

Jesuit Centre for Theological Reflection

## Making Markets Work Better for the Poor

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*Promoting a Just Market System that creates trading and investment opportunities for all, especially the poor*

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**Author's Note:**

This report does not necessarily reflect the position of JCTR, but the author's conclusions. Therefore all queries must be directed to [chishimbams@yahoo.com](mailto:chishimbams@yahoo.com)

**List of Abbreviations and Acronyms**

AGOA	African Growth Opportunity Act
CEEC	Citizen's Economic Empowerment Commission
COMESA	Common Market for East and Central Africa
CSO	Central Statistical Office
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
ILO	International Labour Organisation
IMF	International Monetary Fund
JCTR	Jesuit Centre for Theological Reflection
LCMS	Living Conditions Monitoring Survey
LDC	Least Developed Country
MCTI	Ministry of Commerce, Trade and Industry
MCDEP	Micro Credit Delivery for the Empowerment of the Poor
MMWB4P	Making Markets Work Better for the Poor
MSE	Micro and Small Enterprise
MSME	Micro Small and Medium Enterprise
NAPSA	National Pensions Scheme Authority
NCSR	National Council for Scientific Research
NGO	Non Governmental Organisation
NTE	Non Traditional Export
PAAHSS	Pan-African Academy for Health and Social Sciences
SAP	Structural Adjustment Programme
SEDB	Small Enterprise Development Board
SNDP	Six National Development Plan
SSE	Small Sector Enterprise
TDAU	Technology Development Advisory Unit
UNDP	United Nations Development Programme
WB	World Bank
WfC	Women for Change
ZBS	Zambia Bureau of Standards
ZDA	Zambia Development Agency

## **Executive Summary**

The concept of Making Markets Work Better for the Poor (MMWB4P) has over the past decade gained prominence not only in the developing nations, but also in the industrialised world. The issues on making markets work for the poor have been precipitated by the market reforms that Zambia embarked on in the 1990s. Noteworthy, market reforms have been going on for decades in all the nations of the world.

The case of Zambia shows that there is still a lot of policy, regulatory and operational imperatives that must be implemented in order to make markets work better for the poor.

The liberalisation of the economy in the 1990s entailed government withdrawal from being the dominant player in economic activity. In the place of the state, the private sector became the main driver of economic development, growth and poverty reduction.

It is non-arguable that in a growing economy like Zambia, the Micro Small and Medium Enterprises (MSMEs) play a significant role in stimulating pro-poor growth. More than 70% of these MSMEs are in agriculture, which occupies the vast majority of Zambians. MSMEs have the potential to create jobs for the poor and bridge the gap of the missing middle.

The chronic lack of access to capital, fair competition, information and physical markets among MSEs are the main findings of the study and the focus of future debates in securing a common ground for evidence based policy options for Zambia. In the interim the study has made recommendations that are envisaged to be a panacea to the constraints that MSEs face.

### ***Main Findings***

- Smallholder farmers and SMEs do not have ease access to the physical market infrastructures.
- The general policy framework for crop marketing is not complex, but it has not helped smallholder farmers much due to government controlled pricing of the maize, which is the main produce for peasant farmers.
- Smallholder farmers and SMEs do not have ease access to credit. Lack of information on available providers of micro credit and inadequate skills to engage in rigorous processes of loan applications are the main impediments.
- Women face a lot of challenges such as lack of access to agriculture land and inputs. Moreover much of the land is under customary laws, which cannot be used to as collateral to access credit.

### ***Main Recommendations***

- A large scale study on making markets work better for the poor should be commissioned in the near future. This is critical due to the prominence that the international community has recently given to the subject. The international community is in agreement that interventions that increase poor people's access to markets are more sustainable than any other.
- Government must be more transparent in setting the flow prices, which must be determined by market forces. Farmers must be in the forefront to give input in determining the prices. Costs of production and transport must be factored in.

- Agriculture credit facilities should be flexible and deliberately extended to peasant farmers apart from commercial farmers who have access to other resources.
- Chambers of Commerce and Industry must be in all the districts of Zambia. These chambers of commerce would provide training opportunities to MSMEs while building their capacities to access available credit facilities. In addition, chambers of commerce would serve as information centres.

## 1.0 Introduction

This study on making markets work better for the poor is opportune for Zambia as it marks the beginning of a series of further studies on the subject. Even though the constraints were multiple, JCTR has boldly taken the step to start investigating and examining issues on making markets work better for the poor so as to stimulate debate and further studies that will produce evidence based policy options for the poor.

This study report is structured as follows:

- Section 1: Introduction
- Section 2: Background to the Study
- Section 3: Study Methodology
- Section 4: Zambia Country Profile
- Section 5: Findings of the Study
- Section 6: Discussion of Findings
- Section 7: Conclusions and Recommendations

## 2.0 Background to the Study

Before reverting to multiparty democracy and free market policies, in 1991, Zambia was a one party participatory democracy with a socialist oriented economy. Under the new government economic stabilisation programmes were supported by the World Bank and the International Monetary Fund (IMF). The main features of the reform programme were:

- Repeal of the Exchange Control Act;
- Liberalization of interest rates;
- Abolition of price controls;
- Removal of subsidies; and
- Removal of import licensing requirements.

The market reforms were meant to put the private sector at the center stage of economic activities and to be the engine of growth and poverty reduction. This was done by replacing state intervention in markets with private incentives, public ownership with private ownership and protection of domestic industries with competition from foreign producers and investors.

The question therefore is; can the market system that has delivered economic growth be enhanced to ensure inclusive economic growth that accommodates poor people's participation in the market system and thus reduces poverty and unemployment.

It is against this background that JCTR under Economic Equity and Development Programme commissioned this study to seek ways of promoting a just market system that creates opportunities for all especially the poor.

### **Purpose of the Study**

The study was aimed at identifying and addressing obstacles to poor people's participation in economic activities thereby promoting inclusive economic growth.

### **Main focus**

The study focused on the following:

- Physical access to markets;
- Access to financial services; and
- Trade expansion to create opportunities to access regional and international markets by Zambian businesses.



### 3.0 Study Methodology

#### 3.1 Study Objectives

##### Overarching Goal

To establish whether or not the Zambian market system is working for the poor and identify ways of making it work better for them locally, regionally and internationally.

##### Specific Objectives

Specifically, the study focused on:

1. Identifying market barriers and opportunities for smallholder agricultural products;
2. Identifying ways by which barriers can be eliminated and establish mechanisms of how pro-poor enterprises can take advantage of opportunities;
3. Identifying input and output linkages to fill the gaps in agricultural markets;
4. Establishing the viability of investing in small and medium sized enterprises as a vehicle to innovatively and creatively create jobs and accelerate pro-poor economic growth (*filling the missing middle in Zambia*);
5. Identifying a comprehensive approach to *Making Markets Work for the Poor*, which integrates technical assistance and provision of capital at all stages of enterprise growth to help smallholder agri-business and other small and medium sized entrepreneurs improve their livelihoods.

#### 3.2 Study Design

The study was both investigative and exploratory. Therefore the identification of market barriers was accompanied by an exploration of ways to make markets work better for the poor.

#### 3.3 Data Collection Procedures

##### Instrumentation

The following instruments were used for data collection:

- Focus Group Discussion guides for Micro and Small Entrepreneurs (MSEs);
- Structured questionnaires for other Civil Society Organisations and Government Ministries

##### Document Review

Review of relevant documents formed part of the data collection exercise.

##### Sampling Method

A simple stratified sampling method was applied. Respondents were stratified as follows:

*Regional and International:* the target was COMESA, but interviews were not conducted because the COMESA secretariat declined to participate in the study. It was learnt that, as a matter of policy, COMESA does not get involved in such in-country studies.

*National:* Government ministries and CSOs were targeted, but securing appointments proved to be unfruitful within the provided time frame of the study. The re-alignment of ministries by the new government was the main reason that target government officers made. However two CSOs participated (kindly refer to the list of participants presented as an annex)

*District:* individual MSEs were interviewed in the selected areas.

### Study Sites

The study sites were Lusaka, Mongu and Kasama. These districts were picked on the following grounds:

- Mongu is the provincial capital for Western Province which is the poorest province in Zambia according to the Central Statistical Office. It was therefore essential that the poorest province was sampled.
- Kasama is the provincial capital for Northern Province. Northern Province has the major trading route to Tanzania by both road and railway.
- Lusaka is the capital of Zambia. Therefore, it was important to specifically target cross boarder traders and other CSOs that are headquartered in Lusaka.

### Sample Size

The tables below show the target sample sizes in terms of persons and institutions.

#### Kasama and Mongu

Target Location	Target Number of Respondents (agro-traders/farmers)	Actual Number of Respondents (agro-traders/farmers)
Kasama	10	7
Mongu	10	3
Total	20	10

#### Lusaka

The target number of institutions in Lusaka was 4, but only 2 were available for the study.

### 3.4 Analytic Procedures

The processing of the data was done manually. The use of a package such as SPSS was impossible due to a relatively small sample that was selected.

### 3.5 Limitations of the Study

The study had severe limitations, which included the following:

- **Budget Constraint:** while the study objectives were ambitious and very important to Zambia's strides in poverty reduction, funding was far inadequate. Therefore, it became practically impossible to carry out extensive work in the field within the three districts that were targeted.

- **Timing:** while sufficient time was allocated to executive the assignment, the period during which the study was expected to be undertaken was not ideal due to the tripartite elections that were underway.
- **Sample frame:** due to resource limitations, the sample size that was taken for the study was not fully representative. Normally, a 30% sample size of the target group or population segment is legitimate, i.e., if there are 100 registered businesses in a district for instance, 30 of them must be reached. Alternatively it can be decided that each category of business be represented. This was not possible to do due to resource constraints.

### 3.6 Definition of Key Terms

In this study the following key definitions have been adopted:

**Market:** a market consists of (a) individuals and organisations who (b) are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who (c) have the resources (time, money) to engage in such a transaction.<sup>1</sup>

**Absolute poverty:** uses a poverty line based on a fixed expenditure or consumption level. Absolute poverty lines typically specify the amount of money that is required to meet a minimum standard of living, such as basic nutritional requirements and essential non-food necessities (basic clothing, housing, etc).<sup>2</sup>

**Relative poverty:** describes an individual or group's wealth relative to that of other individuals in the group.<sup>3</sup>

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<sup>1</sup> Edinburgh Business School, Marketing course module, page 1/13

<sup>2</sup> Living Conditions Monitoring Survey Report 2006 and 2010, CSO, p.176

<sup>3</sup> Living Conditions Monitoring Survey Report 2006 and 2010, CSO, p.177

## 4.0 Zambia Country Profile

### 4.1 Demographic Issues

The 2010 Census report shows that the population stands at 13, 881, 336 and the population growth rate is 3.062%. This population growth rate is the eleventh highest in the world. A summary of the social context is presented in the table below.

*Human Development Indicators<sup>4</sup>*

Population	13, 881, 336
Population Growth Rate	3.062%
Life Expectancy	39 years
HIV/AIDS Adult Prevalence	13.5%
Literacy (able to read & write)	80.6%
Education Expenditure	1.3% of GDP

### 4.2 Macro-economic Overview

Zambia's main export is copper, accounting for over 70 percent of the country's export earnings. GDP growth has averaged 6.4 percent for the period between 2006 and 2010.<sup>5</sup> Overall inflation declined from 35.2 percent at the end of 1996 to 7.9 percent at the end of 2010.<sup>6</sup> While Zambia has made significant strides in economic growth in the last decade, it is still classified as a Least Developed Country (LDC) with an estimated GDP per capita of US \$962.59 (2009).

The Zambian economy is dominated by mining activities, copper and cobalt, which accounts for over 70% of the country's export earnings. However, the majority of the population (65 percent) live in rural areas and is dependent on subsistence agriculture for its livelihood.<sup>7</sup>

The agricultural sector has witnessed high levels of production in the last two years particularly maize production, with a maize bumper harvest of over 2 million metric tons being in 2011. However, many supply side constraints like infrastructure, extension services etc and marketing of agricultural products have remained a challenge and thus most small scale farmers cannot benefit from increased output.

The improved economic performance seems to have been spurred by the market reforms embarked on in 1991 after increasing dissatisfaction with the inward looking state-led development strategy. The market reforms were meant to put the private sector at the center stage of economic activities and thus to be the engine of growth and poverty reduction. This was done by replacing state intervention in markets with private incentives, public ownership with private ownership and protection of domestic industries with competition from foreign producers and investors.

<sup>4</sup> This table is the consultant's summary presentation based on the following documents that were consulted; 2010 Census Report for Zambia, Zambia Country Profile, Zambia Living Conditions Monitoring Survey, etc.

<sup>5</sup> Living Conditions Monitoring Survey 2006 and 2010, CSO, p.2

<sup>6</sup> Living Conditions Monitoring Survey 2006 and 2010, CSO, p.2

<sup>7</sup> Living Conditions Monitoring Survey 2006 and 2010, CSO, p.1

While the private sector economic led approach (market economy) has delivered growth in Zambia in the last five years, the Central Statistical Office reports that the proportion of the population falling below the poverty line reduced from 62.8 percent in 2006 to 60.5 percent in 2010 (LCMS, 2006 – 2010, p.182).

Unemployment in Zambia is at 13 percent (LCMS, 2006 – 2010, p. 110) and this has left many people disenchanting with the market economy. The private sector has failed to create jobs even though the economy is private led leaving the government the biggest employer. The question therefore is; can the market system that has delivered economic growth be enhanced to ensure inclusive economic growth that accommodates poor people's participation in the market system and thus reduces poverty and unemployment.

Noteworthy, Zambia qualified for debt relief under the Highly Indebted Poor Country Initiative in 2005, consisting of approximately United States Dollars Six billion in debt relief. Nonetheless, poverty remains a significant problem in Zambia despite indicators of growth in the economy. 64% of Zambians live below the poverty datum line. Zambia's dependency on copper makes it vulnerable to depressed commodity prices, but record high copper prices and a bumper maize crop in 2010 helped Zambia rebound quickly from the world economic slowdown that began in 2008.

The table below provides a glimpse into the chronological order of major economic policy changes that Zambia has experienced over the past decades.

*Chronology of Zambia's Economic Policy Changes<sup>8</sup>*

<b>Period</b>	<b>Economic regime</b>
Before December 1982	Centralised planning and controlled regime
December 1982 – October 1985	Decontrols and deregulation
October 1985 – April 1987	Highly liberalised regime
May 1987– November 1988	Return to controlled regime
November 1988 – June 1989	Relaxation of some controls
July 1989 – April 1991	Towards full-scale liberalisation
May 1991 – October 1991	Political transition with both government and the opposition expressing support for a return to highly flexible economic regime.
31 October 1991	New government of President Chiluba took over power from President Kaunda through elections
November 1991 – Present	Full-fledged SAP

It can be seen from the above table that Zambia has gone through a number of changes in terms of economic policies.

Prior to the introduction of multi-party democracy and the adoption of free market policies in 1991, Zambia was a one-party State with a socialist-oriented economy. The business environment was characterized by price controls, administratively determined exchange rates, a variety of subsidies for consumer goods and services, negative real interest rates and high rates of inflation.<sup>9</sup> Therefore the liberalisation of the economy must be examined to establish the extent to which the poor have benefited.

<sup>8</sup> Taken from Iman Development (Pvt.) Ltd and O. Saasa at page 16. See Bibliography for full details of the publication by O. Saasa.

<sup>9</sup> Growing Micro and Small Enterprises in LDCs, UNCTAD, p.70

Of strategic importance in pro-poor economic growth are Small and Medium Enterprises (SMEs).

The importance of small and medium- sized enterprises (SMEs) in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation. Dynamic medium-sized enterprises provide a competitive edge in two ways – as leading subcontractors and as venture firms in their own right. They also tend to survive longer than most SMEs and create jobs that yield higher returns, thus multiplying their impact on economic growth.

Making Market Systems Work Better for the poor approach is driven in part by the ambitious United Nations Millennium Development Goal of reducing extreme poverty by half by 2015. It seeks to accelerate pro-poor growth by improving outcomes that matter to the poor in their roles as entrepreneurs, employees, or consumers of markets. It incorporates not only local markets but also national, regional, and global markets. Changes in policy, regulation, and business practices that affect the enabling environment are an integral part of the approach.<sup>10</sup>

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<sup>10</sup> From BDS to Making Markets Work for the Poor, The 2005 Reader, by By Alexandra O. Miehlsbradt and Mary McVay, ILO, International Training Centre, p.18

## 5.0 Findings of the Study

### 5.1 Findings from Secondary Data Sources

#### 5.1.1 Definition of SME

Although there is no universally agreed definition of SME some of the commonly used criteria are number of employees, value of assets, values of sales and size of capital. Among them, the most common definitional basis is employees because of the comparatively ease of collecting this information, and here again there is variation in defining the upper and lower size limit of an SME. Despite this variance, a large number of sources define an SME to have a cut off range of 0 – 250 employees.<sup>11</sup>

According to the Government's Small Enterprise Development Board (Act No. 29, 1996), a micro-enterprise is defined as any business enterprise that employees up to 10 persons, while a small enterprise is defined as any business enterprise that employs up to 30 people. There are other criteria that are used to define the size of an enterprise such as the financial position.

#### 5.1.2 Micro and Small Enterprises (MSEs) have many constraints

According to O. Saasa (2000)<sup>12</sup>, Small-sector enterprises (SSEs) still continue to face major constraints such as:

- lack of capital and access to credit;
- limited technical and managerial skills;
- inadequate business premises and infrastructure;
- lack of diversified markets and market information;
- lack of technology and access to relevant technological information; unfavourable regulatory environment, including legal restrictions; and an inadequate institutional framework.

In respect of smallholder farmers who were specifically targeted, the following are the main constraints that they face<sup>13</sup>:

- Poor access to financial services, notably credit.
- Poor access to farming implements.
- Poor access to productivity-enhancing technologies. Lack of crop storage facilities means that a third or more of some crops are lost after harvest.

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<sup>11</sup> Bataa Ganbold, Improving access to finance for SME: International good experiences and lessons for Mongolia. (page 1 and 2)

<sup>12</sup> See Imani Development (Pvt.) Limited in collaboration with O. Sasaa at page 1

<sup>13</sup> Mark Cutis, 2011. A draft report on Acting Small, Reforming the World Bank's Doing Business Rankings to Support Micro-Enterprises CAFOD (Page 35 and 36)

- Limited access to land. Farmers lack secure land tenure, preventing them from making longer-term investments in their farming.
- Poor access to increased knowledge. Extension services are weak in many countries and reach only a small percentage of farmers.
- Limited access to local markets and poor infrastructure. Farmers' access to markets for selling their produce is often difficult, due to poor road connections, especially feeder roads linking villages to markets. This also makes access to agro-dealers, selling farmer inputs, more difficult and expensive.

*Perceived Business Constraints in Zambia<sup>14</sup>*

Key	All firms		Small Firms (1-10 employees)		Large Firms (50+ employees)	
	average score	% of companies reporting as one of top three problems	average score	% of companies reporting as one of top three problems	average score	% of companies reporting as one of top three problems
1: not at all 3: moderate obstacle 5: severe obstacle						
Lack of credit	3.5	52.6	4.0	71.6	3.3	42.0
No demand	2.8	24.2	2.5	24.3	3.2	26.1
Competition from imports	2.6	22.8	1.8	14.9	3.2	26.1
Lack of infrastructure	2.8	19.5	3.0	33.8	2.7	13.0
Inflation	2.6	47.4	1.8	33.8	3.2	58.0
Security	NA	14.9	NA	16.2	NA	15.9
Lack of skilled labour	NA	12.6	NA	8.1	NA	4.3
Lack of business support services	2.4	11.2	2.4	16.2	2.2	4.3
Taxes	1.8	6.0	1.0	0.0	1.2	0.0
Government restrictions	1.1	1.4	1.1	1.4	1.2	2.9
Utility prices	3.1	23.7	2.3	10.8	3.4	26.1

(World Bank)

### 5.1.3 The cost of doing business is high

In many countries, the cost of doing business is prohibitively high, reflected in a punitive regulatory environment which saps the initiative of even the most industrious of local entrepreneurs. As a result, informal enterprises—often quietly employing family and friends—tend to operate under the radar of local legislation. Then, lacking official recognition, they are unable to access traditional, formal sources of financing, or to sell equipment and property, or even seek investment partners when they are ready to grow.<sup>15</sup>

<sup>14</sup>From UNCTAD (Page 73) - as per World Bank data therein

<sup>15</sup> CARE, 2004. Making Markets Work for the Poor, CARE Canada's Strategy for Helping the Poor through Enterprise (page 1 and 2)



Zambia's rankings in Doing Business 2011<sup>16</sup>

<b>ZAMBIA</b>		Sub-Saharan Africa	GNI per capita (US\$)	970	
Ease of doing business (rank)	76	Low Income	Population (m)	12.9	
✓ <b>Starting a business</b> (rank)	57	<b>Getting credit</b> (rank)	6	✓ <b>Trading across borders</b> (rank)	150
Procedures (number)	6	Strength of legal rights Index (0-10)	9	Documents to export (number)	6
Time (days)	18	Depth of credit information Index (0-6)	5	Time to export (days)	44
Cost (% of income per capita)	27.9	Public registry coverage (% of adults)	0.0	Cost to export (US\$ per container)	2,664
Minimum capital (% of income per capita)	0.0	Private bureau coverage (% of adults)	3.0	Documents to import (number)	8
				Time to import (days)	56
<b>Dealing with construction permits</b> (rank)	158	<b>Protecting investors</b> (rank)	74	Cost to import (US\$ per container)	3,315
Procedures (number)	17	Extent of disclosure index (0-10)	3		
Time (days)	254	Extent of director liability index (0-10)	6	✓ <b>Enforcing contracts</b> (rank)	86
Cost (% of income per capita)	2,454.2	Ease of shareholder suits index (0-10)	7	Procedures (number)	35
		Strength of investor protection index (0-10)	5.3	Time (days)	471
<b>Registering property</b> (rank)	83			Cost (% of claim)	38.7
Procedures (number)	5	<b>Paying taxes</b> (rank)	37		
Time (days)	40	Payments (number per year)	37	<b>Closing a business</b> (rank)	97
Cost (% of property value)	6.6	Time (hours per year)	132	Time (years)	2.7
		Total tax rate (% of profit)	16.1	Cost (% of estate)	9
				Recovery rate (cents on the dollar)	27.2

Source: World Bank-IFC, *Doing Business 2011*, p.205

#### 5.1.4 Government Acknowledges that MSEs are key drivers of economic development

##### *Government Position on SMEs*

Government considers the development of small-scale enterprises as an important component of its Industrial, and Commercial policy. Its aim is to devise a strategy, with the participation of the private sector, to encourage the growth of small-scale enterprise<sup>17</sup>.

In order to promote the growth of MSEs, government is committed to the following, but not limited to:

- Encouraging local authorities to review their infrastructure services and licensing regulations so as to support small enterprises;
- Provision of legislation and incentives that promote the rapid growth of the sector;
- Decentralisation of business registration to enable the sector to operate efficiently and have access to incentives; and
- Setting out to review and harmonize all existing laws and regulations with a view to identifying and removing impediments to the operations of the sector.

<sup>16</sup> Mark Cutis, 2011. A draft report on Acting Small, Reforming the World Bank's Doing Business Rankings to Support Micro-Enterprises CAFOD (Page 37 and 38)

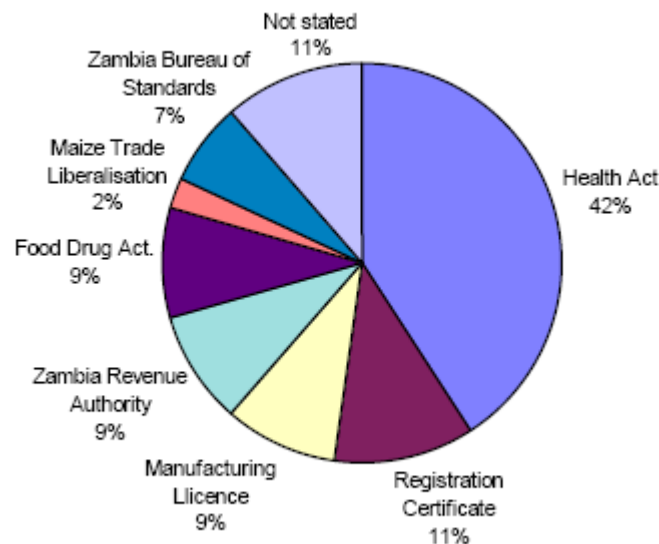
<sup>17</sup> According to UNCTAD (page 75),

### 5.1.5 The regulatory framework is generally punitive and costly for MSEs

The statutes to which business in subject in Zambia include the following, among others:

- The Public Health Act: this law is enforced by local authorities and provides that all trade premises and factories be kept clean and free from infection. Most small enterprises get away with not complying with these requirements.
- The Industrial Relations Act and Employment Act, which govern general regulation of contracts of service, including the minimum wage and liability in case of death or injury at work.
- The Factories Act, which stipulates standards of cleanliness, ventilation, lighting, sanitary conveniences and safety. This, in most instances, is not complied with by small enterprises and local councils normally turn a blind eye.
- The Environmental Protection Act compels all enterprises to abide by its regulations.

*Regulatory Frameworks in Zambia<sup>18</sup>*



### 5.1.6 Employment Legislation is applicable to MSEs

Small enterprises may employ individuals without due administrative burdens. There are, however, a few statutory requirements with which all enterprises have to comply, including statutory contributions such as: Pay As You Earn, NAPSA and Workmen's Compensation Fund contributions<sup>19</sup>.

### 5.1.7 The tax regime is hostile

The private sector generally believes that tax rates are too high. There is little evidence of the Government's recognition of the limited administrative resources of small enterprises with respect to taxation.<sup>20</sup>

<sup>18</sup> See O. Saasa and Imani Development (Pvt.) Limited at page 44

<sup>19</sup> See UNCTAD (page 77),

<sup>20</sup> See UNCTAD (page 77 – 78)

### 5.1.8 Support to MSEs is available, but still inadequate

Fifty five percent (55%) of institutions that support small enterprises are NGOs. Other business support comes from cooperatives, church organizations, research institutions and development banks, which together account for 31 per cent. Private sector organizations account for only 3.4 per cent of total business support institutions.<sup>21</sup>

The majority of NGOs provide vocational and technical training, including basic business management and accounting/bookkeeping, leadership skills and general training in entrepreneurship. A number of them also provide credit as part of the package with business training.

The Government and NGOs generally do not have a common approach and do not coordinate their support to small enterprises. For example, NGOs do not employ the definitions of micro and small enterprises developed by the Government. Moreover, even amongst them, NGOs' small enterprise support projects do not have networking arrangements, and often do not know what others are doing in the same sector. This lack of coordination and cooperation was highlighted by a UNDP report on small enterprise support institutions, which recommended that:

- The Ministry of Commerce, Trade and Industry (MCTI) establish standardized monitoring procedures entailing a two-tier mechanism to introduce uniformity of monitoring information among small enterprise support institutions, (i) at a level of institutional performance and sustainability; and (ii) at a level of performance of the small enterprise;
- Support institutions be compelled to provide periodic submissions of such monitoring information to MCTI;
- Programmes to disseminate information to the small enterprise support institutions (and consequently to the small enterprises) be an integral aspect of networking; and
- MCTI have the authority on the placement of all support programmes in order to avoid overlap in certain geographical regions.

Public sector institutions created to support small enterprises and business in general include SEDB (which replaced SIDO), the Export Board of Zambia (EBZ), the Technology Development and Advisory Unit (TDAU), the Zambia Bureau of Standards (ZBS) and the National Council for Scientific Research (NCSR).

Currently, the Citizen's Economic Empowerment Commission is responsible for the provision of credit to entrepreneurs.

Apart from the formal tendering process, government ministries and other government agencies regularly invite enterprises to register as suppliers of goods or services. This is the best chance for small enterprises to win government contracts because these are usually within their capabilities and the conditions attached are not stringent. However, small enterprises are still at a disadvantage in that whereas well established firms with fixed business premises are usually given a down payment of 50 per cent in advance of delivery, they often do not meet the necessary requirements for credit.<sup>22</sup> What it means here is that government cannot give a 50% down payment unless a bank guarantee is secured by a firm. Banks do not give guarantees unless a firm provides collateral. This works against small enterprises because they do not usually have fixed assets that are required as collateral for a bank guarantee to be issued.

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<sup>21</sup> According to UNCTAD (page 79),

<sup>22</sup> See UNCTAD (page 83)

### 5.1.9 MSEs have limited access to finance

Currently, the majority of small enterprises in the country rely on their own resources to try to expand. The lack of credit is therefore a missed opportunity for expansion for the majority of small enterprises.<sup>23</sup>

Apart from their disadvantage of generally having a low level of education, setting up and maintaining a sophisticated system of accounts is also costly for these small entrepreneurs. Private accounting firms generally do not assist small entrepreneurs because the latter usually cannot afford their services. Audited financial statements are a pre-requisite for banks to consider the provision of loans to viable enterprises.

The lack of access to formal credit has led small enterprises to develop a range of coping strategies that enable them to start or stay in business. One option is to join rotating credit and savings groups (*chilimba*); another option is to borrow from moneylenders (*kaloba*), which is popular among residents of compounds. *Kaloba*'s interest rates are between 50 to 100 per cent with an average repayment period of 30 to 60 days. Defaulters risk having their property confiscated or being subjected to physical and mental assault.

High dependency ratios (on average 1:12 per adult) have also constrained business expansions. Profits made have usually been swallowed up by the needs of the extended family, whose coping strategies from the effects of structural adjustment now include ensuring their children's material needs are met by the seemingly well off in the clan.

#### *NGO financing of MSEs*

There is a joint NGO-Government credit delivery programme under the Micro Bankers Trust (MBT). This programme is called the Micro Credit Delivery for Empowerment of the Poor (MCDEP). Its main objective is poverty alleviation through micro-credit delivery and promotion of income-generating activities. The Ministry of Community Development and Social Services funds the bulk of funds for the on-lending programme. Most traditional banks have rigid collateral requirements, but the formal sector has made some limited attempts to adapt its products for the small enterprise market.<sup>24</sup>

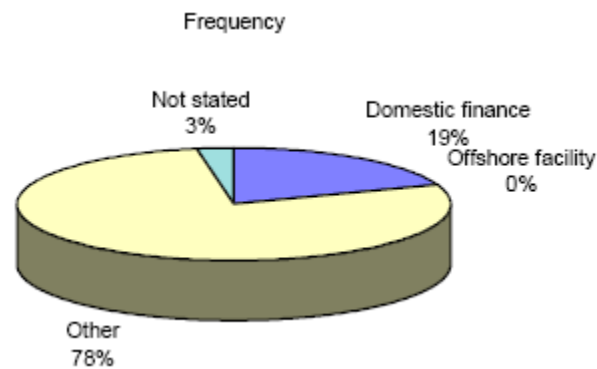
Other capacity building programmes include the Future Search Programme aimed at employees who have been retrenched. Most financial intermediaries offer such training to their clients before granting them credit. These programmes give emphasis to a good business proposal. They generally require the promoters/entrepreneurs to put up some equity in cash or business assets to show that they too are willing to risk something in the business. Profitability is also heavily emphasized. Some, such as the PULS E project, do not require micro-entrepreneurs to present business plans as a condition for a loan.<sup>25</sup>

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<sup>23</sup> According to UNCTAD (page 84),

<sup>24</sup> UNCTAD (page 85)

<sup>25</sup> See UNCTAD (page 86)

Source of finance for small scale agro-businesses<sup>26</sup>

### 5.1.10 Most MSEs are in the agricultural sector

#### *Micro Small and Medium Enterprises Distribution<sup>27</sup>*

The Zambia Business Survey found that 70 per cent of micro, small and medium-sized enterprises (MSMEs) are agricultural, while even most of the 'manufacturing' firms were actually small agro-processing activities.<sup>28</sup> Agriculture, forestry and fisheries account for around 80 per cent of informal sector activity.<sup>29</sup> And 68 per cent of the Zambian workforce is employed in informal agriculture.<sup>30</sup>

*Distribution of MSMEs by sector<sup>31</sup>*

Agriculture	70 per cent
Retail or wholesale trade	21 per cent
Manufacturing	3 per cent
Hotels, food and beverage	2 per cent
Other	4 per cent

Agriculture is increasingly recognized as a critical area for development in order to reduce poverty globally. Poverty is concentrated in the agricultural sector and among small-scale farmers.<sup>32</sup> Millennium Development

<sup>26</sup> See O. Saasa and Imani Development (Pvt.) Limited at page 47

<sup>27</sup> Excerpt from Mark Cutis, 2011. A draft report on Acting Small, Reforming the World Bank's Doing Business Rankings to Support Micro-Enterprises CAFOD (Page 42). The footnotes in the paragraph are maintained as presented in the report.

<sup>28</sup> World Bank et al, *Zambia Business Survey*, June 2010, p.4

<sup>29</sup> Silane Mwenechanya, 'Legal Empowerment of the Poor: Empowering Informal Businesses in Zambia', Paper for UNDP, October 2007, p.11

<sup>30</sup> Economics Association of Zambia, 'Zambia Business Survey: Launch of Top Line Findings', 16 June 2010, p.10

<sup>31</sup> World Bank et al, *Zambia Business Survey*, June 2010, p.4

<sup>32</sup> Alexandra O. Miehlebradt and Mary McVay, 2005. *From BDS to Making Markets Work for the Poor*. Report by the International Labour Organisation at page 59

Goals of poverty eradication, they are seeking new approaches to the age-old challenge of helping smallholder producers gain a better livelihood from the land.<sup>33</sup>

Further the International Labour Organisation (2005) holds that the first trend in agricultural development worth noting is somewhat of a false start: the drive for sustainable agricultural extension services. This effort is focused on how to make existing general agricultural extension services more sellable or less costly. Strategies fall into several categories.

- **Supply-side subsidies:** In this traditional model, government or NGO extension agencies provide services directly to farmers. The recent innovation lies in attempts to charge partial fees in order to be more farmer responsive and/or in contracting local governments to provide services, assuming local governments can more easily tailor their services to local farmer needs.
- **Demand-side financing:** These are essentially voucher programs in which government agencies issue coupons or vouchers to farmers who can choose services from a range of certified providers. The early experiments in this strategy are coupled with significant capacity building of a range of suppliers—government, NGO, and private sector.
- **Contracting out:** In this strategy, governments contract private firms or NGOs to provide agricultural extension services. These initiatives are often coupled with the introduction of fees, and effective contracts are results focused rather than activity focused.

In Zambia remote farmers had been implicitly subsidized by a uniform pricing policy that did not take into account transport costs, while small farmers without storage facilities were implicitly subsidized by prices held constant across seasons. After the reforms market forces eliminated the implicit subsidies, and transport infrastructure deteriorated significantly, leaving many farmers worse off.<sup>34</sup>

### Listening to farmers in Zambia

Since 1991 Zambia has radically changed the policy and institutional environment for agriculture. With liberalization and privatization, private suppliers have replaced state agricultural services for credit, inputs, and marketing.

Using participatory rural appraisals and beneficiary assessments, the World Bank–assisted Agricultural Sector Investment Program has established systematic and regular feedback between policymakers, service providers, and those affected by programs. Talking to farmers has helped policymakers understand the farmers' resource constraints, service delivery problems, and strategies for dealing with the vicissitudes of transition.

Participatory assessments also examine local perceptions of the effectiveness of agricultural infrastructure and services. These consultations revealed that agricultural credit and marketing, now handled by the private sector, were uneven and unpredictable—because of poor infrastructure, lack of capacity, and inadequate enforcement mechanisms. Public extension and animal health services, suf-

fering from staff shortages and lack of operating funds, transport, and equipment, were also failing to respond well to farmers' needs.

Farmers want better infrastructure (especially roads and bridges) and more effective regulation of the private sector. They also want more information on markets for agricultural products and easier access to more flexible and responsive credit facilities. And they want advice on subsistence crops and storage methods, which they prefer to get through group extension.

Talking to farmers also identified ways to help those who are economically vulnerable take part in agricultural markets—extending microcredit, promoting local seed production systems, and offering research and extension services for subsistence crops and low-input agriculture. To create the local organizational basis for participatory extension and economically viable joint activities—such as marketing, local financial services, and cattle dipping—support needs to go to producer associations, service-providing NGOs, and other organizations active in communities.

Source: World Bank 1998a.

<sup>33</sup> Alexandra O. Miehlbradt and Mary McVay, 2005. *From BDS to Making Markets Work for the Poor*. Report by the International Labour Organisation at page 59

<sup>34</sup> World Development Report (2000/2001) at page 69

### 5.1.11 There are many barrier to the growth of MSEs<sup>35</sup>

The Zambia Business Survey, for example, analyses key determinants of productivity growth among MSMEs and concludes that three are most important.<sup>36</sup>

- First, firms with large capital stock have greater worker productivity and in agriculture increased land size, as well as capital stock, increases productivity (an increase in land size of 10 per cent will lead to a 1.6 per cent increase in productivity).
- Second, the educational attainment of the firm's owner affects productivity in non-agricultural firms (but only slightly, interestingly, in agricultural firms): completing secondary school raises productivity in non-agricultural firms by 26 per cent compared to owners with less education. Vocational school and university finishers will tend to manage firms with greater productivity. The survey also notes that keeping financial records is positively associated with productivity: farmers keeping such records are 10 per cent more productive than others, and for non-agricultural firms the increase is higher, at 15 per cent.
- Third, access to productive inputs, such as water, electricity, banking and mobile phone services, tend to increase productivity. For non-agricultural firms, access to banking services is associated with 44 per cent high productivity while access to electricity increases productivity by 24 per cent. For agricultural firms, the key inputs are access to electricity (which increases productivity by 52 per cent), loans (44 per cent) and water (23 per cent).<sup>37</sup>

### 5.1.12 Women in business have many challenges

UNCTAD (page 88 - 89) highlights that the Strategic Plan for the Advancement of Women (SPAW), 1996-2001, was developed as an action plan to guide the Government and NGOs in implementing the Beijing Platform of Action and the National Gender Policy. It is based on the premise that women and men must have the same rights, obligations and opportunities in all areas of life. It focuses on five key priority areas which the Government, NGOs, donors and other actors need to address. These are:

- The persistent and growing burden of poverty on women and their unequal access to economic resources and participation in economic policy-making;
- Inequality in access to, and opportunities in, education, skills development and training;
- Women's unequal access to health and related services;
- Inequality between women and men in the sharing of power and decision-making; and
- The rights of the girl child

The majority of women-specific programmes fall in the category of social welfare and poverty alleviation programmes. Consequently, the Community Development Department of the Ministry of Community Development and Social Services is responsible for most of them. The ministry undertakes a number of programmes aimed at encouraging the participation of women in income-generating activities. These include

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<sup>35</sup> Excerpt from Mark Cutis, 2011. A draft report on Acting Small, Reforming the World Bank's Doing Business Rankings to Support Micro-Enterprises CAFOD (Page 45). The footnotes in the paragraph are maintained as presented in the report.

<sup>36</sup> The survey actually mentions 4, but two amount to the same thing.

<sup>37</sup> World Bank et al, *Zambia Business Survey*, June 2010, pp.11-13

the hammer-mill programme, informal skills training in tailoring, poultry, small-scale trading, agriculture, carpentry, and home economics.

There are only a few programmes targeting rural women. One example is the NGO, Women for Change Organisation (WFC), founded in 1994. It mobilizes financial support for rural women's groups engaged in income-generating activities in order to improve their economic status, and facilitates their networking with organizations involved in micro and small enterprise development.

Lack of access to credit is particularly acute among women entrepreneurs because it is culturally unacceptable for them to borrow from men. In addition, the burden of caring for those orphaned by the AIDS pandemic usually falls on their shoulders. Other social costs, related to the fact that they are the main part of their extended families' coping strategy to survive through the hardships wrought by structural adjustment, constitute a major drain on their cash flow.



## 5.2 Findings from Primary Data Sources

### 5.2.1 Smallholder farmers

#### 5.2.1.1 Main product lines

##### Mongu

The informants of Mongu reported that there were three main products that farmers produced in Mongu as shown in the table below.

*Products and inputs required – Mongu*

Product/Produce	Frequency of Production	Main Inputs Required
Maize	Once in a year (during the rain season)	Fertiliser
Rice	Once in a year (during the rain season)	Fertiliser
Vegetables	Once in year during the dry season	Pesticides and Fertiliser

##### Kasama

Kasama reported more variety of crops that smallholder farmers produced as presented in the table below. In terms of the number of times the crops were produced, the table shows that a number of crops were produced twice per year in Kasama.

*Products and inputs required – Kasama*

Product/Produce	Frequency of Production	Main Inputs Required
Maize	Once in a year, but some farmers have started producing twice in a year – those who have plenty of water (who live near the river and have irrigation systems)	Fertiliser
Sugarcanes	Grown throughout the year	Fertiliser, pesticides and machinery like ploughs. Requires a lot of water and can only be grown in a dambo
Rice	Rice is rain-fed and produced once in year	Fertiliser and pesticides
Soya beans	Produced once in a year during the rain season	No data provided
Vegetables	Grown throughout the year	Fertiliser and pesticides
Cassava	No data provided	No data provided
Millet	Produced once in a year, but production has reduced to lack of market for millet	No data provided
Groundnuts	Produced once in a year, but a few farmers are beginning to produce groundnuts twice in a year	No data provided
Beans	Produced twice yearly	No data provided

#### 5.2.1.2 Physical access to the market

Smallholder farmers and agri-business dealers do not have ease access to the physical market infrastructures. This is evidenced by the findings from the focus group discussions in Kasama and Mongu that;

- The distances from the point of production and the points of sale are prohibitively long. Some farmers cover more than 30 kilometers.

- Many farmers are located in places where there are literally no feeder roads. Worse still, existing feeder roads and bridges are in a deplorable state.
- The cost of transporting the produce is far more than costs of inputs.
- The cost of transporting a bag of maize or rice is between K15, 000 and K20, 000.

The average cost of hiring a land rover is between K150, 000 and K200, 000 for the transportation of vegetables from the farm to the market. (Monou Farmer)

### 5.2.1.3 Regulatory framework and marketing policies

It was established that the general policy framework for crop marketing is not complex, but it has not helped smallholder farmers much due to government controlled pricing of the maize, which is the main produce for peasant farmers.

The table below outlines the marketing arrangements for each of the crops.

*Crops and marketing arrangements*

Product/Produce	Marketing Arrangement
Maize	Government sets the flow price and Food Reserve Agency is the primary buyer, but millers and dealer can also buy from farmers.
Rice	Rice can also be sold to FRA, Millers and other dealers on the open market
Vegetables	Vegetables are primary sold on the open market
Sugarcanes	Sold to Kasama Sugar (a company that produces sugar) and open market
Millet	Sold on the open market
Soya beans	Sold on the open market
Groundnuts	Sold on the open market
Cassava	Sold on the open market

It is therefore clear that the marketing of the main product (maize) is state controlled. If the government does not permit the export of maize for instance it means farmers cannot export their produce. Under the regulations, only companies are allowed to export and not individuals. Therefore smallholder farmers cannot export the maize in their individual capacities except through established companies. There are other payments for export which a smallholder farmer cannot afford.

In terms of transportation, FRA does not provide transport. Each farmer must meet the cost of transporting the maize to FRA satellite centres.

### 5.2.1.4 Access to capital

Smallholder farmers do not have ease access to credit. It was however established that there are a few providers of credit such as Africa Works, Micro Bankers Trust, the Zambia National Farmers Union and Zambia National Commercial Bank (ZANACO).

The challenges that smallholder farmers and agri-business dealers face in accessing credit include the following:

- Lack of information on available providers of micro credit and the processes that are involved in applying for financing.
- Inadequate skills and low education levels to engage in rigorous processes of loan applications.

#### **5.2.1.5 Demand side issues**

From the general production standpoint, the needs of smallholder farmers are many, but government does not adequately meet their needs despite increased demand for inputs and extension services. Therefore, the growth of smallholder farmers is suffocated by the failure by the state to adequately meet their desperate need for input resources.

In terms of demand for the main agricultural produce, the following features characterise the market:

- The main purchaser of maize is government, while rice is mainly sold to millers (National Milling Company) and the local people.
- The price of maize remains the same no matter where it is coming from. Vegetables are the only product whose prices are determined by the market. If there is increased demand for vegetables, prices proportionally rise. This normally happen in seasons when there is scarcity of vegetables.
- On the open market, the price of maize rises in the rain season and in instances where some farmers, especially commercial ones horde the product.
- The price does not affect demand on some agricultural produce such as maize.

#### **5.2.1.6 Supply side issues**

The government is the main player in supplying inputs to farmers and this is mainly done through the Fertiliser Support Programme, but the supplies are far inadequate and as such farmers end up buying fertiliser which is not subsidised on the open market. Extension services are also weak and as such many farmers still produce below their potential productive capacities.

What puts farmers in an even more vulnerable position when supplying their produce is that they have no bargaining power if the products are being sold to FRA. Bargaining may only apply if dealers are the ones buying, but even then it is farmers who are normally on the losing end because dealers take advantage of the flow price.

#### **5.2.1.7 Women in agriculture**

The study has established that women are key actors in agricultural production, but they face a lot of challenges such as lack of access to agriculture land and inputs. Land holders are predominantly husbands and when they die, brothers in law or other relatives take over the land. In addition, women do not have access to information on available facilities for them including information on how they can acquire land and credit. Worse still, much of the land is under customary laws, which cannot be used to as collateral to access credit.

## **5.2.2 Other Micro and Small Enterprises (Lusaka)**

### **5.2.2.1 Nature of business and product lines**

The Cross Border Traders Association reported that there was no MSE that exports – all traders import from other countries in the region and sell at COMESA market in Zambia. The main products that are imported are clothes, food, cosmetics and alcohol.

### **5.2.2.2 Physical access to the market**

On physical access to the market, the following were findings:

- The market infrastructure is not enough – the space is too small. If the government upgraded the market into a multi-storey facility more traders would be accommodated.
- The cost of transport for products from different countries is relatively high.
- The rentals are between K30, 000 and K185, 000 depending on the size of the stall.

### **5.2.2.3 Regulatory framework and marketing policies**

The following is the process for becoming a cross border trader within COMESA:

- A trader must register with COMESA – the registration is done at the market.
- There are limited regulations – anyone can engage in any type of trade business
- The traders are allowed to trade within the COMESA region only.

Other programmes that benefit SMEs under COMESA include the following:

- Simplified trade regime to help small scale farm producers.
- COMESA waivers: waivers are granted to businesses under COMESA such as the commercial certificate of origin.

On the Zambia Revenue Authority (ZRA) processes at the border, traders pointed out that the process of declaring goods was a complex one for them.

### **5.2.2.4 Credit facilities**

The Cross Border Traders Association submitted that there were no credit facilities that specifically targeted small scale traders. Traders who are in need of capital must compete with other applicants in commercial banks, micro finance institutions, NGOs, etc and all the conditions must be met.

### **5.2.2.5 Participation in foreign trade**

The Government of the Republic of Zambia has no clear cut policy to specifically protect and support local Zambian MSEs to systematically enter into foreign markets. Consequently, foreign traders who have access to capital in their countries have taken the centre stage in local trading at the expense of local traders.

### **5.2.2.6 Other issues**

The following are the general issues and observations that were made by the Cross Border Traders Association:

- The media has not helped to highlight the challenges that the traders face
- The huge amounts that traders pay are not accounted for.
- Workers at the COMESA market pay NAPSA, but they have no numbers to monitor their contributions
- The COMESA secretariat does not adequately monitor the activities of the market

## 6.0 Discussion of Findings

### 6.1 Smallholder farmers

#### **Physical access to the markets**

It is evidently clear that lack of feeder roads and bridges in rural Zambia has hampered physical access to the markets. The poor state of existing road infrastructures and bridges render many rural roads impassable. The impassability of the roads has shunted millions of Zambians out of the mainstream economic sectors. The cost of doing business has also skyrocketed as most rural smallholder farmers are compelled to bear the cost of transporting their produce to points that can be reached by private sector buyers and the Food Reserve Agency.

Due to the impassable nature of the roads, the main means of transport is animal draught power, which is often slow and in the long-run becomes expensive taking into account the man-hours that are lost using this mode of transport.

In instances where the hired vehicles reach farms, the cost is very high due to the wear and tear considerations that transporters apply.

The current situation entails that the commitment of government to “Facilitate the development of market infrastructure such as feeder roads, storage and market facilities”<sup>38</sup> is a mere paper pronouncement.

#### **Regulatory barriers in sectors where the poor are likely to supply their goods**

Even though the study does not reveal distinct regulatory barriers in the agriculture sector, the main barriers arise from crop marketing.

The system of setting flow prices for maize is extremely indifferent to the reality that a smallholder farmer operates in. The prices are set after the farmer has produced and does not take into account the cost of production that a farmer incurs. Therefore, a farmer cannot even determine the profit at the time of production since the prices are set after production. These eventualities make budgeting and determination of profits problematic to farmers.

The system of a government controlled setting of flow prices is in conflict with the strategy to “Promote structured markets and transparency in the pricing system”<sup>39</sup>

Further, it is worthy noting here that the peasant farmers have no financial capacity to meet the costs of exporting their products especially maize. The regulations do not permit individual farmers to export whenever government allows exportation of maize. This in itself is barrier because peasant farmers do not operate as companies, but as individuals or families. This informal nature of peasant operations puts them at a disadvantage. Consequently, Medium and Macro companies exploit the poor who do not have control over their own produce.

In view of these developments the sector vision of government to have “an efficient, competitive, sustainable and export-led agriculture sector that assures food security and increased income by 2030”<sup>40</sup> is far fetched. This position is based on the simple understanding that the goal of poverty reduction focuses on the poor, but it is

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<sup>38</sup> See SNDP at page 24

<sup>39</sup> See SNDP at page 24

<sup>40</sup> See SNDP at page 23

these same poor who are excluded by policy designs of government. If agriculture is to remain the cornerstone of poverty reduction then programmes that deliberately target the poor are desirable.

### **Access to financial services**

The strategy of the Government of the Republic of Zambia is to “Facilitate access to credit, particularly for small and medium-scale farmers.”<sup>41</sup> However, there is no evidence that government has invested a lot in creating credit facilities for small scale farmers. Therefore, farmers must compete with other sectors for financial resources. This puts farmers at a disadvantage because investments in other sectors produce returns faster than agriculture.

The number of available providers of financial services is far too small as compared to the need for financial resources among smallholder farmers. This means that peasants are predominantly subjected to competing for resources with the rich who have collateral.

Even though some of the poor people have land, they cannot use it as collateral to access the much needed finances for agriculture production. This is because the land is under customary tenure, which is not secure. It must also be noted that many poor people have little or no information on how to secure title deeds. Worse still, even if they secured title deeds, the value of land in rural areas is too low and banks as the main providers of credit may not find it profitable and worth the risk.

### **Trade expansion to create opportunities to access regional and international markets by Zambian businesses**

Firstly, it is non-arguable that there cannot trade expansion without productive resources especially finances. There are two primary ways in which financial resources can be generated for investment. The first means is by shareholder contributions and the second way is by borrowing.

The limited availability of financial resources has drastically militated against agriculture trade expansion. The main argument here is that the whole value chain in agriculture must be fully understood and invested in for forward and backward linkages that the sector provides. The most immediate areas of consideration is heavily investing in agro-processing so that Zambian businesses can exploit the regional and international markets.

Exportation of crops without value addition is not the best option for Zambia. Value addition is the engine for sector expansion and creation of jobs for the poor in the rural areas.

Some the main sector strategies that the government has put in place include the following<sup>42</sup>:

- Promote efficient water utilization for sustainable agricultural growth;
- Promote water harvesting technologies such as dams and weirs; and
- Upgrade skills of technical and professional staff in research and extension services training.

In order for the sector strategies to work, government must heavily invest smallholder farmers and facilitate the exportation of products under the USA championed African Growth Opportunity Act (AGOA).

Women must particularly be targeted in line with the government strategy to “Promote and strengthen equal participation of male and female farmers in improving production through out-grower schemes; and Promote equitable and reliable access to agricultural land”<sup>43</sup>

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<sup>41</sup> See SNDP at page 24

<sup>42</sup> See SNDP at page 24

## 6.2 Other MSEs

### **Physical access to the markets**

It is clear from the findings of the study that market infrastructures for general traders are inadequate. The case for the COMESA market seriously shows that the commitment of the Zambian government to strategically reposition MSEs for effective exploitation of regional and international markets shall not be attained in the near future if current trends continue. The implications of limited physical market infrastructures are many, but the most important one is that many potential traders are denied the opportunity to trade in conducive environments where they can also learn from other traders the intricacies of trade.

According to the SNDP, government is committed to actualizing the following strategies<sup>44</sup>:

- Identify and promote the development of new products for export markets;
- Facilitate investment in trade related infrastructure;
- Facilitate capacity building programmes for private sector on trade related matters; and
- Strengthen compliance to international standards and promote adaptation of international best practices in product/service quality and standardisation

These strategies are still far from being implemented and this means that MSEs will continue to face a lot of challenges in a foreseeable future.

Other impediments to physical accessibility of markets include the high cost of rentals and transports costs in urban areas. Many poor traders cannot afford to pay rentals and meet the cost of commuting daily in an environment which is dominated by foreign traders whose enjoy better incentives than their Zambian counterparts.

Apart from rentals there are other fees that traders pay at the COMESA market. It is envisage that such fees will be used for infrastructure development, but this is not the case.

### **Regulatory barriers in sectors where the poor are likely to supply their labour and goods**

In the study of cross border trade at COMESA market, there was nothing much that came out on regulatory barriers as can be seen from the findings. The removal of barriers within the COMESA region means that traders can freely do their business within COMESA.

While this is a positive development, Zambia is still grappling with the challenges of private sector development especially the development of MSEs. It is this lack of preparedness on the part of Zambia, the COMESA membership has to a great extent benefited other member countries at the expense of local traders. Some of the big Zambian companies export to other countries, but it is the MSEs that are government must be concerned about due to the fact they have potential to absorb the vast majority of the employed young people.

The policy of creating one stop border posts will has minimised some of the problems that traders are still complaining about when it comes to goods declaration at the borders.

In terms of labour, the revelation from the study there are some Zambians who are employed by foreigners at the COMESA market and they pay NAPSA, but they have numbers is an issue of exploitation. It is possible that

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<sup>43</sup> See SNDP at page 24

<sup>44</sup> See SNDP at page 30



while contributions are collected by employers, remittances are done. Casualisation is another issue that the poor face in the supply of their labour. The case for COMESA market confirms that labour laws are flouted.

### **Access to financial services**

According to the SNDP, government is set to “Provide effective financial assistance to enhance exports through the empowerment fund and other interventions.”<sup>45</sup> Nonetheless, the findings show that the empowerment fund does not specifically cross border trade and yet cross border trade presents an immense opportunity to develop MSEs into Medium enterprises that can venture into processing for further exploitation of trade opportunities regionally and internationally.

Government cannot expect Zambian cross border traders to compete with traders from other countries where interest rates on borrowing are lower than Zambia. What makes it even more difficult is that traders from other countries who bring their good into Zambia to sell on retail reduce their prices which a Zambian with borrowed funds cannot beat due to high interest rates.

### **Trade expansion to create opportunities to access regional and international markets by Zambian businesses**

The Commerce and Trade sector is a major contributor to export-led growth for the country. In this regard, Government has continued to pursue a liberal trade policy at both regional and international levels. The Vision of the sector is “to become an export driven, competitive and viable Commerce sector by 2030” and its goal is “to increase the contribution of exports to GDP from 35 percent to 40 percent”.<sup>46</sup>

In spite of an ambitious vision that Zambia has for the sector, the findings of the study show a gloomy picture. The targeting of growth areas in the manufacturing sectors especially agro-processing is not being effectively done. There is however a great opportunity for Zambia to expand non-traditional exports (NTEs) and extent out-grower schemes to unreached smallholder farmers in rural areas.

AGOA presents many opportunities for Zambian businesses, but government too must invest in its people by making available soft financial resources to MSEs. Partnerships with other CSOs must be forged to capacity build local MSEs so that they can meet international standards as they venture into regional and international markets.

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<sup>45</sup> See SNDP at page 29

<sup>46</sup> See SNDP at page 29

## 7.0 Conclusions and Recommendations

### 7.1 Conclusions

- ✓ Unless government invests heavily in feeder roads, bridges and market infrastructures, physical access to the markets will remain a pipe dream and agriculture, which is the main source of livelihood for the majority of Zambians will not yield positive returns on investment for the smallholder farmers.
- ✓ Markey reforms have not fully benefited the poor as more often than not it is Medium and Macro companies that have exploited the poor by purchasing their goods and reselling them at exorbitant prices on one hand. On the other hand the poor who are employed by Medium and Large scale companies are paid slave wages due to the low minimum wage. At the time of the study, the new government made pronouncements that were in the direction of increasing the minimum, which is positive for the poor people.
- ✓ Access to financial resources for MSEs and smallholder farmers is limited and the status quo will remain the same until government develops financing programmes and policies that will specifically target these groups. There cannot be a better way to reduce poverty than investing in MSEs and smallholder farmers.
- ✓ The cost of exporting goods is too high to be met by smallholder farmers and MSEs. Additionally, the regulatory framework on exports is too complex to be followed by MSEs and smallholder farmers. This has caused smallholder farmers to be at the mercy of established companies that have the capacity to meet all conditions.

### 7.2 Recommendations

#### Overall Recommendation

A large scale study on making markets work better for the poor should be commissioned in the near future. This is critical due to the prominence that the international community has recently given to the subject. The international community is in agreement that interventions that increase poor people's access to markets are more sustainable than any other. The study should not only target Zambia, but also other countries in the region and learn how the markets have worked for the poor within the region. The current study should be used as a stepping stone on which further research must be built upon.

#### 7.2.1 Crop Marketing

- Government must be more transparent in setting the floor prices, which must be determined by market forces. Farmers must be in the forefront to give input in determining the prices. Costs of production and transport must be factored in.
- Big companies should not be retailing agro chemicals. They should instead supply to local smallholder agro chemical dealers.
- More support and campaigning should be done in promoting the formation of cooperatives. Farmers must be educated on the benefits of cooperative societies.

## 7.2.2 Credit

- Agriculture credit facilities should be flexible and deliberately extended to peasant farmers apart from commercial farmers who have access to other resources.
- Chambers of Commerce and Industry must be in all the districts of Zambia. These chambers of commerce would provide training opportunities to MSMEs while building their capacities to access available credit facilities. In addition, chambers of commerce would serve as information centres.
- Government through the Ministry of Agriculture should create co-operative banks.
- MSEs especially those involved in cross border trade should also be specially targeted for empowerment funds.

### **General Recommendations**

- Government should improve on the road infrastructure in order for farmers to have ease access to markets.
- Government must come up with a policy and invest in programmes that will encourage farmers to produce different products all year round. Investing in irrigation is more desirable than ever before.
- Government should promote manufacturing investments in the rural areas so that products such groundnuts can have a ready local market. Generally, agro-processing will broaden market opportunities to farmers.
- Agricultural technologies for smallholder farmers must be promoted in order to increase productivity among peasant farmers.
- Government should have a deliberate policy to educate traders on international trade issues and create an environment that offers an opportunity to MSEs to break into international markets.
- Capacity building programmes for small holder farmers must be undertaken in various areas such as accessing credit.

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**Appendix 1: Questionnaires****COMESA FORM**

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1. What regulatory framework is in place to support Micro and Small Enterprises (MSEs) in regional trade?
2. What constraints does the current regulatory framework pose to MSEs?
3. What measures is COMESA taking to engage governments in the region to address the current constraints that MSEs face and promote MSE led trade within the region?
4. What mechanisms are in place for COMESA to effectively engage MSEs in activities that foster their growth in trade?
<b>Recommendations</b>

**GOVERNMENT FORM**

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1. Historically, how has government acted to protect and promote MSEs?
2. What is the current regulatory framework for MSEs?
3. How has the current regulatory framework helped to develop MSEs?
4. What are the major constraints (in order or priority) that face MSEs from the government perspective?
5. How has government helped to address the constraints that MSEs face?
6. What practical support mechanisms has government put in place for growth of MSEs?
2. How has government helped MSEs to venture into international markets including exploiting the African Growth Opportunity Act (AGOA)?
<b>Recommendations</b>

**CSOs FORM**

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5. What programme do you have for the development of Micro and Small Enterprises?
6. From your experience in working with MSEs what are the major constraints that they face in order of priority?
7. What policy advocacy activities have you carried out over the years to ensure that MSEs operate in an enabling environment for growth and poverty reduction?
8. What has been the response of policy makers in addressing the policy issues that you have been advocating for?
9. What actions must be taken to promote the growth of MSEs and enable them to venture into international markets under the African Growth Opportunity Act and other opportunities that exist?
<b>Recommendations</b>

## SMALLHOLDER FARMERS AND MSEs FORM

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**NOTE: Section A is for small holder farmers**

**Section B is for Micro and Small Entrepreneurs (MSEs)**

### **PART A: SMALL HOLDER FARMERS AND AGRI-BUSINESS (MONGU AND KASAMA)**

<b>Section A: Nature of business and products</b>
1. What are the main agricultural products that farmers produce in this district?
2. How many times in a year do you produce each of the products listed at 1 above?
3. What is involved in producing each of the products at 1 above?
<b>Section B: Physical access to the market</b>
1. What is the average distance between points of production and points of sale?
2. What is the average cost of transporting goods to the market or purchasing agency?
<b>Section C: Regulatory framework and marketing policies/procedures</b>
1. What is the current marketing arrangements for each of the products listed at 1 in section a?
2. What other regulations are applicable in the marketing of each of the products?
3. What are the weaknesses of the current marketing policies and controls (export) for each of the products?
4. What are your recommendations on marketing policies and all applicable procedures?
<b>Section D: Access to capital</b>
1. Who are the main providers of credit facilities?
2. What are the challenges in accessing credit for agriculture?
3. What are your recommendations on agriculture credit?
<b>Section E: Demand side issues</b>
1. Who are the major purchasers of each of the products itemised at 1 in section A?
2. How are the prices of each of the agricultural produce set?
3. How does price affect demand?
4. How does the government set flow price for grains affect demand?
5. What are the other factors or conditions that affect demand for each of the products?
<b>Section F: Supply side issues</b>
1. Do you have the bargaining power in the supply of each of the agricultural produce?
2. What are the sources of exploitation in the supply chain of agriculture products?
3. What policies are in place to prevent exploitation of small holder farmers by middle dealers or marketing agents?
4. To what extent are such policies enforced?
5. What are some of the factors/conditions that affect supply of the products on the market?
6. What are your recommendations on supply issues in relation to the market locally and regionally?
<b>Section G: Gender issues</b>
1. To what extent have women participated in agriculture?
2. What are some of the factors that affect the effective participation of women in small holder agriculture?
<b>Section H: General constraints</b>
From the whole discussion what are the major constraints for your business in order of significance/priority?
<b>General recommendations</b>

**PART B: SMALL AND MEDIUM ENTREPRENEURS/TRADERS (LUSAKA)**

<b>Section A: Nature of business and products</b>
1. What are the main categories of business that you are involved in?
a) General Trade – local products
b) Import and exports
c) Small scale manufacturing
d) Services
e) Other – specify:
2. What are the main products that fall under each of the business categories mentioned at 1 above?
3. What is involved in each of the business categories mentioned at 1 above?
<b>Section B: Physical access to the market</b>
1. Are the market infrastructures adequate and accessible in terms of space and rental charges?
2. What is the average cost of transport costs to the market and rentals?
Transport costs to the market
Rentals
<b>Section C: Regulatory framework and marketing policies/procedures</b>
1. What regulations are applicable in the production/purchase and marketing/selling products under each category of business?
2. What are the weaknesses of the current regulations on local trade, imports and exports for each of the products?
3. What are your recommendations on trade and international regulations/procedures on importation and exportation?
<b>Section D: Access to capital</b>
1. Who are the main providers of credit facilities?
2. What are the challenges in accessing credit for your products as MSE?
3. What are your recommendations on credit for MSEs?
<b>Section E: Demand side issues</b>
1. Who are the target customers under each category of business?
2. How are the prices of each of the agricultural produce set and how does price affect demand?
3. What are the other factors or conditions that affect demand for each of the products?
<b>Section F: Supply side issues</b>
1. What policies are in place to prevent exploitation of MSEs by large enterprises and to what extent are such policies are enforced?
2. What are some of the factors/conditions that affect supply of the products on the market?
3. What are your recommendations on supply issues in relation to the market locally and regionally?
<b>Section G: Gender issues</b>
1. To what extent have women participated in MSEs?
2. What are some of the factors that affect the effective participation in local and regional trade?
<b>Section H: General constraints</b>
From the whole discussion what are the major constraints for your business in order of significance/priority?
<b>General recommendations</b>

**Appendix 2: List of Informants and Organisations Covered**

1. Precious Makani (Mongu)
2. Judith Kakoma (Mongu)
3. Mr. Mundia (Mongu)
4. Mr. Felix K. Chiwela (Kasama)
5. Mr. Kaebuka (Kasama)
6. Mr. Aubrey Kashonka (Kasama)
7. Mr. Robert Mulenga (Kasama)
8. Mr. Geoffrey C. Mabo (Kasama)
9. Pastor Isaiah Chalwe (Kasama)
10. Mr. Mbewe (Kasama)
11. Cross Border Traders Association
- 11.12. PELUM



### ***Appendix 3: Terms of Reference***

#### **Introduction**

The Jesuit Centre for Theological Reflection (JCTR) is a faith based organization with a mission of fostering faith that promotes justice by way of research, teaching, consultancy and advocacy on issues linking faith and social justice in Zambia. This is done through three Programmes: Faith and Justice, Social Conditions and Economic Equity and Development programmes.

In line with the JCTR mission, the Economic Equity and Development Programme is commissioning a study on how to promote a just market system (trade and investment) that create opportunities for all, especially the poor. The study is aimed at identifying and addressing obstacles to poor people's participation in economic activities thereby promoting inclusive economic growth.

#### **1. Background**

While Zambia has made significant strides in economic growth in the last decade, it is still classified as a Least Developed Country (LDC) with an estimated GDP per capita of US \$962.59 (2009). The Zambian economy is dominated by mining activities, copper and cobalt, which accounts for over 70% of the country's export earnings. The majority of the Zambian people however are engaged in agricultural activities, particularly subsistence farming. The agricultural sector has witnessed high levels of production in the last two years particularly maize production, with another maize bumper harvest of over 2 million metric tons being projected for 2011. However, many supply side constraints like infrastructure, extension services etc and marketing of agricultural products have remained a challenge and thus most small scale farmers cannot benefit from increased output.

The improved economic performance seems to have been spurred by the market reforms embarked on in 1991 after increasing dissatisfaction with the inward looking state-led development strategy. The market reforms were meant to put the private sector at the center stage of economic activities and thus to be the engine of growth and poverty reduction. This was done by replacing state intervention in markets with private incentives, public ownership with private ownership and protection of domestic industries with competition from foreign producers and investors.

While the private sector economic led approach (market economy) has delivered growth in Zambia, registering annual average GDP growth rate of 6.1 per cent in the last five years, poverty (overall incidence of poverty at 64% and rural poverty at 78% - LCMS, 2006) levels and unemployment of over 50% have remained prevalent leaving many people disenchanted with market economy. The private sector has failed to create jobs even though the economy is private led leaving the government the biggest employer. The question therefore is; can the market system that has delivered economic growth be enhanced to ensure inclusive economic growth that accommodates poor people's participation in the market system and thus reduces poverty and unemployment.

## **2. Rationale**

Markets matter to the poor people just as much as they do to everyone else as the poor too rely on the markets to sell their labor and products, to finance investment and to insure against risks. So while well functioning markets generate sustainable economic growth, they also expand opportunities for the poor. Well functioning markets are therefore essential for inclusive economic growth as poor people are enabled to participate in the economy.

Reading through the FNDP and SNDP, it is evident that little seems to have been achieved in terms of inclusive economic growth as the vision of both documents is about translating economic growth into meaningful development. What this shows is that even when markets have delivered growth, they do not always serve poor people as well as they should. It is therefore fitting that JCTR engages in such a study to contribute to the process of promoting inclusive economic growth.

## **3. Objective**

JCTR under Economic Equity and Development Programme is therefore commissioning this study to seek ways of promoting a just market system that creates opportunities for all especially the poor. This will be done by identifying barriers that hinder poor people from effectively participating in the market economy and suggesting ways of eliminating or minimizing these barriers and the subsequent participation of poor people.

Particular attention will be given to:

- Physical access to markets;

- Regulatory barriers in sectors where poor people are likely to supply their labor and goods;
- Access to financial services;
- Trade expansion to create opportunities to access regional and international markets by Zambian businesses.

#### **4. Outputs**

It is expected that at the end of the study, a report will be produced for JCTR whose contents will inform JCTR's advocacy work. JCTR will hold policy dialogue with government and other stakeholders to share the research findings and implementation of the intervention measures by government is expected to result in increased efficiency and equity of the market system. This means that while the market system allows more people to participate and benefit from the growth, it will not compromise the productive capacity of the economy but enhance it. This will improve the productive capacity of the poor as they participate in the economy and therefore reduce poverty. The findings of the study will also be shared with ordinary Zambians through our outreach teams in six districts of Zambia on how they can overcome the supply constraints and be able to effectively participate in the trading and investment activities.

#### **5. Beneficiaries and impacts**

The poor segment of society is the target, especially small entrepreneurs. Expected outcomes or results include increased opportunities for the poor to participate in the economy, increased trade volumes of nontraditional products, increased job creation and ultimately reduced poverty levels. This will be verified through various government reports.

#### **6. Project management (includes monitoring and evaluation)**

The researcher will independently carry out the research work but the Economic Equity and Development of the JCTR will oversee the researcher's work.

#### **7. Conclusion**

While the Zambian economy has been cited as one of the fastest growing economies in Sub Saharan Africa (SSA), it is an undeniable fact that the growth has not significantly trickled down to the a larger segment of the Zambian population. One of the greatest challenges that government therefore has is to ensure that the growth becomes more inclusive. One way this

can be achieved is by facilitating people's participation in the economy through trade, investment and supply of labor. It is the belief of JCTR that through this study, the performance of the market economy will be enhanced thereby allowing more people to participate in the economy. It is said that market economy is sometimes socially blind and therefore needs deliberate measures to make it deliver social and economic development needs.

## 8. Timeline

<b>Activity</b>	<b>When?</b>
Concept Note Completed	07-Jun-11
Researcher Identified/ Consultative meeting held	21-Jun-11
Research Begins/ Data Collection	01-Jul-11
Draft Report Done	12-Aug-11
JCTR gives researcher feedback	19-Aug-11
Final Draft	31-Aug-11

Jesuit Centre for Theological Reflection (JCTR)

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Research Paper

Advocacy on Living Conditions

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2011

# Making Markets Work Better For The Poor

Chishimba, S

Jesuit Centre for Theological Reflection

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