required in rural development projects and the minimal impact of its efforts have caused the organization to consider concentrating in urban areas, where it believes problems are equally pressing and may be more easily addressed.

II. CREDIT PROGRAMS

A. Government Banks

Bank of Zambia

Since 1987, the Bank of Zambia (BoZ) has had a credit guarantee scheme that takes on 70 percent of the risk of ME loans made by other banks. Eighteen institutions are eligible to issue loans under this guarantee scheme. However, only six institutions have taken advantage of the program at all and just three use it regularly (SIDO, VIS, and ZNCB). The BoZ has made less than 100 guarantees under this program, with a total value of K 7 million. It approves each of the loans individually, which has led to considerable delays. With Zambia's high rate of inflation, the delays can make the real value of the loan considerably less than the amount requested at the time of the initial application.

The BoZ has considered increasing the guarantee to 90 percent to convince the banks to offer more ME loans. It has also increased the maximum amount of the guarantee from K 1.5 million to K 5 million, but the value of this increase has been eroded by inflation. The BoZ has examined the possibility of offering group loan guarantees, but has not yet decided to implement this idea. It is also looking at the possibility of providing individual banks with a blanket guarantee up to a certain amount, delegating responsibility for selection of the loans to the bank to speed up the process.

Development Bank of Zambia

The Development Bank of Zambia (DBZ) set up a Small-Scale Division in 1987 to better serve micro- and small-scale entrepreneurs. As a government development bank, the DBZ will make long-term loans to ME clients, unlike most commercial banks in Zambia. The DBZ's funds for financing MEs come from donor grants, foreign lines of credit, and a $3 million loan from the Organization of Petroleum Exporting Countries.

The DBZ applies its regular criteria in analyzing ME loan requests and charges the maximum allowable interest rate on loans to ME entrepreneurs. It would like to be able to include a foreign exchange component in ME loans. It also recommends that ME credit programs provide loans with a repayment period of at least five years. The DBZ also implemented the Special Fund for Rural

Development, a NORAD project. More than 60 percent of this project was at least six months in arrears as of May 1991.

Lima Bank

Lima Bank is a government institution formed from the merger of two agricultural finance institutions. Lima Bank began operations at the beginning of January 1988. Its loan portfolio is currently 99 percent agricultural and 90 percent of its loans are for seasonal working capital needs. About 43 percent of its loans are made to smallholders who have at least two hectares of cultivated land. Lima Bank sees a need to offer a portion of loans in foreign currency to allow the importation of equipment.

Zambia National Commercial Bank

The Zambia National Commercial Bank (ZNCB) is a for-profit, government-owned bank. As good opportunities for lending to traditional clients became harder to find, ZNCB's branch managers have been encouraged to seek out potential new clients in the ME sector. ZNCB has a decentralized decision making authority with branch managers having the authority to approve small loans, K 30,000 or less.

In deciding on loan applications, ZNCB considers the experience of the clients. It has found that former government employees, between the ages 35 and 50 often have considerable entrepreneurial talent, especially those who have managed parastatal enterprises. It will provide loans to existing businesses as well as new start-ups. ZNCB plans to continue making ME loans, but has not set aside a specific percentage of the bank's assets for this sector. It charges the maximum interest rate allowed by the Bank of Zambia and participates in the BoZ loan guarantee program for MEs.

B. Commercial Banks

Barclays Bank

At present, Barclays Bank of Zambia is only making small loans in the agricultural sector. It began offering small loans to farmers in 1980 and currently restricts eligibility to farms of two to five hectares. Its experience in furnishing relatively small amounts of agricultural credit to farmers at market interest rates provides Barclays with knowledge that could be useful in designing and administering a ME credit program.

Barclays Bank's smallholder credit program has a limited geographic scope. The bank hired university graduates in agricultural specialties as loan officers and trained them in financial operations, loan appraisal techniques, and screening of applicants. The loan officers also provided agricultural extension advice and monitored the loans. Until September of 1990, the agricultural cooperatives were the only authorized buying agents for crops. This allowed Barclays Bank to place a "stop-order" with the coops, so that the proceeds were remitted to the bank by the co-op until the loans were repaid. With this system of direct control of proceeds from the harvest, Barclays obtained year-to-year repayment rates of between 75 percent and 98 percent of the loan basis. Still, if there is a 25 percent loss rate each year, a loan fund will be decapitalized in a few years, even in the absence of inflation.

Barclays Bank is currently undertaking an assessment to determine whether lending to small businesses would be profitable for them. It is now starting to change its portfolio mix from agricultural to manufacturing loans and will look at the possibility of targeting MEs and SSEs, but does not plan to establish a percentage quota for these clients. It is also examining the feasibility of providing small businesses advisory services on a fee basis for business plan preparation, marketing studies, and restructuring assessments. This unit would be run as a separate entity and its clients would not be guaranteed loans from the bank.

Equity for Africa

Equity For Africa is an outgrowth of a program started by Equator Bank, which lent small amounts of money to micro- enterprises. Equity For Africa is now totally independent from Equator. A total of K 2 million (then U.S. $100,000) was made available for this purpose at an interest rate of 12 percent per year.

Six loans were made by Equity For Africa — two for poultry raising, and one each for timber processing, for furniture making, catering, computer services, and fishing. The fishing enterprise failed after making only one loan payment. Only two of these enterprises, one of the poultry farms and the computer services business, have been very successful. Both have received additional loans from the reflows and have since graduated to the formal sector and can now access commercial banks. The other three businesses were floundering, but continued to make loan repayments. It is estimated that the fund will have K 1 million left in January 1992 to lend to other MEs.

Standard-Charter Bank

Standard-Charter Bank currently considers proposals from MEs using its regular criteria for business lending. However, it does not target a certain percentage of its assets to the ME sector. In the past, it sometimes lowered its normal standards of financial viability for MEs because of the existence of the BoZ guarantee scheme. It has also produced a guide for small business development. The Standard-Charter representative also stated that too many banks have opened in the last ten years, raiding the trained credit officers of the major banks. As a result, the major banks are experiencing a shortage of experienced staff.

C. Other Existing Credit Programs

CUSA

Zambia has a credit union movement and therefore a history of savings mobilization that some African countries lack. The Credit Unions Savings Association (CUSA) has moved away from its previous focus on providing agricultural loans because of the high inflation rate and low farmgate prices. CUSA has concluded that its agricultural loans have generally been unprofitable in recent years due to the difficulty in recovering these loans. In 1991, CUSA began making ME loans to its members. It would need some institution-building assistance to expand this program on a wide scale.

CUSA is offering credit for the construction of storefront buildings for MEs in small towns or villages, but these loans can only be made to a CUSA member. The local credit union decides on the location of the building, with input from CUSA's central lending facility, the District Council, and the traditional chief. CUSA helps the borrower receive a lease for the land before the loan is made. It also advises its clients to identify prospective business tenants in advance so that the rent receipts can meet the loan repayment costs. CUSA only charges a 12 percent interest rate on its loans.

IFAD/ZCFFS

The International Fund for Agricultural Development (IFAD) funded a project under the supervision of the World Bank for support to smallholder agriculture and agriculture product processing. The project has six components: (1) credit and group promotion, (2) agricultural extension, (3) experimental plots, (4) procurement of imported agricultural inputs, (5) improvement of feeder roads, and (6) monitoring and evaluation.

The project is implemented by the Zambia Cooperative Federation — Finance Services Ltd. The ZCFFS is run as a private finance company with little interference from the GRZ or the Zambia Cooperative Federation. IFAD has funded some operating costs and equipment for ZCFFS, as well as an expatriate technical advisor for a three-year period that ended in August of 1991. IFAD also provided training for key ZCFFS staff.

The IFAD project provided $7.5 million for credit and investment as a grant to ZCFFS, including $1.5 million for short-term credit, $3.0 million for medium-term credit for agricultural processing or other related projects, and $3.0 million in unrestricted funds for diverse development opportunities (e.g., one loan supported wild animal ranching in the Eastern province).

The IFAD fund charges an interest rate of 36 percent on short-term loans and 38 percent on medium-term loans. ZCFFS takes 57 percent of the interest generated on the short-term loans and 60 percent on the medium-term loans to cover its recurrent costs. The remaining revenues are used to increase the capital of the existing revolving credit funds. The IFAD credit fund reportedly has a high repayment rate.

In addition, the ZCFFS is currently managing K 130 million of A.I.D. funds, plus small amounts from other donors. At present, ZCFFS seems to be the only ME with excess funds to lend in the country. In addition, the GRZ has lent various implementing agencies funds to purchase and distribute hammermills.

NORAD

NORAD supported the DBZ Special Fund for Rural Development. NORAD has been tolerant of financially unsustainable credit projects provided that they meet larger social goals. NORAD's other credit programs, such as its support to cooperative societies for purchase of maize, hammermills and other agricultural inputs, have also met with poor financial results and termination has been recommended. NORAD has a 100 percent loan guarantee fund for MEs, but it is limited to the northern province.

SEP

The Small-Scale Enterprise Development Program (SEP) was registered as a financial institution in 1986 under the Banking Act. SEP has a staff of 22, including 6 project officers. SEP offers these services: (1) short-, medium-, and long-term loans for small enterprises; (2) equity participation where entrepreneurs have proven technical and management abilities, but are unable to raise the 10 percent equity share for credit; (3) management assistance and monthly accounting services for some clients; (4) serviced industrial plots, production and workshop facilities on a lease, rent, or purchase basis; and (5) procurement of raw materials, plant, equipment, transport, and warehousing services through its subsidiary MINTA. SEP is also involved in management of industrial estates.

Although SEP has adopted a more commercial orientation than VIS and SIDO, its inability to profit from its venture capital investments and secure repayments for its loan portfolio raises serious questions about its management procedures and sustainability. SEP has also been weak in project appraisal and monitoring, and record keeping.

In its early days, SEP took equity positions in ten businesses. Two of the ten have since gone bankrupt and SEP has never received any dividends from the other eight. All of the firms claim that they are making losses and cannot pay dividends.

SEP began making loans in 1985. It did not provide much credit to the ME sector until 1987 when it received a loan of approximately $600,000 from the Dutch development finance organization, FMO, at an interest rate of 6.5 percent per year. SEP has other sources of credit funds including a K 2 million loan from the EEC at a 10 percent interest rate and a GRZ loan for the purchase of hammermills. SEP also provides loans to graduates of the UNDP/ILO SELP project; these loans are backed by a 95 percent guarantee.

SEP now provides loans made for working capital or equipment purchases, usually for 1.5 to 2.0 years. The maximum SEP can currently lend a single borrower is K 1.5 million. SEP covers its operating costs on the spread between what it pays for its funds and its lending rate. SEP has made less than 200 loans in its 9 years of existence. It also services local currency loans for second-hand equipment for SIDA's Sister Industries Program.

SEP also offers business development support and project preparation services. One of SEP's functional units is a Management Advisory Services unit (MAS), which was serving a confused role as both an advisor to MEs and a loan collector. Since clients were unwilling to pay for MAS advisory services the unit did not generate the fees anticipated and the future of MAS is uncertain.

SEP has made less than 200 loans in its 9 years of existence. In December 1990, an external evaluation found that 95 percent of SEP's loan portfolio was in arrears on principal and/or interest. The evaluation concluded that, "Substantial inputs of additional staff and resources as well as training and technical assistance would be needed to rectify these weaknesses" (DFC Ltd. 1990). SEP is currently under new management which believes that the loan repayment rates could be improved more active collection efforts. However, loan collection has been constrained by transport problems and limited staff resources.

Netherlands Development Aid Program

The Netherlands Development Aid Program looked at the possibility of providing revolving credit funds for MEs through NGOs, but decided that NGOs in Zambia are not strong enough at present to manage such a fund. The Dutch concluded that it would be best to defer support of a credit program until the macroeconomic and political situations are more favorable.

SIDO

Prior to 1989, SIDO helped entrepreneurs prepare credit applications for submission to the banks, but it found that clients rarely had success in getting loans. As a result, SIDO itself began making loans. It has several loan programs — a hammermill program, a raw materials supply scheme, a hire-purchase scheme, and a long-term commodity financing scheme. The interest rate is just 20 percent in all of these programs. In each of these programs, SIDO provides the borrowers with materials or equipment, rather than cash. Under the hammermill program, SIDO has made 700 loans to date; the current loan amount for a hammermill is K 300,000.

Less than 50 loans have been made through SIDO's raw material supply scheme. These loans ranged from K 10,000 to K 1 million, but most are K 150,000-200,000. In this program, SIDO buys the raw materials and gives them to the firm directly. The repayment period is 90 days and no down payment is required. The hire-purchase scheme is for simple equipment costing less than K 500,000. The client pays 20 percent of the cost of the equipment supplied by SIDO and leasing fees over a 24-month period until the total cost is repaid, including interest. The long-term commodity financing can be used for broader purposes including building construction. The repayment period for the loan-term loans is seven years, but only three of these loans have been made.

UNDP/ILO

The UNDP/ILO SELP project established a loan guarantee fund, but it is too new for its effectiveness to be evaluated.

VIS

Since March of 1991, VIS has provided credit for hammermill dissemination. Its target for 1991 is 200 mills. Mill buyers are required to place a deposit of 20 percent of the cost and are supposed to put up a shelter for the machine. They are given a two-year loan for the balance of the cost, at an interest rate of 28 percent with a grace period of 3 months. As of mid-1991, VIS has distributed 110 of the mills. Some of the subloans are being repaid now, but there have been difficulties in this regard. This program has grown more quickly than the ability of VIS to implement it. Another problem is that SIDO is carrying out a similar program in the same geographic areas and has placed less pressure on borrowers to repay the loans.

VIS's inclusion in the GRZ's hammermill program may have distracted the organization from its primary purposes. From a modest loan portfolio of approximately $100,000, VIS's outstanding loans have ballooned to $1,000,000. This threatens to transform VIS from a development organization into a credit institution. Because of the political motivation for the hammermill project, the prospects are not

good for a high repayment rate from the borrowers. VIS is obliged to repay the GRZ, although on easy terms — an interest rate of 5 percent over a long repayment period. The large interest spread and the effect of inflation on the long-term GRZ loans should allow VIS to repay the GRZ even if many of the borrowers fail to repay VIS. Meanwhile, VIS' other revolving loan funds are fully tapped out.

VIS recently hired a credit controller and instituted new procedures. Prior to this, the organization lacked adequate loan records and had no credit monitoring system. After he reconstructed the records, the credit controller visited many of the borrowers for the first time and recovered some past due payments. He also visited each VIS region director to explain their responsibilities for monitoring loans. Following the establishment of new collection procedures, loan recovery rates improved, but are still too low. The organization's credit controller believes that most loans can be brought to current status with additional resources devoted to their recovery. VIS project officers have been asked to devote more efforts to the collection of loans.

D. Planned Credit Activities

EEC/World Bank

The EEC has a Micro-Projects Program, which was meant to include income-generating projects. In practice, this fund has been mainly limited to education and health activities. The World Bank is planning a five-year, $20 million, Social Recovery Project for Zambia, to be administered by the EEC staff. One component of the project will assist MEs through local NGOs and will involve credit and training support. Special emphasis will be placed on development of women's enterprises. VIS and SEP have submitted proposals that will be considered under the Social Recovery Project when it is approved. The World Bank is planning a separate project geared to small- and medium-scale enterprises in the formal sector, which will channel assistance through commercial banks.

UNDP

The United Nations Development Program has a regional project, "Credit Support System for Productive Activities of Women" (CSSPW), implemented by its Office of Project Services. This $2.7 million project covers Zambia, Congo, Gambia, and Burkina Faso. UNDP expects that each of those countries will serve as a base for follow-on regional projects. This project plans to use a "minimalist" credit approach to support women in the informal sector. So far, the project is finalizing a baseline survey on traditional credit in Lusaka and Kabwe and a survey of women's access to credit from formal financial institutions.

The CSSPW project held a regional workshop in September of 1991 and subsequent national workshops in each of the four participating countries. The Zambian national workshop was also held in September of 1991. These purpose of these workshops was to recommend methods for credit delivery. The project seeks to establish a sustainable fund. The loans will have a maximum term of one year and will be made at commercial interest rates. Others aspects have not yet been decided, but the project plans to include a wide cross-section of borrowers — single, married, urban, rural, school leavers, retirees, the handicapped, and possibly men to compare the performance of different types of borrowers. It does not plan to offer loans for petty trade, just for production activities. The project has a total of $800,000 for lending in the four countries and expects to begin extending credit in January 1992.

Women's Finance Trust Co.

The Women's Finance Trust Company of Zambia Limited (WFTZ) was founded in 1987 as an outgrowth of the Women's World Banking movement. WFTZ would like to supplement existing credit programs in Zambia by emphasizing assistance to women with credit, training, and other support. WFTZ has about 300 members, but has yet to begin operations. It has received limited funding from NORAD to host a conference, but does not have the immediate funding needed to allow it to become a viable organization. Women's World Banking in New York is willing to guarantee 50 percent of a loan fund if and when WFTZ becomes operational.

III. TRAINING AND TECHNICAL ASSISTANCE ACTIVITIES

Only a handful of organizations in Zambia offer financial and managerial training to microenterprises. This training usually consists of a mix of technical and managerial courses that range from a few days to six weeks. Most of the courses charge nominal fees for attendance and have been heavily enrolled.

A.I.D.

A.I.D.'s Zambian Agribusiness and Management Support project (ZAMS) is supporting training on hammermill use and repair through SIDO and VIS. The ZAMS project provides business training to owners and managers of hammermills and technical training on installation and maintenance to owners and operators. It offers refresher courses after 6-8 months. ZAMS is also trying to make owners aware of alternative uses of the mills, in case a competing maize mill opens nearby. These alternatives include sorghum and millet grinding and animal feed production.

FAO

The FAO was involved in an ME scheme to train village blacksmiths in the Eastern province to provide locally made spare parts for agricultural equipment and encourage the fabrication of simple agricultural tools. The blacksmiths were given tools for production at the end of the training and were expected to repay the cost of the tools later. The program also assisted women blacksmiths and found them to be as successful as the men.

GTZ

GTZ (German Aid) has worked with ME development as part of its Integrated Rural Development Project in the Northwest Province. The Dutch Volunteers provided technical assistance to implement the technical training the project provided in carpentry skills. The goal was to produce furniture for the local markets. The training and equipment were furnished free by this project, but no credit was offered to the trainees. This project is phasing down and there will be no follow-on. GTZ does not plan to fund ME development in Zambia in the near future. It will focus its support on the WB/IMF structural program and the improvement of water supplies.

SIDO

SIDO offers training programs for both existing entrepreneurs and those just getting into business. SIDO has conducted one-week, full-time "Improve Your Business" courses using ILO materials. It gives two-week courses in management and accounting, where the first week is theory and the second is a practicum that includes a visit to the trainee's business. It has also done two day to two week technical programs in such areas as garment work, leather and tanning, and food processing. Clients pay K 100-500 for the training, depending on the target group. These courses are only available on a limited basis and their impact has not been assessed. SIDO has not been able to do any follow-up on its trainees.

UNDP

Under UNDP's "Increasing African Women's Productivity" program, the ILO will execute a pilot training project for women in Zambia, the Gambia, Burkina Faso and the Congo. The funding for this project will be $2.58 million. In Zambia, the target group for this project is household industries. Training began in August of 1991. This training is intended to meet the expressed needs of the participants and will not be limited to management and technical issues; it will also include subjects such as family planning, formation of cooperatives, and health. These topics were identified through a needs analysis. For the business components, the ILO will utilize modified versions of training materials such its "Improve Your Business" package, UNIDO's "Managerial and Entrepreneurial and Technical Training Skills for Women" package, and the ILO's "Grassroots Management Training" course.

One hundred twenty participants have already been selected by the ILO, eighty from Lusaka and another forty from Kabwe. The training will be flexible, with sessions ranging from thirty minutes to a half day, continuing through April of 1992. Another concurrent training group will consist of twenty-five women from Lusaka and fifteen from Kabwe who are already in business. The ILO intends to follow-up closely on the effects of this program. Although completion of the training course will not guarantee access to the loan fund in the UNDP "Credit Support System for Productive Activities of Women" project, the women will be made aware of its existence.

UNDP/ILO

The UNDP/ILO SELP project was a training program for school leavers and other potential entrepreneurs below the age of 35. It did not assist people who have not completed primary school. The pilot phase of the project has been completed. This project provided training, assistance in business plan preparation, and access to credit through its own loan guarantee fund. The loan guarantee covered 95 percent of the bank's risk. The project used a self-selection strategy to weed out clients who are not seriously interested in training or are not persistent enough to become successful entrepreneurs. This approach may help minimize some of the risks of providing training that does not lead to actual new business start-ups.

The SELP project was evaluated in mid-1991 and many suggestions were made for improving its effectiveness. The project has helped put self-employment on the national agenda as a possible solution to the urban unemployment problem. However, its development impact is not known because no control group was set up of comparable individuals who had not received the training to make comparisons with those who completed the program. This project is near the end of its three-year pilot

phase. Although the evaluation recommended a second phase, no decision has been made yet on funding the next phase.

UNIDO

UNIDO has sponsored industry-specific overseas study tours and provided support for the Ministry of Commerce and Industry, the Chamber of Commerce, NCDP, and representatives of specific industrial sectors, but the impact of these study tours on MEs is unclear.

VIS

So far, VIS has focused most of its training activities on technical support for the hammermill program under the ZAMS project. It has also conducted training sessions for trainers in the UNDP/ILO SELP project, covering entrepreneurship development and business management. VIS has also provided technical training courses on food processing for women, knitting, metal fabrication, and tailoring. VIS has never advertised to obtain clients, although it has been featured in newspaper articles.

At present, VIS targets entrepreneurs who are already in business. Later, it will extend training to new entrepreneurs. VIS is developing an action-oriented training program. It will use a participatory approach in training adults. VIS training courses average 1-2 weeks in length and are usually conducted by a local person with a hands-on approach.
It plans to follow-up on trainees later to assess the utility of the training courses.

The VIS Training Officer noted the following constraints in providing training:

1. Competing training courses are given for free, while VIS would like to charge a small fee.

2. A lack of funding, qualified personnel, training materials, transport for follow-up and capacity to market VIS's training capability.

3. Many entrepreneurs do not understand the value of training.

YWCA

The YWCA has offered training to MEs through the UNDP/ILO SELP project. The YWCA was able to fully enroll its second and third courses simply by word-of-mouth after finishing its first six-week program. It has already selected another seventy women for training programs, but does not yet have funding committed for this.

IV. COMMON SITE FACILITIES AND BUSINESS INCUBATORS

Currently, five organizations in Zambia are involved with the building or management of common site facilities or business incubators. The range of support offered varies from simple facilities to extensive managerial and technical support.

COMET

COMET, the Copper Mining Enterprise Trust, provides the most intensive support for its tenants. COMET's Executive Director has described COMET's services as "intensive care units" to indicate his belief that Zambian MEs may need a large amount of help in diverse ways. Fifty-eight different businesses operate out of COMET's facilities or elsewhere under its supervision. These businesses currently employ approximately 1,100 people and range from a three-person firm to a business with more than 220 employees. The facilities include the Kabwe workshops with twelve active enterprises and three more about to start up. Construction is nearly complete on another nine workspaces within the complex. COMET both owns and rents facilities in its other locations, taking advantage of whatever property comes on the market or is made available through ZCCM.

COMET has already approved proposals for adding forty-two new businesses that it cannot currently accommodate because of facility and credit constraints. These proposals are distributed across the following businesses:

Light industry and manufacturing	36%
Carpentry and construction	26%
Metal work and automobile	12%
Ag-processing or ag-related	12%
Garment and tailoring	7%
Service businesses	5%

This distribution reflects COMET's location in the industrial mining belt as well as its philosophy of supporting production enterprises that use skills acquired at the mines.

In Zambia, COMET's approach to new business support represents the extreme of comprehensive service provision. COMET provides six months of free rent, followed by below market rental rates, as well as help with engineering, bookkeeping, idea generation, general management, accommodation, and marketing. COMET's engineering services consist of a regional enterprise advisor and site technicians at each location, as well as two draftsmen who serve all the locations. COMET bookkeepers work at each location. ZCCM currently meets the expense of an expatriate advisor seconded to COMET to help develop the ceramics industry in the Copperbelt.

COMET's philosophy is that it does not let its tenants go too soon before they are able to survive without its assistance. So far, it has not allowed any of its tenants to go out of business; it does whatever is required to help them keep going. SSIAZ's Executive Secretary commented that COMET may have gone too far in this regard, practically turning its entrepreneur tenants into mere employees who refer all decision making to COMET staff. This philosophy is evolving and COMET intends to raise rents and direct fees to market rates with the eventual intention of forcing current tenants out of COMET facilities, thereby making space for new entrepreneurs.

SEP

SEP owns the industrial estate at Chinika that includes the VIS common-site facility. SEP is currently developing a second estate at Ndola through its real estate subsidiary SEPREC. The Chinika complex was constructed with funding from the Friederich Ebert Stiftung.

SIDO

SIDO recently acquired an industrial property in the Makeni section of Lusaka. This property has not been built out yet, except for two office spaces. SIDO would like SSIAZ to locate its offices there, but SSIAZ has indicated that the space may not be sufficient. SIDO intends to build out twenty spaces for rental to microenterprises. It is currently looking for internal financing. It would like to begin construction before the end of 1991.

SNV

SNV, The Netherlands development organization, has supported construction of a common site facility and training center for small scale enterprises in Mongu, Western Province. In developing this center, SNV collaborated with at least thirteen local and international organizations. In mid-1991, the structure had been completed and additional funding was being sought for equipment procurement and operating costs.

VIS

The VIS common site facility at Chinika in Lusaka is probably Zambia's best known mini-industrial estate. It is frequently visited by the development community and publicized in the international press. Twenty-four tenants currently occupy Chinika's forty workspaces; some firms have more than one space.

VIS currently offers its tenants few services other than below-market rents for the workspace and access to its general business training programs. VIS tenants pay rents that are about half the market rate in Lusaka. They may avail themselves of VIS staff such as a food technologist and program staff, but do not receive intensive assistance. In 1991, VIS added a business center equipped with a typewriter and other business equipment to the site and phone lines will soon be installed.

With difficulty, VIS has gotten some of Chinika's tenants to move out, mainly because they were not making good use of the facility. Several others moved because they needed larger space and a few have left due to the poor performance of their enterprises. One point of contention among some firms at Chinika is that electricity usage is not metered. Each workspace is charged with the same amount for electricity service, whether they use it or not. Only a few firms at Chinika have water service connections.

VIS also has a smaller facility in Manza, Luapula Province, with six enterprises. An addition is planned with room for eight new tenants. Recently, VIS purchased buildings in Kasama, Livingstone, and Choma for further expansion. VIS noted that the diversity of its tenants makes it difficult to assist them with more focused training or assistance in bulk purchasing. VIS is trying to establish a new common site facility which would be focused on MEs involved in producing and repairing equipment for agricultural production and processing.

Recent technical assistance activities in Zambia have made some common, but serious mistakes. The government's hammermill dissemination program proceeded on a massive scale without a market assessment to determine the effective demand for the mills and purchased milling services in the various regions of the country. Nor were location-specific financial analyses done to predict whether particular

mill installations would be commercially viable. The FAO has estimated that once all the planned hammermills are put into place, Zambia's total milling capacity will exceed the country's highest maize harvest (1987-1988) by one million 90-kilogram bags per year. Some of the hammermill operators will not succeed simply because of excess capacity in certain locations.

The diesel-powered hammermill technology might not even be appropriate at many of the sites. Motorized mills are expensive and too large for many installations. Also, some owners will find it difficult to obtain regular supplies of diesel fuel or spare parts, especially those in remoter areas. The likely result is a large number of broken-down mills that will not be repaired. VIS, through the A.I.D.-funded ZAMS project is focusing attention on helping existing hammermill enterprises to succeed rather than starting new ones.

The experience with the TDAU oil press is another example of misapplied efforts. There was too much tinkering with technology design and not enough attention to the socio-economic aspects of use and strategies for disseminating the technology. This project tried to change the design of the press that had proven successful in Tanzania, rather than promote use of soft-shelled, oil-rich, sunflower seed that the press was designed to accommodate. Moreover, insufficient attention was paid to the durability of materials used for constructing the press.

Experience in Tanzania has shown that other designs of the ram press are reliable and inexpensive for extracting oil from sunflower seeds or sesame (Hyman 1991b). The Zambian program for introducing the ram press needs to be redirected to:

1. Take advantage of the CAPU design, which costs less than one-third as much as the TDAU design;

2. Use better quality steel in fabrication;

3. Tie in with the distribution of suitable soft-shelled, composite seed varieties with a high oil content; and

4. Promote competitive manufacturing of the press by multiple, informal sector workshops, and place emphasis on dissemination to groups as opposed to individual enterprises.

ANNEX B

DISCUSSIONS WITH ENTREPRENEURS AND ME EMPLOYEES

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I. CHINIKA MINI-ESTATE, LUSAKA

African Modern Arts and Crafts

African Modern Arts and Crafts is owned by Collins Chilambwe who came to Chinika in 1989 following completion of three years of secondary education. He currently shares his workshop with a carpenter and a joiner who are not partners, but they occasionally collaborate on jobs that require their combined skills. Mr. Chilambwe is primarily a "wood sculptor", producing ornamental furniture, boxes and carvings. He has received no outside funding and has not yet been able to access the VIS revolving loan fund.

Much of Chilambwe's production is purchased by the expatriate community and he is frequently paid in hard currency. Nevertheless, he complained about an inability to get good tools that could increase the quantity and quality of his output. To get tools, he has to barter his products with expatriates temporarily leaving Zambia. Chilambwe feels that he has gotten much more exposure to potential customers at Chinika than he would have had he continued working from home. He also commented that the rent is low at K 2,700/month. VIS has not offered him any specialized courses or assistance in obtaining tools.

Alert Machine Services

Alert Machine Services (AMS) is an office equipment repair business. Managing Director, Mr. Justin Lupambo, trained for three years in Italy to become an aircraft engineer. Returning to Zambia, he was unable to find employment with Zambia Airways and was hired by an office equipment business. After ten years, he started his own office equipment repair business at Chinika in 1989.

Alert's three offices at Chiniki, Kitwe, and Kabwe currently employ 25 people. Due to difficulties in obtaining spare parts locally, AMS has to cannibalize parts from discarded equipment. They also travel to South Africa on behalf of major corporate clients to source spare parts.

Mr. Lupambo saw few advantages in being located in Chinika because transportation is difficult, customers get lost on the way, and there is no phone. His rent is K 2,700/month (similar space in town costs around K 5,000-6,000). He has not received any training appropriate for his specialized business from VIS. Lupambo attempted to get a loan for K 1.5 million, which was scaled down to K 750,000 but never materialized. He plans to advertise on television.

Lupambo commented that inflation has eroded the net worth of his business. He pays his technically trained employees between K 4,000-7,000 per month. SEP's office at Chinika handles his books every two months at a fee of K 500 per day. He noted that at one time Chinika businesses planned to form a cooperative so they could apply for a co-op loan. Due to disagreements among the tenants, this was not done.

Chinika Jams and Jellies

Fruits for jam and jelly manufacturing are bought at a wholesale price from a large market in Lusaka by this firm. The flavors produced include marmalade, papaya, banana, and pineapple. Chinika's jam and jelly enterprise has four women workers in addition to the woman proprietor and her two sons. It received a K 100,000 loan through VIS.

The main problem faced by the firm is obtaining glass bottles. Workers have to go to Kapiri to get them, which is three hours away. Sometimes the manufacturer does not have enough or refuses to sell in the small quantities the firm needs. As a result, it has to reuse bottles. Lids are obtained from a factory in the Lusaka area and the supply of lids is also sometimes a problem.

The firm produces jelly all year, but the types vary due to the seasonality of the fruit. The rate of production depends on the orders received. The production capacity is 200 jars per day and each jar contains 500 grams of product. The firm usually operate five or six days a week. Employees receive K 700 per month and no allowances; they receive K 50 in extra pay for every Saturday worked. Lunch and drinks are provided for the workers.

Flora Clothing Services Limited

Jacob Nshalele, the accountant for Flora Clothing Services Limited, stated that the company has fourteen employees making uniforms and other garments. Flora Clothing was established in 1985 and located in Chinika in 1987. The owner, Mrs. Flora Kabula, is regarded as one of Chinika's most prosperous tenants and was singled out by **The Washington Post** as one of Zambia's success stories in an article that focused primarily on the dismal state of the country.

According to Mr. Nshalele, Flora Clothing has received three loans from SEP. The first for K 100,000 has been repaid. Flora Clothing continues to make payments on two loans of K 150,000 each, which were made at interest rates of 34 percent and 36 percent per annum, respectively. The last loan was received in February 1991. Mr. Nshalele noted that the business has become increasingly competitive and the workers are employed on a piece-work basis.

Jels Ltd.

Jels Ltd. has been producing leather and plastic goods — mainly jackets, briefcases, and handbags — since 1989. It has ten employees. Mr. Lupupa, the Co-director, completed a nine-month training course in Italy on leather goods design following three months of intensive language training. The course was sponsored by the Italian Government and arranged through VIS.

Lupupa feels that the company's growth has been limited by lack of finance. It received one loan for raw materials in 1990 from the ZNCB through the UNDP/ILO SELP project. The loan amount was K80,000, no collateral was required, and the interest rate was 35 percent per annum. There was a one-year repayment period and a two-month grace period before the monthly installments became due. Jels has had no problems repaying the loan and the repayments are deducted from their account with that bank. Lupupa stated that the company needs another loan to import machines that are not available domestically.

Jels produces 40 bags per day. The materials for one bag cost K460 and the selling price of a typical bag is K680. When Jels started, it had no difficulty obtaining raw materials. However, prices have gone up so much that their previous suppliers have stopped buying. Now Jels has to travel to Kitwe, a six-hour bus trip, to get supplies. This past month, someone went there six times, because supplies are only purchased to meet orders. The transport cost is about K 1,000 per trip. The workers usually stay overnight with friends in Kitwe. Workers receive K1,500 per month in pay, plus K 100 per night for occasional overtime work.

Skyline Shoes

Mr. Lisulo, the supervisor at Skyline Shoes, reports that this firm has six full-time employees and a production capacity of six pairs of shoes per day. Operating hours are from 8 A.M. to 5 P.M., Monday through Saturday. The employees receive a monthly salary of K 1,500 without additional allowances, but have been given an end-of-year bonus of up to K 400. None of the workers has any formal training in shoe making and they learned on the job as paid employees, rather than apprentices.

Skyline only mades shoes on order. At first, Skyline had some marketing problems that limited output. The firm then placed newspaper ads and gave samples to retailers. Retailers are now expected to pay for orders within 14 to 30 days. Skyline needs a new sewing machine, lasting machines, and cutting machines. The owner would like to go to Italy for training in shoe design and fabrication.

II. COMET COMPLEX IN KABWE

Bertram Protectors Limited

Founded in late 1987 at the Kabwe Complex, Bertram Protectors is COMET's largest employer. COMET staff twice rejected proposals by the entrepreneur and then suggested he build on his experience as a retiree from the military. He began a security company that now employs 220 people. According to the owner, demand for Bertram security guards has grown rapidly due to the breakdown of law and order. As a result, the company has had to reduce its training period from 3 months to 3 weeks for new employees.

Bertram Protectors now operates out of five locations in the Copperbelt and has regional managers at each location. Bertram would like to relocate out of the COMET complex, but has not been able to find adequate alternative facilities in Kabwe despite a year of looking. The proprietor also complained about the rapid increases in commercial rents; landlords will not offer long term leases and frequently double and triple rents after six months.

Chileshe Joining and Framing Limited

Chileshe Joining and Framing Limited employs five people in general carpentry and upholstery. It began at COMET in late 1987. Because of its small size, it has to buy upholstery material at retail, which significantly increases its prices to customers. COMET had purchased two ox-carts from the U. K., which Chileshe was reverse engineering with the hope of eventually producing its own ox-carts.

Judy Modern Fashions Limited

Judy Modern Fashions is a four-person business founded in late 1987. It is probably COMET's least successful enterprise according to COMET staff. The proprietress, a retired ZCCM teacher, realized that her K 30,000 lump sum pension could not support her family obligations and therefore began a tailoring business. Although the business has frequently received large orders, such as a recent one for hospital bandages, the owner has not been able to expand the business effectively.

Without intensive care, COMET feels that this business would have folded long ago. For example, early on, COMET purchased large amounts of wholesale supplies for Judy, but found this still did not motivate tenants to go out and get business. The purchases remained in COMET inventory for over a year. Judy Modern Fashions has four sewing machines on hire-purchase basis from COMET. Unless there is a major turnaround, COMET expects that Judy Modern Fashions may be the first business allowed to fail.

Kabwe Carpentry Tools Limited

Kabwe Carpentry Tools Limited (KCT) is a new venture begun in 1991 and still owned by COMET. KCT produces carpentry tool kits containing eight wood-working tools. The tools are fabricated entirely by KCT, except for the imported cutting edges. It plans to sell the kits to graduates from technical training programs as soon as the finished inventory reaches several hundred sets. The workshop employs fifteen people and is organized along modern production lines. Various power tools such as a drill press, wood planer, joiner, and a saw sharpening tool were donated to the enterprise by Barclay's Bank. The quality of production seems to be first rate, with the feel, fit, and finish of wooden tools no longer found in mass-produced goods.

KCT plans to sell up to 500 tool kits per year. The current price of a kit is K 28,000. KTC has been approached by retail merchants for stocks but intends to focus on the student market at present and is holding prices down to near costs to gain market acceptance. KCT believes that wooden tools are more appropriate than metal ones because they require less imported material and are easier to get repaired in Zambia.

The finished tool set comes in an attractive wooden toolcase. KCT plans to maintain a minimum inventory of 100 kits to ensure immediate shipment of large orders. COMET hopes that KCT eventually will become a cash-generating enterprise that will support COMET's overheads. Future plans for KTC are not certain, but COMET would consider selling the enterprise.

Kabwe Ferro-Cement Tiles Limited

Kabwe Ferro-Cement Tile was founded by a retired accountant in April of 1990. It employs five people and currently operates at full capacity producing 220 tiles in a single eight-hour shift per day. The owner would like to expand, but needs more equipment, which he contends he cannot afford now. The production process is limited by the single 12-volt vibration table that is run off a recharging truck battery. This technology was transferred to the entrepreneur by COMET's Head of Engineering Services following the latter's attendance at an ITDG seminar. The technology was developed for use in non-electrified areas where interchangeable truck batteries would serve as the energy source. The throughput could be increased with a direct current converter and an additional shake table. The owner has recently

turned away business as his current production is already contracted to COMET's expansion of the Kabwe facility where 9 new workspaces near completion.

Kabwe Leather Crafts Limited

Kabwe Leather Crafts Limited located at the incubator in July of 1991. It employs three men in the manufacturing of low-cost leather shoes and sandals. There is an active market for their basic but functional footwear in Kabwe. It claims to outcompete BATA on price and durability. During this visit, however, production was at a standstill due to a breakdown of the company's industrial sewing machine.

Katalayi and Sons Limited

Katalayi and Sons Limited was begun in late 1987 and now employs six people in metal fabrication and plumbing. The business makes pots and pans, automobile mufflers and sundry sheet metal products. Edward Katalayi, the owner, had been a long-term employee of ZCCM. He complained about unfair competition from Tako Limited, but COMET said it was simply a matter of a more dynamic enterprise getting the business. Katalayi also complained that the Kabwe Mine, one of Zambia's oldest that is now shutting down, no longer supplies scrap aluminum sheeting and that the large Lusaka-based wholesalers were not interested in selling to small businesses. This contention was dismissed as unwarranted griping by the General Manager of Zambia Aluminum, the country's largest aluminum fabricator.

Rex Sign and General Painting Limited

Rex Limited was one of COMET's charter tenants in late 1987. It currently employs 56 people in sign and general painting for residential and industrial buildings. During the visit to COMET/Kabwe, Rex was confronting a crisis caused by the lack of credit for MEs in Zambia. The company had finished a contract for the local ZCCM facility. Due to a change in accounting and payment procedures, Rex's invoice could not be paid until after Rex's own salaries were due.

Yet, Rex had not been able to open an overdraft facility and was unsure how the business would make its payroll. Even with a purchase order from ZCCM, one of Zambia's largest industrial concerns, no bank credit was made available. (In fact, ZCCM has been in arrears recently on its own accounts payable.) The owner was concerned that he would lose many of his experienced employees if he could not meet his payroll and would then be faced with training a new group. The Executive Director of COMET plans to intercede with the bank on Rex's behalf and, if that fails, will pledge COMET's own resources to meet Rex's payroll.

Tagie Motor Limited

Tagie Motor Limited employs six people. It moved into the facility in April 1991. Like many of the other COMET/Kabwe entrepreneurs, the owner was a retiree from ZCCM with years of practical experience as an automechanic. The workshop was operating out of doors and plans to erect a suitable shed before the rainy season begins with COMET financial and technical assistance.

15

Tako Limited

Tako Limited, a steel bending and metal fabrication workshop, employs eight people and was established in July 1990. The shop also do[illegible] panel beating (bodywork) and automobile painting. The owner is a retired technician from ZCCM. The shop was the busiest at Kabwe, with production of outdoor metal furniture and automobiles all taking place simultaneously. Before coming to ZCCM, the owner had a hammermill at his house; he has moved the mill behind his COMET workshop. COMET management characterized the owner as one of their most immediately successful entrepreneurs due to his dynamic personality and dedication to hard work. Tako is a strong competitor of another firm at Kabwe — Kayalayi and Sons Ltd.

ANNEX C

LIST OF PERSONS CONTACTED

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LIST OF PERSONS CONTACTED

Mr. Dag Aarnes -- Senior Country Programme Officer, NORAD

Mr. Kofi Adjepong-Boateng -- Assistant Vice President, Regional, Office of East and Southern Africa, Equator Bank

Mr. Zacharia Alexander -- General Manager, Zambia Alumunium Ltd.

Mr. Van Baar -- Third Secretary, Embassy of the Netherlands

Mr. Listard Banda -- Ministry of Commerce and Industry

Mr. Moses Banda -- Director of Cooperate Planning and Research, Zambia National Commercial Bank

Similenda Beyani -- Senior Projects Officer, Small-Scale Division, Development Bank of Zambia

Mr. Chanda Bonny -- Gem Cutter, Mayoke Gemstones

Mr. Donald Boughner -- International Executive Service Corps (IESC)

Mrs. Chembe -- Economist, World Bank

Mr. Collins Chilambwe - African Modern Arts & Crafts

Mr. Margree S. Chilwesa -- Executive Secretary, SSIAZ, Media Consultant

Mr. I. M. Chonya -- Senior Lecturer, Pan-African Institute for Development

Ms. M. G. Christose -- Project Coordinator, Credit System Support for Women - UNDP

Ms. Sianzeni Chuma-Mkandawire -- Technical Advisor, ILO/IRWISPM, Lusaka

Enterprises at the COMET workshops at Kabwe:

Bertram Protectors Ltd. (security guard service)

Chileshe Joiningg and Framing Ltd. (carpentry and upholstery)

Flora Clothing Service (clothing manufacture - tailoring)

Kabwe Carpentry Tools Ltd. (COMET owned)

Katalayi & Son Ltd. (metal fabrication)

Kabwe Leather Crafts Ltd. (shoe making)

Kabwe Ferro-Cement Tiles Ltd. (roofing materials)

Rex Sign and General Painting Ltd.

Tako Ltd. (metal fabrication)

Tagie Motor Ltd. (auto repair)

Mr. Gerry Finnegan -- Chief Technical Advisor, ILO/UNDP SELP Project for Youth Enterprise

Mr. Willie Franklin -- Owner, Hilltop Farm & Ambrosia -- Ex-chairman, Zambia Export Growers Association (ZEGA)

Fruit Processing Enterprise, Chinika employees

Mrs. Susan Gale -- ZAMS Project Officer, A.I.D./Zambia

Mr. Offman V. Gondwe -- Retail Director, Barclays Bank of Zambia Ltd.

Mr. Derek Gordan -- Foreign Trade Manager, Barclays Bank of Zambia Ltd.

Mr. A.J. Dux Halubobya -- Chief Executive Secretary, CUSA Zambia

Ms. Nawina Hamawundu -- Self-Employment Skills Coordinator, YWCA

Mr. Mack Homer -- AFRICARE

Mr. Mel Jones -- EEC Micro-projects Office

Kim Daugadd Jorgensen, Programming Officer, UNIDO, Lusaka

Mrs. Kani, Project Officer, VIS

Mr. Katulonko -- National Commission for Development Planning (NCDP)

Mr. Kaumba -- Extension Services Manager, Small Industries Development Organization (SIDO)

Dr. Burkhard Koenitzer -- Resident Director, Friederich Ebert Stiftung

Mr. Bruno Kosheleff -- Acting Mission Director, A.I.D./Zambia

Dr. Alex Lemmens -- Technology Development Advisory Unit (TDAU)

Mr. Clement Longwe -- Regional Enterprise Advisor, COMET/Kabwe

Mr. Joe Lungu -- AFRICARE

Mr. Justin Lupaybo -- Managing Director, Alert Machine Services

Mr. Lupupa -- Co-director, JELS Ltd. Enterprise, Chinika

Mr. J. Madubansi -- National Commission for Development Planning (NCDP)

Mr. Val Mahan -- General Development Officer, A.I.D./Zambia

Mrs. Dorothy Makasa -- Executive Director, NGO Coordinating Council

Mr. Jeffrey Makuma -- Marketing Director, Village Industry Service (VIS)

Mrs. Joyce Mapoma -- Chair, Village Industry Service (VIS) [EH,

Dr. Carolyn McCommon -- VITA/Village Industry Service (VIS)

Mr. Bwalya Melu -- Head of Operations (North), World Vision

Dr. John Milimo -- Director, Rural Development Studies Bureau, University of Zambia

Mr. Maximo Mubanga -- Credit Controller Village Industry Service

A. Muchanga -- Managing Director, LIMA Bank

Mr. Elijah Mulenya -- Consultant, Management Services Board

Mr. Russel Mushanga -- Development and Training Manager, Village Industry Service (VIS)

Mr. John Mushipi -- Head of Engineering Services, COMET

Ms. Mutale -- Credit Guarantee Scheme, Bank of Zambia

Mr. Winston Mutale -- Projects Director, Village Industry Service (VIS)

Ms. Dorothy Namuchimba -- National Coordinator, ILO/IRWISPM, Lusaka

Mr. James Ndambo -- Owner, Alfa Investments, Ltd., Lusaka

Dr. Manenga Ndulo -- Department of Economics, University of Zambia

Mrs. Christine Ngambi -- Chairperson, NGO Coordinating Committee

Ms. Josephine Nyirongo -- Small-Scale Enterprise Development (SEP)

Mr. John Oliver -- Executive Director, Copper Mining Enterprise Trust (COMET)

Mr. Ronnie Parbhoo -- Managing Director, Partex Industries Zambia Ltd.

Mr. Keith Paulsen -- VITA/Village Industry Service

Mr. Francis Perekamoyo – Acting Director, Management Services Board

Ms. Phiri – National Economist, UNDP, Lusaka

Mr. Keith Reid – International Fund for Agricultural Development (IFAD)

Mr. Herrn Rhode – GTZ

Ms. Felicia Sakala – Acting Director, YWCA

Mr. Harvey Schartup – Chief of Party, A.I.D. ZAMS Project

Mr. Leroy Scherer – A.I.D./Zambia

Dr. Kanu Sharma – Executive Director, Zambezi Paper Mills Ltd., Ndola

Ms. Gwen Shongwe – Handicrafts entrepreneur

Mr. Amon Sibande – Deputy Chair, SSIAZ – Owner, Reunited Engineering Ltd.

Ms. Vickie Sigman – Training Consultant (VIS)

Skyline Shoes Enterprise employee, Chinika

Mr. Peter Smith – Senior Management Credit Controller, Standard Charter Bank of Zambia Ltd.

Mr. Mark Smulders – Program Director, FAO

Mr. Adriaan Stoop – Management Advisor, Small-Scale Enterprises Promotion Ltd. (SEP)

Mrs. Ellina Joyce Tembo, Chair, SSIAZ – Owner Suuzi Boutique (garment trade)

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11/91