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OF THE LOW SURVIVAL RATE OF MSMEs AND ITS  
EFFECT ON ZAMBIA'S ECONOMY

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INTERNATIONAL BUSINESS AT THE UNIVERSITY OF GREENWICH BUSINESS SCHOOL.

## DECLARATION

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## **DEDICATIONS**

I dedicate this dissertation to my dear mother Elizabeth Namusamba, who has been a source of academic inspiration to me since my childhood, to my dear wife Ng'andwe who has supported me unconditionally both physically and spiritually. My father Lloyd Simuchimba and my brothers Israel and Wankunda Simuchimba who have supported me and always encouraged me to give my best in every circumstance.

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## ACRONYMS

MSME	-	Micro, Small and Medium Enterprises
ZRA	-	Zambia Revenue Authority
PACRA	-	Patents and Companies Registration System
OECD	-	Organisation for Economic Co-operation and Development
ZIPAR	-	Zambia Institute for Policy Analysis and Research
GDP	-	Gross Domestic Product
SPSS	-	Statistical Packages for Social Sciences



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## **ABSTRACT**

**Purpose** - The aim of this study is to find out why MSMEs in Zambia have a low survival rate and what impact this has on the nation's economic growth, as well as propose solutions that will enable MSMEs to become more sustainable and contribute positively to the country's economy.

**Research design and methodology** - The study undertaken was guided by the epistemological approach of Positivism. To be specific, a variant of this approach called the Soft Positivism paradigm. The study used a mix of both quantitative and qualitative research methods and obtained data from sources such as a survey, case study, and review of secondary data.

**Findings** - The key outcome of the study indicated that survival of MSMEs is not only dependant on them accessing affordable financing but is also significantly impacted by a lack of a steady cashflow and low literacy levels.

**Limitations** - The study was limited by scope and resources, as a result only 50 MSMEs from the formal sector were analyzed. A lack of data relating to the current contribution of each MSME sector to the country's GDP restricted the researcher from establishing a correlation between the sector with highest GDP contribution to the sector with the highest number of MSMEs.

**Recommendations** - The study recommends that the Zambia government lowers the cost of doing business and makes effort to formalise MSMEs that operate in the informal sector in order to increase its tax base.

**Conclusion** - The research concludes that Government can play a significant role in ensuring that MSMEs make a significant contribution towards the country's economic growth.

**Value** - The results of this study address the core issues and challenges faced by MSMEs in Zambia; these will be of interest to Government, financial institutions in the private sector as well as non-governmental organisations whose goal is to give MSMEs the right kind of support.

**Key words:** Micro, Small and Medium Enterprise, Gross Domestic Product, economic growth, entrepreneurship, Zambia.

## **1.0 CHAPTER 1: INTRODUCTION**

### **1.1 Introduction**

This chapter will give a brief background on the research problem and justification for this research. The chapter will further discuss the aims, questions and objectives of the research. The chapter also looks at the defined scope of the research, the contribution of the research and the methodology that will be used by the author to conduct this research. The chapter concludes by outlining the dissertation layout.

### **1.2 Background, Research Problem and Justification**

Over the last three decades there has been a realisation that Micro, Small and Medium Enterprises (MSMEs) contribute significantly to a nation's economy by creating jobs, stimulating innovation and contributing to the country's Gross Domestic Product (GDP). The Organisation for Economic Co-operation and Development (OECD) estimates 90% of firms and 63% of the world's workforce can be attributed to MSMEs (Munroe, 2013).

Despite this being the case, MSMEs in developing countries seem to contribute less to their economies compared to those in developed countries. Numerous factors can be sighted for this case, some of which include lack of accessibility to finances and necessary technical skills to manage and grow the MSMEs. The lack of these skills leads to MSMEs having a short life span.

This research analyses MSME participation in the Zambian economy and Government support for MSMEs. The research will help both the public and private sectors in Zambia put in place initiatives that will adequately support MSMEs by addressing core issues that prevent them from thriving into enterprises that can contribute positively to the country's economic growth.

### **1.3 Research Aim, Questions and Objectives**

This section looks at the purpose of the research, questions and accompanying objectives that warrant the undertaking of this research.

#### **1.3.1 Problem Statement**

MSMEs have been recognised as being the backbone of a country's economy. They are found in all sectors of the economy. Despite this, there is little or no literature highlighting challenges faced by MSMEs and their contribution to Zambia's GDP. This research will analyse reasons why MSMEs in Zambia have a low survival rate and the impact that this has on Zambia's economic growth.

#### **1.3.2 Research Aim**

The aim of this dissertation is to find out why MSMEs in Zambia have a low survival rate and what impact this has on the nation's economic growth, as well as propose solutions that will enable MSMEs to become more sustainable and contribute positively to the country's economy.

### **1.3.3 Research Questions**

The following are the research questions (RQ) that the research will endeavour to answer:

1. RQ 1: What is the total number of MSMEs operating in the informal sector compared to those in the formal sector and what impact does this have on the country's economy? This research question addresses research objective RO1.
2. RQ2: What percentage of Zambia's annual turnover and employment do MSMEs contribute? This research question addresses research objective RO1.
3. RQ3: What challenges do MSMEs face in accessing finance? This research question addresses research objective RO2.
4. RQ4: Do MSMEs have the required management and financial skills that they need for their long term survival? This research question addresses research objective RO2.
5. RQ5: In which sector do most MSME belong and which sector has the highest MSME survival rate? This research question addresses research objective RO3.
6. RQ6: What policies and regulations can government put in place to enhance the growth and success of MSMEs? This research question addresses research objective RO4.

RO1: To establish the extent to which MSMEs in Zambia contribute the country's economy.

RO2: To establish reasons why MSMEs in Zambia have a low survival rate

RO3: To establish the MSME sector with the highest number of MSMEs

RO4: To recommend measures that can be put in place by Government to stimulate MSME contribution towards Zambia's economy.

### **1.4 Research Scope**

Due to time and resource constraints the research will only look at MSMEs that have been formally registered as businesses in Zambia.

### **1.5 Explanatory Variables and Dependent Variables**

#### **1.5.1 Independent Variables**

The explanatory or independent variables are identified from factors that could lead to MSMEs in Zambia having a short life span. The factors identified are Literacy Levels, MSME Financing and Government Policy.

### 1.5.2 Dependent Variables

The research focuses on finding out why MSMEs in Zambia have a low survival rate; this being the case, the dependent variable identified is MSME life span. From observing the interrelation between the dependent and independent variables we may discover other reasons why MSMEs in Zambia have a short lifespan.

$$Y = bX_1 + bX_2 + bX_3 + e$$

Where

$Y$  = MSME Life Span

$X_1$  = Literacy Levels

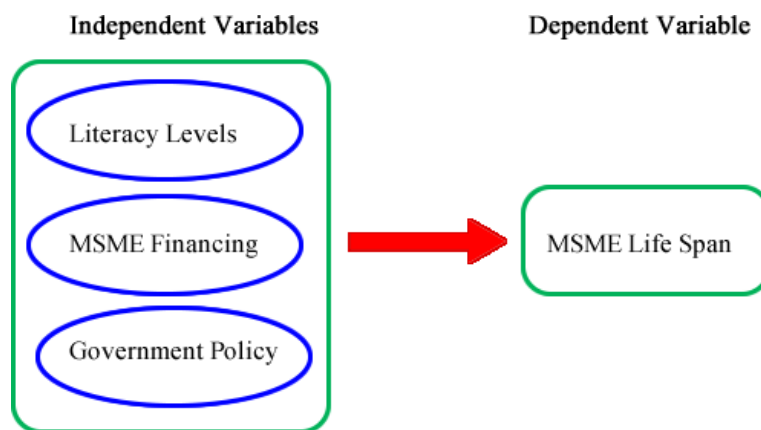
$X_2$  = MSME Financing

$X_3$  = Government Policy

$e$  is error term or unknown factors in the model

$b$  are the coefficients that give an estimation of the strength or impact that  $b$  will have on  $Y$ , the higher the value of  $b$  the bigger it impacts  $Y$ .

Figure 1 below shows a visual illustration of the dependent and independent variables identified in this research.



**Figure 1** Independent and Dependent Variables

Source: Author, 2018

### 1.6 Research Contribution

A significant amount of scholarly output has been produced with regard to the contribution of SMEs to a country's economic growth. Much of the existing work has focussed on MSMEs in the developed countries. Currently, little information exists in this area of study in relation to MSMEs in the developing countries and in particular the Zambian context, especially with

regard to factors that lead to MSMEs having short life spans. The results of this research address the core issues and challenges faced by MSMEs in Zambia; these will be of interest to Government, financial institutions in the private sector as well as non-governmental organisations whose goal is to adequately support MSMEs.

## **1.7 Research Design**

In order to achieve the research objectives outlined, this research will make use of both quantitative and qualitative research methods. Data will be collected from both primary and secondary sources for analysis purposes. The primary sources will include in-depth interviews and the use of structured questionnaires.

### **1.7.1 Research Approach and Method**

This study will adopt quantitative research methods which are based on numerical and standardised data that when manipulated can lead to identification of trends. Saunders *et al.* (2017, p.496) recommend the use of quantitative methods when analysing data that is numerical in nature and involve the analysis of various statistics.

### **1.7.2 Data Collection and Analysis Techniques**

There are mainly two categories of data collection methods that exist; these are primary and secondary methods. Kothari (2004, p.96) describes primary methods as those used to collect data for the first time while secondary methods as those that are reliant on data that has already been collected, processed and published. The data collection approach in this research will make use of both primary and secondary methods. This will be achieved through the analysis of existing statistical information, semi-structured interviews, and use of structured questionnaires.

The research objective is to reach a conclusion on the contribution of MSMEs to the Zambian economy, therefore inferential statistical techniques such as regression analysis will be used to analyse the data collected.

## **1.8 Dissertation Structure**

Chapter One	:	Introduction
Chapter Two	:	Literature Review
Chapter Three	:	Research Methodology
Chapter Four	:	Findings and Analysis
Chapter Five	:	Recommendations and Conclusion
References		
Appendices	-	Maps
	-	Statistical Abstracts

## **1.9 Chapter Summary**

This Chapter outlined the general framework of the research project; it specified the aims and objectives of the research as well as how they are to be achieved. The chapter also identified the knowledge gap that currently exists and what value conducting this research will add to the body of knowledge that currently exists on MSMEs in developing countries.

The next chapter focuses on gaining an in-depth understanding of the problem area identified in this chapter; this will be achieved by conducting a literature review to put the study into context.

## **2.0 CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The aim of this chapter is to review literature that focuses on the development and sustainability of MSMEs and their contribution to economic growth. This will be done in order to provide vital information that will be used to achieve the objectives stated in the previous chapter, as well as identify existing literature gaps relating to the research topic. The author starts by looking at the foundation of an MSME which is the entrepreneur then later looks at challenges faced by MSMEs in the developing world.

### **2.2 Entrepreneurship Theories**

Entrepreneurs have the power to drive economies of countries. Schumpeter (1965) describes an entrepreneur as an individual who exploits a market opportunity by using organisational or technical innovation. Business expert Peter Drucker defines an entrepreneur as one, who looks for change, reacts to it and exploits the change as an opportunity (Drucker, 2005). From the definitions given, it can be seen that an entrepreneur is a risk taker, a leader, an innovator, and gap filler. In the process of exploiting a market opportunity for profit by either providing a service or goods, the entrepreneur ends up establishing an enterprise. Schumpeter (1965) argues that a nation's technological and innovative change comes from entrepreneurs. This is done by making new combinations in production that open up opportunities to new markets, thus making an entrepreneur a force of economic change (Link, 2007).

Entrepreneurs create jobs; this is vital to contributing to economic growth by reducing unemployment. The International Labour Organisation (ILO) estimates that by 2020, 500 million jobs will need to be created of which 90% of them will be needed in developing countries (World Economic Forum, 2016) Therefore, it can be concluded that the only way these jobs will be created is by supporting an entrepreneurial spirit.

### **2.3 Economic Growth**

One of the key objectives of any country is economic growth. Haller (2012) defines economic growth as an increase in the national per capita income; this is shown by an increase in a country's Gross Domestic Product (GDP), Gross National Product (GNP) and National Income (NI). Haller (2012) further argues that economic growth is achieved by efficient utilization of the available resources and increasing a country's production capacity.



Ragan (2005) sites a number of barriers to economic growth that exist. These include mismanagement and inefficiency in the use of a nation's natural resources and a lack of a motivated, trained and well developed entrepreneurial class.

## 2.4 Gross Domestic Product

According to Costanza (2009), the Gross Domestic Product (GDP) of a country is usually used as one of the measures of a country's economic progress or growth. GDP can be defined as either the total expenditure on locally produced final goods and services or the total income earned by locally located factors of production (Mankiw, 2016). Therefore it can be concluded that contribution to a country's GDP largely depends on locally produced goods and services. The following sectors have a significant and direct impact on a country's GDP: Manufacturing, Services, and Industries. Jain *et al.* (2015) state that of these three sectors the service industry over the last decade has had the highest contribution to GDP in many economies.

## 2.5 Micro, Small and Medium Enterprises (MSMEs)

An MSME is defined by the number of employees that it has and this number varies from country to country. Other criteria used to define an MSME include the firm's annual volume and turnover, total assets held by the enterprise and degree of the enterprise's independence (Ministry of Commerce, 2008). For the purposes of this report, the author shall define an MSME based on the number of persons employed, in this case an enterprise that employs 11 to 50 employees shall be considered as an MSME as shown in Table 1 below.

**Table 1: Number of MSME Employees and Total Investment**

Enterprise	Number of Employees	Total Investment K
Micro Enterprise	Up to 10	80, 000
Small Enterprise	11-50	150,000
Medium Enterprises	51-100	151, 000- 300,000

**Source:** Ministry of Commerce, 2008

Singh (2017) argue that MSMEs are a country's or an economic bloc's main force that accelerates economic growth as they are considered to be the backbone of the private sector. Hobohm (n.d.) states that MSMEs are labour-intensive, thus they create employment and offer equitable income distribution compared to larger organisations. In developing countries, MSMEs create dynamic and resilient economic systems by supporting an entrepreneurial

spirit and skills (Hobohm, n.d.). MSMEs bring new products and techniques onto the market thus promoting competitiveness. It should be noted though that the ability for an MSME to thrive depends on various factors in the environment in which the MSME operates (Singh, 2017).

## 2.6 Evolution of MSMEs in Zambia

Zambia underwent its most severe economic recession from 1991 to 2001 as a result of a major shift in public policy. This saw the entry of low cost and high quality foreign goods into its domestic market which caused a challenge to local producers as their products were uncompetitive (Mbuta, 2007). As a result enterprises were forced to restructure, downsize or close down leading to a decline in the country's GDP, employment and an increase in poverty levels.

Type of Indicator	Indicator Year		
	1991	1995	1999
GDP (K'Billions @ 1994 Constant Prices)	2,404.4	2,176.9	2,412.7
Annual GDP Growth Rates (%)	(1.3)	(2.8)	2.2
GDP per Capita (K'000 @ 1994 Constant Prices)	298	239	237
Inflation Rate (%)	80	191	27.4
Employment (In '000)	544.2	485.0	477.5
Poverty Index (%)	70	74	73

**Figure 2** Zambia's Basic Economic and Social Indicators 1991-1999

**Source:** Ministry of Commerce, 2008

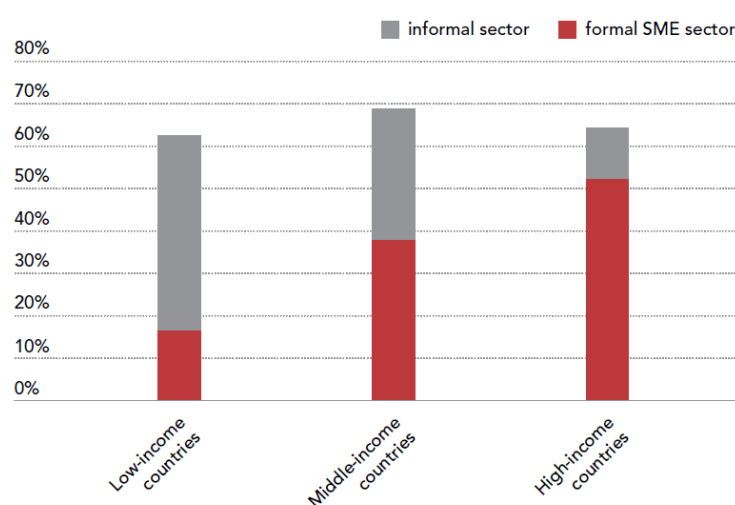
The Zambian government recognised that MSMEs could be used as an instrument for economic diversification, job creation, economic recovery and poverty reduction (Mbuta, 2007). As a result, the government came up with a strategy to create Micro, Small and Medium Enterprises to produce non-traditional products for export thus encouraging firms to produce for the domestic market (Ministry of Commerce, 2008). To achieve this, the government created the Small Industries Development Organisation (SIDO) through an Act of Parliament defined in the SID Act of 1996 whose purpose was to support MSME operations (Ministry of Commerce, 2008).

In 2006, government through an Act of Parliament (ZDA Act No. 11 of 2006) established the Zambia Development Agency (ZDA) which primarily took over the functions of SIDO (Ministry of Commerce, 2008). The function of the ZDA is to build capacity in MSMEs by establishing strategic partnerships with MSME development organisations as well as ensure

that MSME activities are directly contributing towards achieving the country's national goals and objectives (Ministry of Commerce, 2008).

## 2.7 Importance of MSMEs and their Contribution to Zambia's Economic Growth

According to the Edinburgh Group (2012), MSMEs in low income countries contribute an average of 16% towards their nations GDP compared to those in high income countries which contribute about 51%. This is shown in Figure 3 below. Despite the low contribution, MSMEs contribute towards economic growth in their respective countries by creating new jobs, expanding the tax base, and by being drivers of innovation.

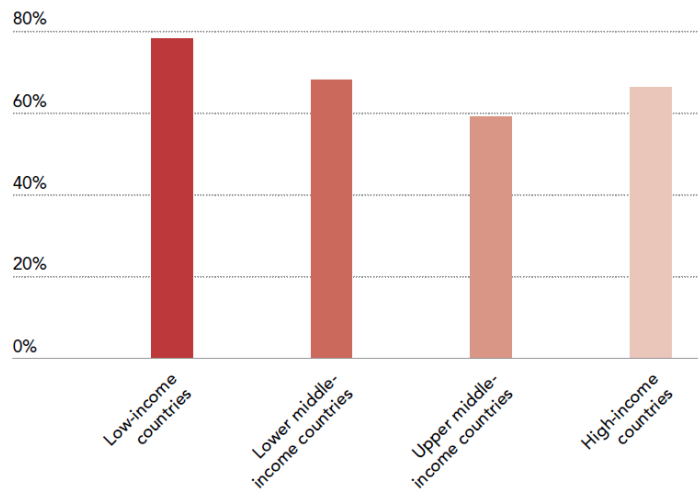


**Figure 3** MSME Contribution to GDP

**Source:** Edinburgh Group, 2012

### 2.7.1 Employment

MSMEs have a lower capital cost and are labour-intensive. This provides the much needed jobs in developing countries. Most of the employment generated by MSMEs is targeted at people living in rural areas, resulting in decreasing the levels of poverty (Edinburgh Group, 2012). Figure 4 shows a comparison of employment generated by MSMEs in low income countries compared to high income countries. Not only do MSMEs provide employment, they are also a source of value addition to their employees by providing them much needed income, knowledge and technical skills.



**Figure 4** MSMEs' contribution to employment

**Source:** Edinburgh Group, 2012

Narrowing down MSME activities in East and Southern Africa by looking at Zambia's neighbours who share similar economic conditions, it can be seen that in South Africa alone, MSMEs create employment for more than 50-60% percent of the workforce while Kenyan MSMEs employ over 5.1 million people (Kromberg, 2005 cited in Tshuma & Jari, 2013).

Recent studies show that MSMEs in developing countries are the largest contributors to job creation, accounting for over 71% of jobs (Ayyagari *et al*, 2011). MSMEs do not only employ a large number of people but also create new jobs as a result of entrepreneurs who run MSMEs identifying new opportunities and gaps that exist on the market.

### 2.7.2 Export Revenue

MSMEs in the manufacturing sector produce products for export and this is an important source of revenue in most developing countries. MSMEs in more industrialised economies have been observed to produce more manufactured exports compared to less industrialised economies (OECD, 2004). Despite this being the case, MSMEs have a high export potential which needs to be exploited in order for them to have a significant contribution to a nation's GDP. Table 2 below shows a list of products and services that Zambian MSMEs produce and have the potential to be exported.

**Table 2:** MSME by Sector

Industry	Product/Service
Manufacturing	Ceramics

	Food Processing
	Leather Products
	Handicrafts
	Essential Oils
	Textile Products
	Wood based products
	Processing semi-precious stones
<b>Trading</b>	Printing
	Industrial Products
	Agricultural inputs
	Consumable products
<b>Services</b>	Cleaning Services
	Guest Houses
	Building and Construction
	Telecommunication services
	Passengers and goods transport
	Restaurants and food production
	Financial Services
	Business Centres
	Hair Salons and Barbershops
<b>Mining</b>	Small scale mining
	Small scale quarrying

**Source:** Ministry of Commerce, 2008

Bouazza *et al.* (2015) argue that the contribution of MSMEs to a country's exports varies across regions. For example, MSMEs in countries like Japan, China and Korea are more export- oriented compared to those in developing countries such as Thailand and Indonesia. This trend can also be seen among MSMEs in Zambia which mostly produce products and services that are consumed locally and very few of these are exported. Strict foreign government regulations in other countries and creation of economic blocs tend to hinder local MSMEs from being able to export their products.

### **2.7.3 Increased Government Revenue Base**

MSMEs provide government with a larger tax base by creating employment from which the government can earn revenue through these employees' taxes as well as the business itself (Katua, 2014). The revenue collected by the government can in turn be used to build better infrastructure such as roads, schools, hospitals thereby improving the social and economic status of the country.

### **2.7.4 Innovation and Competition**

One of the major roles that MSMEs play is to stimulate the growth of innovation and competition (Katua, 2014). In order for MSMEs to survive, they have to constantly be innovative. This is important as innovation provides MSMEs with a means to differentiate themselves. Stiff competition amongst MSMEs ultimately raises the quality of goods or services being produced by the country as a whole.

## **2.8 Challenges Faced By MSMEs in Zambia**

Karadag (2015) argues that despite the realisation of the importance of MSMEs, a number of barriers hinder the growth of MSMEs. The challenges identified in this section apply mainly to Zambian MSMEs but can broadly apply to most MSMEs in developing countries.

**Financial Limitations:** MSMEs in Zambia have challenges accessing affordable financing that can be used as starting, working or investment capital (Mbuta, 2007). If capital is found, it usually has abnormally high interest rates. Most MSMEs do not have stable cash flows as customers who purchase their goods and services do not pay for services in good time thus reducing liquidity levels of the enterprise (Mbuta, 2007).

**Unstable Currency:** MSMEs that import raw materials from outside the country are affected by the fluctuation in foreign currency. This has a direct impact on the amount of raw materials that can be imported thus limiting production and quality of finished goods (Mbuta, 2007).

**Market Constraints:** Subsidised and smuggled imports cause unfair market competition for MSMEs because imports are often preferred by locals compared to locally produced products which may seem expensive due to high production costs (Mbuta, 2007).

**Lack of Tools and Machinery:** For some MSMEs in the manufacturing industry, access to advanced machinery and tools is not readily available or affordable; this results in poor quality products being produced at a high cost (Mbuta, 2007).

**Production Constraints:** High cost of fuel and electricity impact the output of MSMEs in the manufacturing and service industry; this is as a result of high production costs incurred. In recent years, load-shedding which is power rationing has also affected MSMEs' ability to perform to the expected levels (Mbuta, 2007).

## **2.9 Latest Developments**

As a result of globalization, MSMEs now have the potential and ability to rapidly grow to become multinational companies and therefore they cannot only focus on their local market for survival (Ruzzier *et al*, 2013, p.5). There has been an increasing trend for national economies to place greater value on services rather than on manufacturing industries (Asia Development Bank, 2007). Wealth creation is now attributed to the application of human knowledge and creativity; hence there has been an increased trend for economies to strategically shift from being industrial-based to being knowledge-based economies thereby creating a large demand for non-technological innovations (Asia Development Bank, 2007). Globalisation has brought an increased need for collaboration and exploiting of opportunities and resources in foreign markets. The challenge that MSMEs now face is to develop necessary skills to develop and manage their businesses and partners across borders (OECD, 2017)

## **2.10 Literature Gap**

From the literature reviewed, no clear statistics relating to the level of MSME contribution to the country's economic growth or reasons why MSMEs have a low life span was found. The most recent survey concerning MSME activity in Zambia was done 12 years ago, as a result entrepreneurs have no information concerning the specific challenges being faced by MSMEs in Zambia and what MSME sectors contribute the most to the country's GDP. Therefore it is extremely important that this research explores the current state of MSMEs in Zambia and determine their contribution to the county's GDP.

## **2.11 Chapter Summary**

A critical review of both classical and landmark literature was carried out in this chapter in order to understand the history and current state of MSMEs in Zambia as well as the various challenges that they face. The next chapter will discuss the research methodology to be used during the research process.

### **3.0 CHAPTER 3: RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter gives an overview of how the research will be carried out. The research methodology describes a step by step ordered process that will be used to answer the research questions adequately. The chapter will further look at the techniques used to collect and analyse data as well as give a justification of the choice of sampling method chosen. The chapter will conclude by looking at ethical issues considered while conducting the research.

#### **3.2 Research approach and strategy justification**

The research methodology adopted in this research was the epistemological approach of Positivism. To be specific, a variant of this approach called the **Soft Positivism** paradigm was adopted. According to Kirsch (2004) Soft Positivism is similar to Positivism but it is also in agreement with interpretive research.

This approach was chosen because it provides an approach that is both flexible and structured when conducting a qualitative research and also it allows for unexpected findings and explanations to be discovered from the data being analysed. This is typical of the interpretive approach (Klein & Myers, 1999).

##### **3.2.1 Research paradigm**

Guba & Lincoln (1994) define a paradigm as ‘a basic belief system or world view that guides the investigation’. A number of research paradigms exist but for the purpose of this research, the focus will be on Positivism and Interpretivism.

Thompson (1995) describes positivism as an approach that is based on universal laws and an insistence on objectivity and neutrality. Researchers who follow this approach test theories and hypothesis. Quantitative research is based on positivism. With the positivist approach, a theory is developed and a hypothesis is established before research begins though this is not always the case. Bryman (2001) argues that the danger of using this approach is that perceptions of the social environment that the research is carried out in are taken to be objective thus neglecting everyday subjective interpretations.

The Interpretive research paradigm or Interpretivism endeavours to understand the world as it is from a subjective perspective. This approach is more concerned with relevance than rigor. An interpretive approach produces an understanding that emanates from the degree to which the study fits and works with the views of participants (Ponelis, 2015).



The paradigm guiding this study will be that of Soft Positivism. Urus (2013) describes Soft Positivism as being similar to positivism because, on the one hand, it brings out already existing expectations to be taken into consideration during data analysis. However, on the other hand, it also agrees with interpretive research that will allow a researcher to derive explanations from emerging data.

### **3.2.2 Inductive and deductive approaches**

Saunders *et al.* (2016), define deductive research as one that is theory-driven and usually it begins with a theory-driven hypothesis which then guides how data is collected and analysed. The Inductive approach has been adopted by this researcher and it focuses on exploring a topic in order to generate a theoretical explanation; thus it begins with a research question and collection of data. This type of research is data-driven.

### **3.2.3 Time horizon**

Saunders *et al.* (2016) state that the time horizon of a research can either be longitudinal or cross-sectional. Saunders *et al.* (2016) recommend the use of a cross-sectional study to examine a specific phenomenon at a particular period of time. Malhotra & Birks (2007) describe a longitudinal study as one where a particular phenomenon is studied at different time periods. This approach can also be multi-longitudinal where two or more samples are studied at different time periods.

This study makes use of a cross-sectional approach because data will be collected from a cross section of MSMEs operating in different industries. The longitudinal approach is not suitable for this study due to cost and time constraints.

### **3.2.4 Research strategy**

Saunders *et al.* (2016) define a research strategy as a plan that the researcher uses to answer the research question. Saunders *et al.* (2016) further state that one's choice of research strategy to be used depends on the research questions to be addressed. A number of research strategies exist. These include experimental, survey, case study, ethnography, and documentary research, to mention but a few.

In order to address the issues raised by the research question in this study, a mixed method research strategy will be adopted. Saunders *et al.* (2016) define this method as being a mix of quantitative and qualitative data collection techniques and procedures as well as a mix of other research approaches which is referred to as triangulation. Therefore the research will be a combination of a survey, case study, and review of secondary data.

Bell (2005) states that case studies may be carried out to follow up and to add flesh to the bones of a survey. Bell (2005) mentions that a case study can precede a survey and be used as a means of identifying key issues which merit further investigation. The secondary data to be reviewed will be collected from institutions such as the Central Statistics Office (CSO), Patents and Company Registration Agency (PACRA), and Zambia Development Agency (ZDA).

### **3.3 Sampling frame and sample size**

Bret & Bret (2011) define a sample as being a subset of individuals in a population. The basic characteristic about a sample is that there is usually specific data available for individuals in a sample. A sample is chosen from a target population of interest to be a good representation of that population so as to save time and money, and the sample should be carefully chosen in a scientific manner to avoid bias.

Bell (2005) argues that there are broadly 2 categories of sampling methods which are probability and non-probability sampling. With probability sampling, each unit in a target population has an equal chance or probability to be selected while with non-probability sampling, the likelihood of a particular unit to be chosen is not known or confirmed.

This study adopts the non-probability sampling approach by using the convenience sampling technique. According to Bell (2005) this technique is useful for conducting data collection from a population that is immediately available and that the researcher can easily access. This sampling technique enables the researcher to complete interviews and get responses in a cost effective manner. These characteristics of non-probability sampling make it suitable for carrying out this research because of time and cost constraints.

### **3.4 Data collection**

There are mainly two categories of data collection methods that exist. These are primary and secondary methods. Kothari (2004) describes primary methods as those used to collect data for the first time while secondary methods depend on data that has already been collected and processed. For example, a case study.

The researcher employed the use of both primary and secondary data collection methods. This was achieved through the use of structured questionnaires which were self-administered to various MSMEs, semi-structured interviews, and an analysis of existing published statistical information and case studies from the Central Statistics Office (CSO), Patents and Company Registration Agency (PACRA), and Zambia Development Agency (ZDA).

### **3.5 Data processing and analysis**

Data analysis is one of the most important aspects of research. Marshall and Rossman (1999) succinctly describe data analysis as a process that brings order, structure and meaning to collected data. The results of this research are first presented as an analysis of the qualitative data derived from the self-administered semi-structured interviews. This was followed by analysis of quantitative data generated from the structured questionnaires. In order to analyse this statistical data and draw conclusions, the SPSS software package was used as an analytical tool to interpret findings of the data collected by generating graphs, tables, and figures.

### **3.6 Reliability, validity, and generalisability of research findings**

Joppe (2000) cited in Golafshani (2003) defines research reliability as being the extent to which results are not only an accurate representation of a total population but also being consistent over time, meaning if the results of a study can be reproduced using a similar methodology, then the research instrument is considered to be reliable. Validity on the other hand determines how truthful the results of the research are or whether the research indeed measures what it was intended to measure (Golafshani, 2003). In order to achieve reliability and validity of results, a pilot test of the questionnaire and interview was undertaken and necessary adjustments done. Concerning generalizability, the research focussed on one section of MSMEs which are those that are formally registered so that results obtained can be generalised to cover both the formal and informal sectors.

### **3.7 Ethical and access issues**

Bryman and Bell (2007) state that ethical considerations are some of the most important aspects of any research.

#### **3.7.1 Accessibility**

All information acquired in this research was treated with adequate level of confidentiality. The contents of the research was not exaggerated and it was written in an honest and transparent manner. The dignity of research participants was respected by acquiring full consent from them before carrying out interviews or asking them to fill in questionnaires.

#### **3.7.2 Research Ethics**

The researcher adhered to a number of ethical issues that have been cited by renowned researchers. These included respecting and acknowledging the work of other authors that have been used in the dissertation. A high level of objectivity and integrity was maintained

throughout the research. The study also endeavored to avoid having primary data findings from being represented in a biased manner through objective and balanced writing and reporting.

### **3.8 Chapter Summary**

This chapter looked at the research methodology that was used in carrying out the study as well as a justification of the research strategy. The chapter further went on to look at the sampling and data collection methods used in the study. The chapter concluded by addressing ethical and access issues that were considered when carrying out the research. The next chapter covers the data analysis and interpretation of findings using the techniques described in the methodology.

## 4.0 CHAPTER 4: FINDINGS AND ANALYSIS

### 4.1 Introduction

The aim of this chapter is to discuss the findings of the research, whose main focus was to determine the extent to which MSMEs contribute to Zambia's economy and the main reason why most of them seem to have a short life span. The SPSS software package was used to analyse data collected and to present key findings in the form of graphs and frequency tables.

### 4.2 Respondents Statistics

A total of sixty two (62) questionnaires were distributed to various MSMEs around the country operating in different sectors of the economy such as the agriculture, manufacturing, trade, service and construction sectors. Out of the sixty two questionnaires, a total of fifty (50) were successfully filled in and returned. This represented 81% (50/62) response rate.

#### 4.2.1 Demographics

The age group of the 50 respondents or entrepreneurs who participated in the survey comprised 20% from the 15-25 year age group while 62% were from the 26-35 year age group. Respondents from the 36-45 year age group represented 10% of the total number of respondents while only 8% represented the 46-55 year age group. Cumulatively, a total of 82% of respondents were found to be below the age of 35 years. Table 3 below highlights these findings.

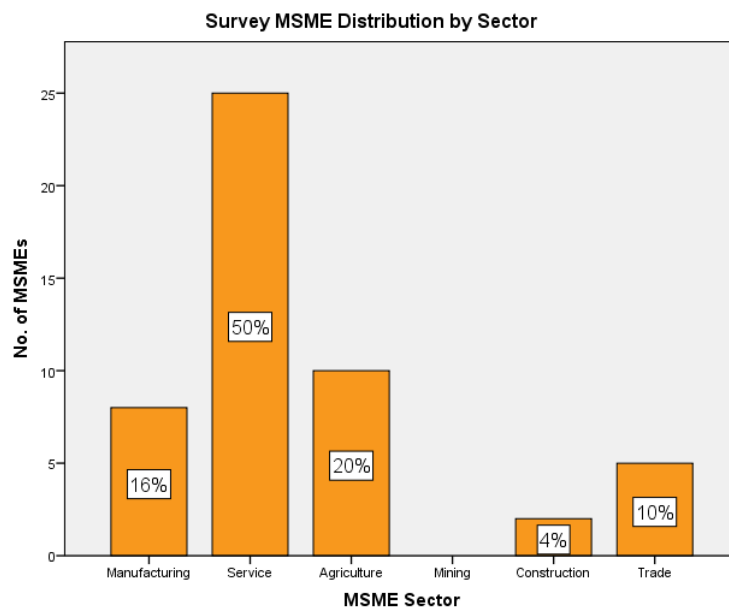
Age range of MSME owner					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-25	10	20.0	20.0	20.0
	26-35	31	62.0	62.0	82.0
	36-45	5	10.0	10.0	92.0
	46-55	4	8.0	8.0	100.0
Total		50	100.0	100.0	

Source: Author (2018)

**Table 3:** Age Range of MSME Owner

#### 4.2.2 Survey MSME Distribution by Sector

The survey sampled 50 MSMEs from 6 economic sectors namely agriculture, trade, service, manufacturing, construction, and trade. Figure 5 shows the distribution of the MSMEs by sector. The majority of the MSMEs belonged to the service sector as it accounted for 50% of respondents while the agricultural and manufacturing sectors accounted for 20% and 16% respectively. Ten percent (10%) of the respondents were from the trade or retail sector while 4% were from the construction sector.



Source: Author (2018)

**Figure 5 Survey MSME Distribution by Sector**

#### 4.2.3 MSME Life Span

Analysis of the MSMEs was also carried out based on the number of years that an MSME had been operational. Table 4 shows that of the 50 MSMEs in the sample population chosen, the minimum number of years an MSME had been operational was 1 year while the maximum was 25 years. Cumulatively, 80% of MSMEs in the sample population had been operational from 2 to 10 years. This represented an adequate pool from which patterns and trends could be drawn from in order to address the research objectives.

MSME Life Span					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	1	9	18.0	18.0	18.0
	2	9	18.0	18.0	36.0
	3	8	16.0	16.0	52.0
	4	5	10.0	10.0	62.0
	5	7	14.0	14.0	76.0
	6	2	4.0	4.0	80.0
	7	1	2.0	2.0	82.0
	8	3	6.0	6.0	88.0
	9	2	4.0	4.0	92.0
	10	3	6.0	6.0	98.0
	25	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

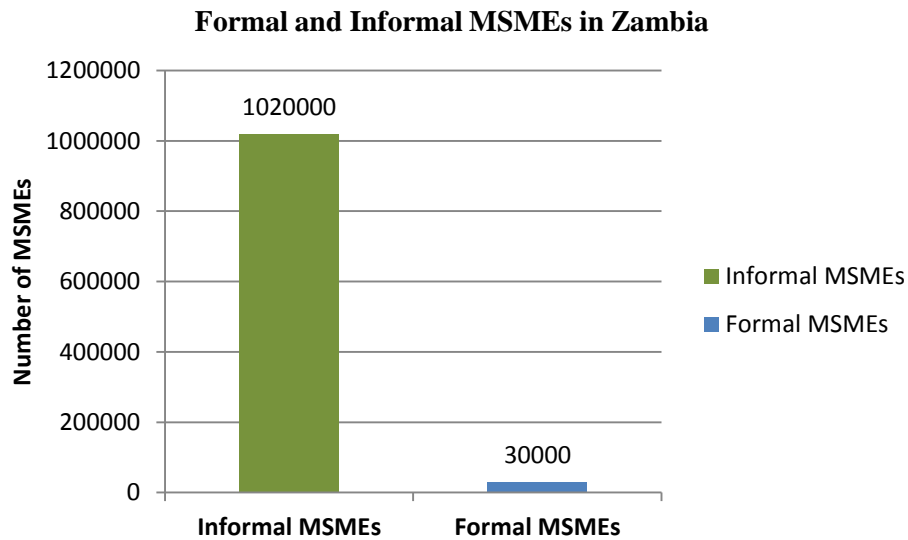
Source: Author (2018)

**Table 4:** MSME Life Span in Years

#### **4.3 RQ 1: What is the total number of MSMEs operating in the informal sector compared to those in the formal sector and what impact does this have on the country's economy?**

According to Shah (2012) Zambia has an estimated total of 1.05 million MSMEs operating in both the formal and informal sectors. For purposes of this research, an informal MSME will be defined as one that is not legally registered with PACRA and ZRA.

According to the Zambia Business Survey carried out in 2010, there are 1.02 million MSMEs operating in the informal sector compared to only 30 thousand in the formal sector as shown in Figure 6 below (Zambian Business Survey, 2010). This huge difference shows that the country could be losing much of its much needed revenue as a result of businesses in the informal sector not paying taxes. There is a huge tax potential that the country can benefit from if these businesses were to be formalized. Shah (2012) argues that of the 1.02 informal MSMEs, most of them are very small businesses engaging in farming operations and the majority being in the retail sector. Of these MSMEs 15% generate revenues greater than one thousand kwacha (K1000) per month while only 8% have revenues greater than two thousand kwacha (K2000). This shows that despite the number of MSMEs being high, only a few of them actually qualify to be taxed.

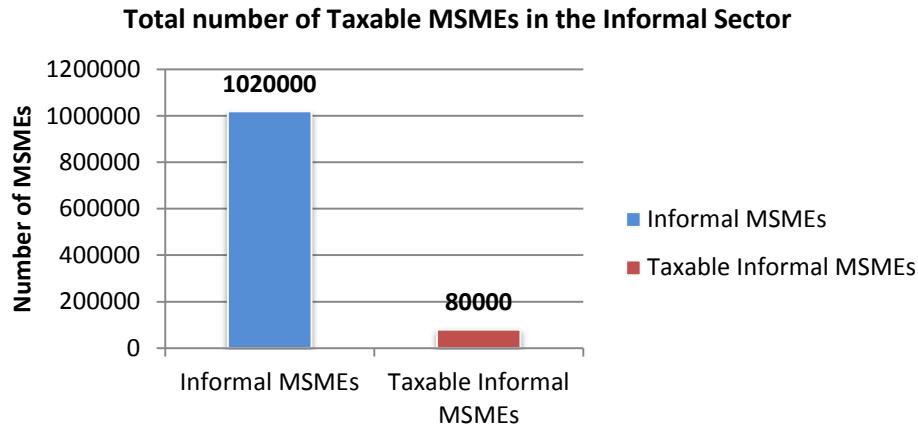


**Source:** (Zambia Business Survey, 2010)

**Figure 6 Formal and Informal MSME**

Most firms in the informal sector deliberately want to remain informal because formalising their businesses leads to high labor costs and a bureaucratic burden. Despite this being the case, Shah (2012) claims that informal MSMEs that operate along the line of rail have the highest taxation potential as they have access to good infrastructure and services such as buildings, machinery, water, electricity, and the Internet. These facilities give these MSMEs potential to be more productive. If the tax potential identified in the informal sector is effectively exploited by the government, it has the potential to contribute significantly to the country's GDP. This should take into consideration the fact that the actual contribution might be less as a result of only a few MSMEs being eligible for taxation. Figure 7 shows that only 80 thousand of MSMEs qualify to be taxed out of the 1.02 million businesses in the informal sector.





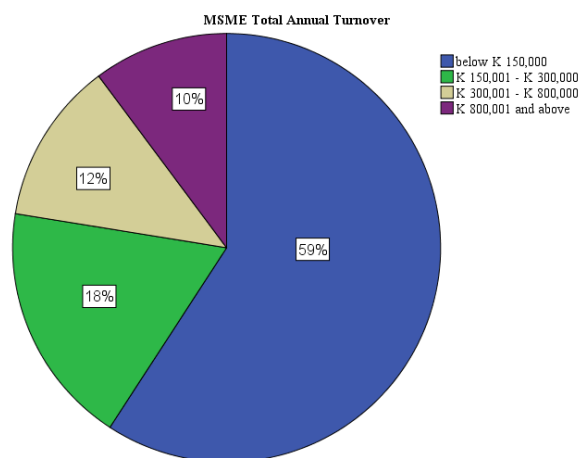
**Source:** (Zambia Business Survey, 2010)

**Figure 7 Informal Taxable MSMEs**

#### 4.4 RQ2: What percentage of Zambia’s annual turnover and employment do MSMEs contribute?

##### 4.4.1 MSME Contribution to the Economy

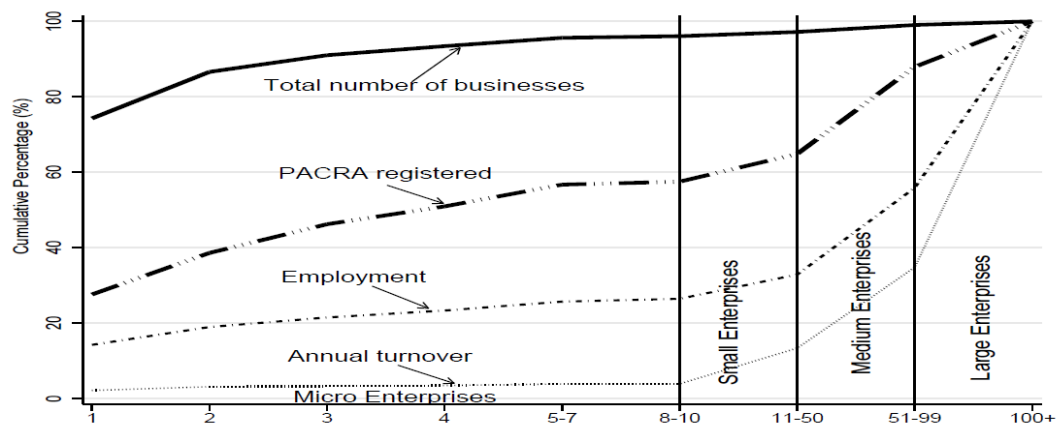
The researcher analysed formal MSMEs primarily based on their total annual turnover. MSMEs with an annual turnover of less than K 150,000 accounted for 59% of the total sample population while MSMEs with an annual turnover ranging between K 150,001 to K 300,000 accounted for 18%. MSMEs that had an annual turnover between K 300,000 to K 800,000 accounted for 12% while those that were above K 800,000 represented 10% of MSMEs in the selected sample population is shown in Figure 8 below.



**Source:** Author (2018)

**Figure 8 MSME Annual Turnover**

The survey data analysed shows that MSMEs in Zambia account for 99% of the total number of businesses operating in the country. MSMEs in the formal sector account for 35% of the country's annual turnover. Figure 9 below shows the total number of MSMEs, PACRA registered business, their total annual turnover and number of full time employees. On the other hand the survey data also reveals that the Zambian informal sector has a tax potential averaging 42% per annum.



Source: (Mphuka, *et al.*, 2013)

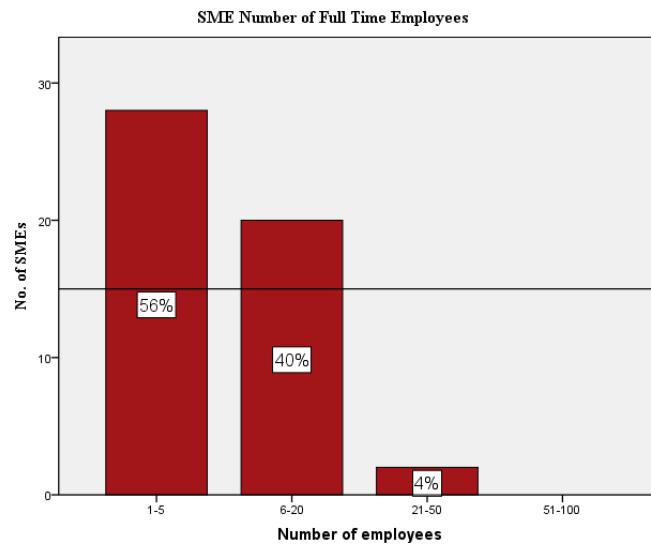
**Figure 9 MSME Characteristics**

Despite the large number of MSMEs registered, survey data analysed shows that they only contribute 3.3% to the country's annual turnover.

#### 4.4.2 MSME Contribution to Employment

The information gathered concerning the number of people employed per MSME depicted in Figure 10 below shows that 56% of the respondents employ less than 5 employees while 40% employ between 6 to 20 people and only 4% employ 21 to 50 people. This fact is consistent with findings from Zambia Business Survey of 2010 that indicates that out of 4.1 million Zambians in employment, 88% work in informal MSMEs that employ less than five employees (Zambia Business Survey, 2010). Most respondents in the sample population cited high labor costs as the main reason for keeping a small workforce.

Furthermore, survey data gathered indicates that MSMEs in the formal and informal sectors account for 56% of total full-time employees. According to Mphuka *et al.* (2013), formally registered MSMEs employ 26.4% of people in full time employment.

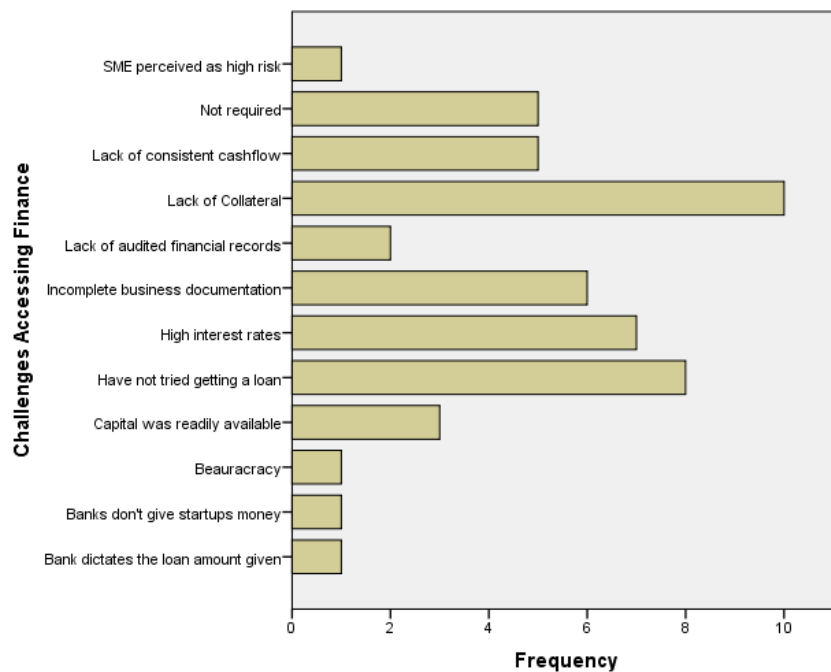


Source: Author (2018)

**Figure 10 MSME Number of Employees**

#### 4.5 RQ3: What challenges do MSMEs face in accessing finance?

This section looks at the challenges that are faced by MSMEs when accessing finances.



Source: Author (2018)

**Figure 11 MSME Challenges Accessing Finance**

Challenges Accessing Finance		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bank dictates the loan amount given	1	2.0	2.0	2.0
	Banks don't give startups money	1	2.0	2.0	4.0
	Bureaucracy	1	2.0	2.0	6.0
	Capital was readily available	3	6.0	6.0	12.0
	Have not tried getting a loan	8	16.0	16.0	28.0
	High interest rates	7	14.0	14.0	42.0
	Incomplete business documentation	6	12.0	12.0	54.0
	Lack of audited financial records	2	4.0	4.0	58.0
	Lack of Collateral	10	20.0	20.0	78.0
	Lack of consistent cashflow	5	10.0	10.0	88.0
	Not required	5	10.0	10.0	98.0
	SME perceived as high risk	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

**Source:** Author (2018)

**Table 6:** MSME Challenges Accessing Finance

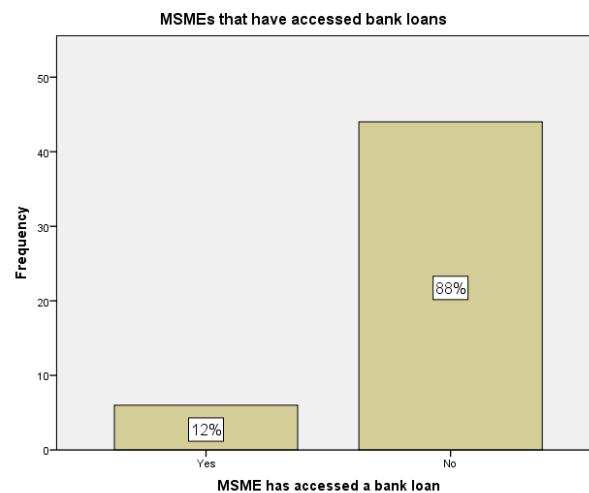
#### 4.5.1 MSME Challenges in Accessing Finances

From the information gathered and analysed in Figure 11 and Table 6 above, it can be seen that respondents gave numerous reasons concerning the challenges they have faced when accessing financing for their businesses. Twenty percent (20%) of the respondents cited a lack of collateral, 16% indicated they had not tried getting a loan, 14% cited high interest rates, 12% had incomplete business documentation, and 10% cited a lack of consistent cash flow. Ten percent (10%) of the respondents claimed they did not require any financing as they had enough capital to run their business from their personal savings. The reasons submitted by the respondents are consistent with Mensah (2004) who claim the main obstacles that keep MSMEs from accessing financial support are poor record keeping, high interest rates and a low cash flow.

#### 4.5.2 Bank loans accessed by MSMEs

The information gathered from the research shows that only 12% of the respondents have been able to access a loan facility and the remaining 88% have not been able to. This is

depicted in Figure 12 below. The most popular reasons the 88% cited was a lack of collateral, erratic cash flow, and high interest rates as stated in the previous section.

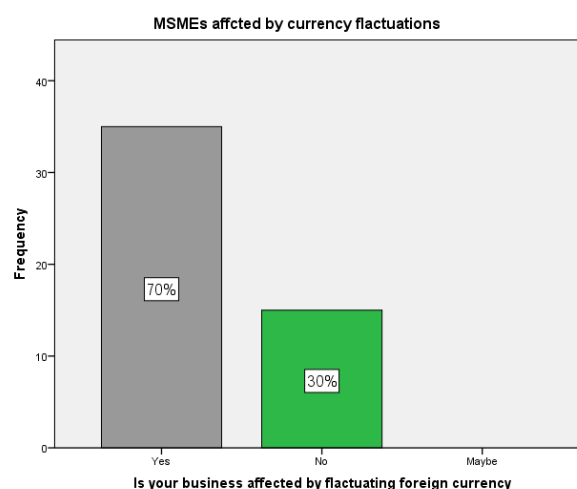


**Source:** Author (2018)

**Figure 12 MSME Access to Loans**

#### 4.5.3 Fluctuating foreign currency

The information gathered and analysed revealed that 70% of respondents answered in the affirmative that indeed currency fluctuations had an impact on their businesses while 30% claimed they were not affected. This is depicted in Figure 13 below. A large number of respondents affected by currency fluctuations operate in the manufacturing, agriculture, and retail industries. It was also discovered that MSMEs who claimed they were not affected by currency fluctuations operated mainly in the service industry.



**Source:** Author (2018)

**Figure 13 Impact of Currency Fluctuation on MSME**

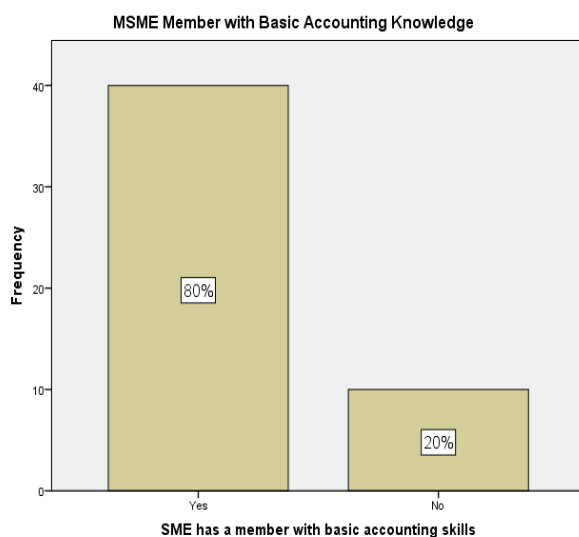
#### **4.6 RQ4: Do MSMEs have the required management and financial skills that they need for their long term survival?**

This section focuses on analysing whether entrepreneurs running MSMEs have the required financial and management skills needed to run and grow a business.

##### **4.6.1 Financial and Management Skills**

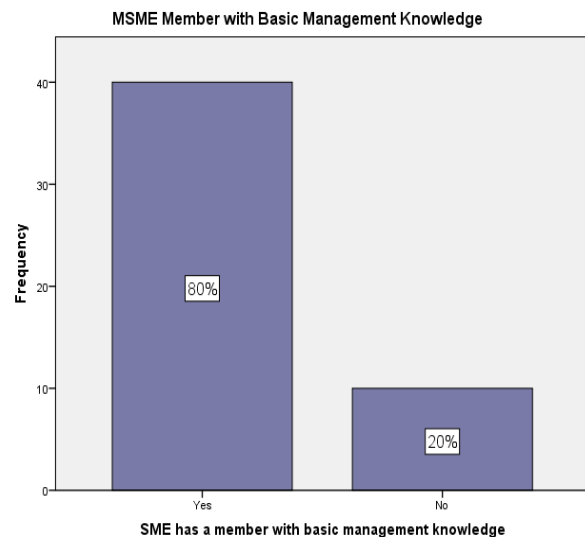
Management is all about planning, organising, leading and controlling. These skills are critical for the survival and growth of an MSME. An analysis of the data collected revealed that 80% of respondents had at least a member on their team who had basic book keeping and management skills. 20% of respondents had no one on their team with book keeping or management skills; this is depicted in Figures 14 and 15 below. Further analysis of the 20% showed that they had failed to acquire affordable financing as a result of a lack of proper financial records such as audited financial records, income statements, and statements of financial position.

A large number of MSMEs fail as a result of poor record keeping. Collins and Jarvis (2002) state that proper financial management within an MSME is critical to the business success, and ultimately its survival.



**Source:** Author (2018)

**Figure 14 MSME Accounting Skills**

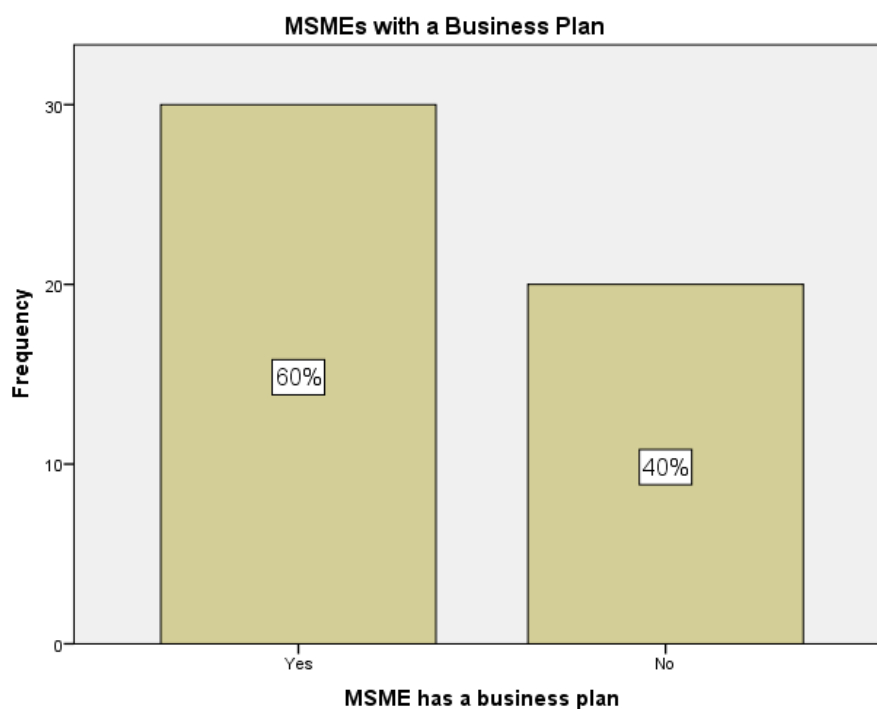


**Source:** Author (2018)

**Figure 15 MSME Management Knowledge**

#### 4.6.2 Business Plans

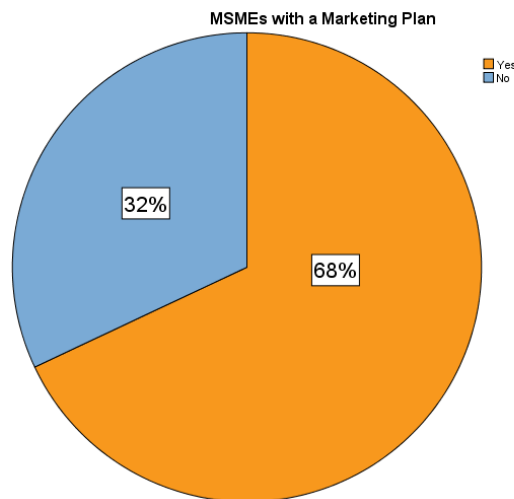
A business plan is an important tool that MSMEs can use to guide the business' operations as it considers risks, revenue streams and market demand of the product or service to be offered by the MSME (Nienhaus, 2015). The gathered information provided in Figure 16 below shows that only 60% of respondents had a business plan and 40% had no business plan in place. Respondents with no business plan claimed that most of the time, business plans are not followed by MSMEs because conditions are not perfect as depicted when business plans are created. Further investigation by the researcher found that the majority of respondents that had business plans had outdated plans as they did not reflect the business' current activities.



Source: Author (2018)

**Figure 16** MSME with Business Plans

### 4.6.3 Marketing Plans



**Source:** Author (2018)

**Figure 17** MSME with a Marketing Plan

Nienhaus (2015) emphasises the importance of a marketing plan as a tool that enables a business achieve its objectives both long and short term. Analysis of the information collected from the 50 respondents shows that 68% of them had a marketing plan in place while 32% had no marketing plan; this is shown in Figure 17 above. Respondents with no marketing plan in place indicated that they relied on social media, word of mouth, and customer references in order to market their products or services to potential clients.

### 4.6.4 Performance Reviews

Analysis of the information gathered revealed that 38% of respondents carried out some form of financial performance reviews monthly while 18% did them quarterly, 16% annually and 10% never did any performance reviews at all, this is depicted in Table 7 below. Further investigation revealed that the majority of respondents that did their performance reviews on a monthly basis were from the retail sector while those that did quarterly reviews were mostly from the service and manufacturing sectors.



**SME reviews its financial performance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Monthly	19	38.0	38.0	38.0
	Quarterly	18	36.0	36.0	74.0
	Annually	8	16.0	16.0	90.0
	Never	5	10.0	10.0	100.0
	Total	50	100.0	100.0	

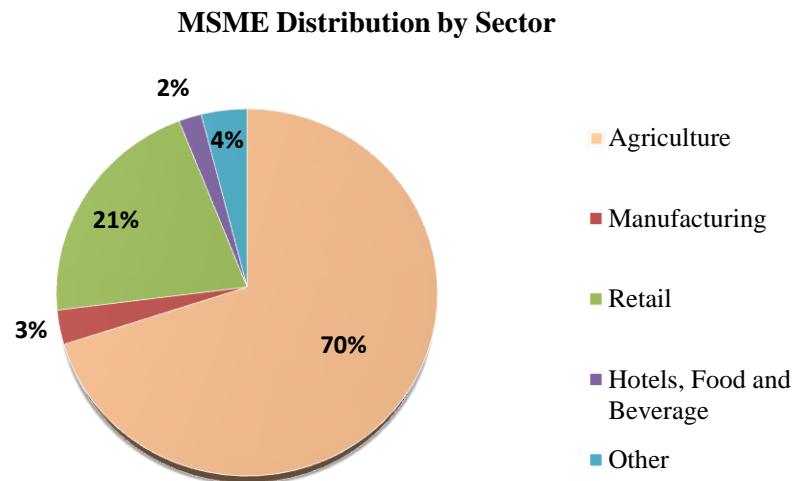
**Source:** Author (2018)

**Table 7:** MSME Financial Performance Reviews

#### **4.7 RQ5: In which sector do most MSME belong and which sector has the highest MSME survival rate?**

The purpose of this question is to determine which sector most MSMEs belong to as well as which sector MSME thrive in the most.

##### **4.7.1 MSME Distribution by Sector**



**Source:** (Zambia Business Survey, 2010)

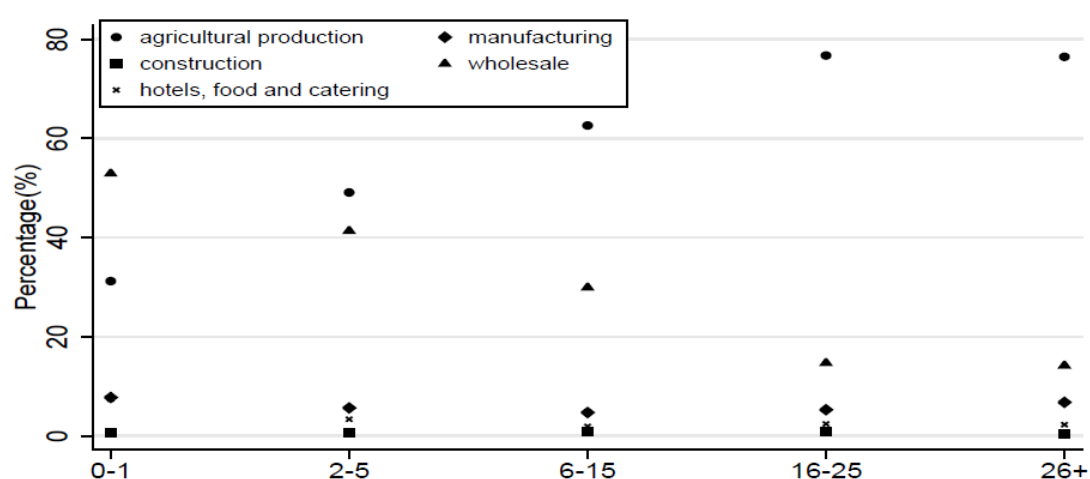
**Figure 18** MSME Distribution by Sector

Survey data analysed from the Zambia Business Survey of 2010 shows that 70% of MSMEs are in agricultural sector, while 21% in retail and trade, and 3% belong to the manufacturing

sector. Only 2 % belong to the Hotel, Food and Beverage sector, and 4% account for MSMEs in other sectors as shown in Figure 18 above.

#### 4.7.2 MSME Sector with Highest Survival Rate

Survey data from the Zambia Institute for Policy Analysis and Research (ZIPAR) shows that there are a lot of businesses that get started just to try out an idea. As a result, these businesses easily close up when unexpected obstacles are faced. Further analysis of data revealed a fascinating trend between MSMEs in the agriculture and retail trade sectors. Whereas there were a large number of entrants in the retail and trade sectors, over time these businesses closed but the businesses in the agriculture sector survived for a longer period of time. This can be attributed to numerous factors some of which are outlined in this report. The survey data collected also shows that MSMEs that operate in manufacturing and the food and beverage sector also have a good survival rate in the long run. Figure 19 below illustrates these findings.



Source: (Mphuka, 2013)

**Figure 19** MSME Life Span by Sector

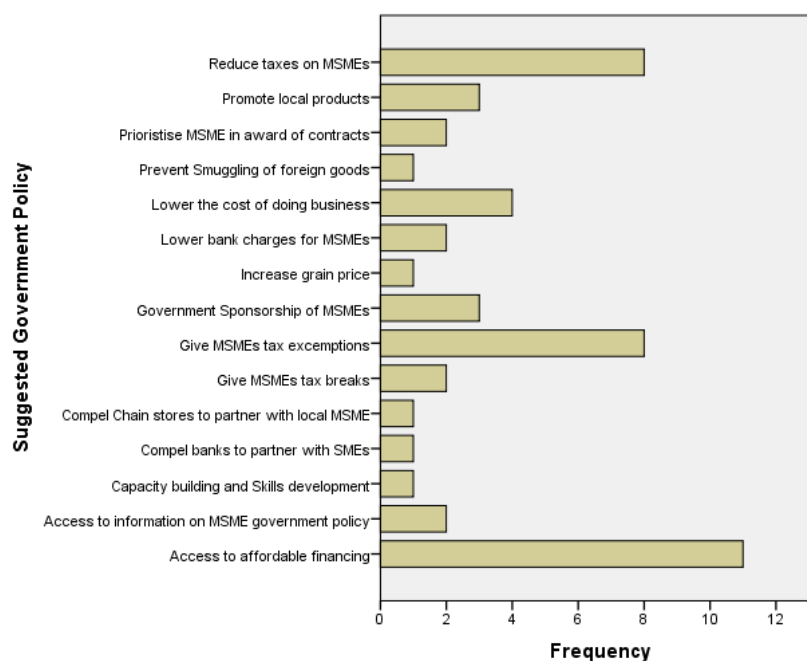
#### 4.8 RQ6: What policies and regulations can government put in place to enhance the growth and success of MSMEs?

This section captures suggestions from MSMEs concerning how best government can help them succeed.

Suggested Government Policy Categories					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Access to affordable financing	11	22.0	22.0	22.0
	Access to information on MSME government policy	2	4.0	4.0	26.0
	Capacity building and Skills development	1	2.0	2.0	28.0
	Compel banks to partner with SMEs	1	2.0	2.0	30.0
	Compel Chain stores to partner with local MSME	1	2.0	2.0	32.0
	Give MSMEs tax breaks	2	4.0	4.0	36.0
	Give MSMEs tax exemptions	8	16.0	16.0	52.0
	Government Sponsorship of MSMEs	3	6.0	6.0	58.0
	Increase grain price	1	2.0	2.0	60.0
	Lower bank charges for MSMEs	2	4.0	4.0	64.0
	Lower the cost of doing business	4	8.0	8.0	72.0
	Prevent Smuggling of foreign goods	1	2.0	2.0	74.0
	Prioritise MSME in award of contracts	2	4.0	4.0	78.0
	Promote local products	3	6.0	6.0	84.0
	Reduce taxes on MSMEs	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

Source: Author (2018)

**Table 8:** Suggested Policy and Regulatory Changes



Source: Author (2018)

**Figure 20** Suggested Policy and Regulatory Changes

### **Access to Affordable Financing**

Compared to larger firms, MSMEs have difficulties developing a credit history and accessing traditional sources of financing from banks and other financial institutions (Shah, 2012). From the information gathered which is depicted in Table 8 above, 22% of respondents suggested that government should put in place measures that will provide affordable financing to MSMEs. This could be done through reducing interest rates on loans given to MSMEs or better still, provide loans that require movable collateral. Other MSMEs also brought out the fact that access to affordable financing was not only through accessing loans but having a steady cash flow. The problem faced by many MSMEs is that once a product or service has been delivered, it takes a long time for payment to be made especially from the government and this doesn't reflect well on the MSMEs financial statements. As a result, MSMEs suggested that government should put in place regulation that will compel their customers to pay them within 30days of the delivery of a product or service. This includes the government itself.

### **Tax Exemptions and Tax Breaks**

A total of 4% of respondents as depicted in Table 8 from the information gathered suggested that the government should introduce tax breaks and exemptions for MSMEs in the first 2 years of their operation. This will help them break even and become profitable before they start fulfilling their tax obligations. The majority of respondents in this category, who accounted for 16% of the sample population, suggested that government should reduce taxes on MSMEs, especially on imported equipment used in the agriculture, manufacturing, and service industries.

### **Capacity Building**

From the information gathered, 2% of the respondents suggested that government put in place programmes that would give entrepreneurs financial, management, and leadership skills they need to run their businesses. The respondents also suggested that government should enhance trade school facilities in order to help train and produce the much needed skilled labour in the manufacturing and agricultural sector.

### **Partnerships with MSMEs**

A cumulative total of 4% of the respondents as shown in Table 8 suggested that the government should put in place measures that will encourage banks to partner with MSMEs. This could be achieved through the government forming partnerships with banks and encouraging them to lend a portion of their portfolios to MSMEs. In order for this to work the government would have to provide banks with a government guarantee in order to reduce the risk of banks' lending to MSMEs, in this case government takes up much of the risk.

The respondents in the agricultural sector suggested that government should put in place measures that will compel large chain stores to partner with them in order to purchase their produce as well as increase the grain price. This is because most chain stores currently still import most of their products despite these products being available locally.

### **Lower the Cost of Doing Business**

A cumulative total of 12% of the respondents depicted in Table 8 suggested that government should reduce the cost of doing business. The respondents suggested that the government, among other things, should compel banks to reduce bank charges as some of them were unnecessary. They also suggested that government should reduce the price of electricity, fuel, telecommunication, and Internet services. This would ultimately make MSMEs more productive and reduce the cost of their products and services.

### **Promote local products**

From the information gathered, 4% of respondents cited a lack of access to accurate information on government initiatives put in place to help MSMEs. Another 3% of respondents suggested that government should promote locally made products by preventing the smuggling of foreign goods onto the local market.

## **4.9 Chapter Summary**

This chapter covered a presentation of the findings and analysis from data collected from 50 MSMEs operating in various sectors. The research revealed that a large number of MSMEs are actually operating in the informal sector and if formalized, they could make an immense contribution to the country's economy. Access to affordable financing was found to be the major challenge faced by most MSMEs. Further investigation revealed that a lack of steady cash flow and financial and management skills contributed to MSMEs having a short life

span. Having fully analysed these findings, the next chapter will give conclusions and recommendations of the research.

## **5.0 CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The purpose of this chapter is to provide a summary of the research findings and conclusions. It also details the extent to which the research objectives were met as well as provides recommendations based on the conclusions drawn.

This research was guided by the following research objectives:

1. RO1: To evaluate reasons why Zambia has a low GDP
2. RO2: To establish reasons why MSMEs in Zambia have a low survival rate
3. RO3: To establish the current total contribution of MSMEs to Zambia's economy by sector
4. RO4: To recommend measures that can be put in place by Government to stimulate MSME contribution towards Zambia's GDP

### **5.2 Summary of Research Findings**

#### **5.2.1 RO1: To evaluate reasons why Zambia has a low GDP.**

A country's GDP is affected by various factors some of which include the total value of locally produced goods and services, natural resources, entrepreneurship, and literacy levels (Kira, 2013). In order to produce these goods and services, the country requires a vibrant and stable force of innovative entrepreneurs and MSMEs who should be able to fulfil their tax obligations.

From the research, it was found out that a total of 1.05 million MSMEs exist in Zambia of which only 30 thousand are formally registered. This means a total of 1.02 million MSMEs operate in the informal sector. Only 8% of the MSMEs that operate in the informal sector qualify to pay tax. Therefore, despite there being a large number of MSMEs operating in the country, survey data analysed showed that they only contribute 3.3% to the country's annual turnover. The research also found that very few MSMEs produced products or services that could be exported thus negatively affecting the country's GDP.

The data gathered during the study shows that 88% of people in Zambia are employed by MSMEs both formal and informal. Despite this being the case, most of these people

employed are family members or proprietors of the business hence they do not get any salary from their businesses.

It can be concluded therefore from the information gathered in this study that Zambia has a low GDP because it has not fully developed and exploited the tax potential of MSMEs in the informal sector. Apart from this, very few MSMEs produce goods and services for export because they do not match international quality standards. This can be attributed to other factors such as lack of affordable financing such as Export Credit Guarantee which is available in the UK.

In order to exploit the full potential of the Zambian MSME sector, the government should consider formalizing the large number of MSMEs in the informal sector. Government should make this process as easy and affordable as possible by reducing the cost of registering a new business. This may include the removal of costs associated with printing of various documentation required when registering a business as well as bank charges incurred when opening a business account.

### **5.2.2 RO2: To establish reasons why MSMEs in Zambia have a low survival rate.**

The data gathered in this study showed that of the 50 respondents, 90% cited a lack of affordable financing as the main reason why most MSMEs have a low survival rate in the country. Twenty percent (20%) of respondents cited a lack of collateral security to secure loans while 14% cited high interest rate charges by banks as the reason why most MSMEs could not obtain financing to expand or sustain their businesses. It was further discovered that the phrase ‘access to affordable financing’ did not only entail accessing affordable loans by MSMEs from banks but also referred to MSMEs having a steady cash flow. Most MSMEs that had been operating for over 3 years cited the fact that their clients took long to pay them once they had fulfilled an order, the biggest culprit in this case being the Zambian Government. As a result of not getting paid on time, MSMEs usually shut down as they do not have enough money to continue operating.

The study also discovered that a lack of knowledge of book-keeping and management skills contributed to the MSMEs having a short life span. These skills are essential for the long term survival of an MSME. It was observed that MSMEs without such skills usually had incomplete documentation that would be critical when accessing any form of financial assistance. A lack of management skills entails that the business has no strategic direction and rarely reviews its performance, and as a result the MSME lacks the agility to respond to



dynamic market conditions. Without this agility and strategic foresight, the MSMEs are likely to face obstacles such as lack of innovation, lack of skilled labour, and facing risks from fluctuating foreign currency that forces them to eventually shut down. From the data collected in the survey, only 20% of respondents did not have a member on their team who did not have book-keeping or management skills. This was attributed to the fact that MSMEs analysed in the survey were from the formal sector.

It is highly recommended that Government and other institutions whose focus is on assisting MSMEs do not only do so by giving finances but rather also establish centres to build capacity for the MSME owners. These institutions should focus on equipping entrepreneurs with book-keeping, managerial, and leadership skills. This should be done in order to enable MSMEs better plan, monitor, and manage their finances.

### **5.2.3 RO3: To establish the current total contribution of MSMEs to Zambia's economy by sector.**

The study revealed that the majority of MSMEs belonged to the agricultural sector. Despite this being the case, it was discovered that the service and trade sectors have the highest number of new entrants every year. Survey data shows that the agriculture and manufacturing sectors contribute the most to the country's economy. This can be attributed to the fact that these sectors export their end products compared to the service or retail sectors. It was also observed that the agriculture and manufacturing sectors had the highest number of surviving MSMEs over time.

### **5.2.4 RO 4: To recommend measures that can be put in place by Government to stimulate MSME contribution towards Zambia's GDP.**

In order for MSMEs to make their maximum contribution to the Zambian economy, the government should put in place measures that will ease the MSMEs operations. Some of the measures the government could consider are, enabling access to affordable financing by persuading banks to lower their interest rates on loans given to MSMEs. The government could also put in place regulation that will ensure MSMEs are paid on time in order for them to have a steady cash flow.

MSMEs should be given tax breaks and exemptions in the first few years of their operations in order to enable them become profitable. This is already being done with foreign-based

firms so government should consider extending this regulation to include local MSMEs as well. Furthermore, the government should put in place regulation that compels foreign-based companies to partner with MSMEs in cases where there is need to source raw materials locally.

The Zambian government should put in place a deliberate policy to promote locally-made Zambia goods. This can be done by creating a platform that will enable locally-made products to be easily accessible and marketed using state-owned media at a reduced cost. The government should put in place measures that will curb smuggling and dumping of cheap foreign products onto the Zambian market; this affects sales of local MSME products.

Finally, most MSMEs complained about the high cost of doing business in Zambia. It is recommended that the government steps in and put in place measures to reduce the cost of doing business. This can be done by reducing the price of fuel and electricity, reducing the number of taxes that MSMEs are subjected to as well as reducing the cost of communication.

### **5.3 Practical Managerial Implications of Findings and Recommendations**

The Implication of these findings is that the Zambian government will have to come up with new policies as well as enhance existing ones that relate to MSMEs. The government will also have to consider tightening security across its borders in order to curb the rampant smuggling of foreign goods onto the Zambia market. Financial institutions should first build capacity in MSMEs before they can entrust them with their funds as this will reduce the risk of failure of MSME. Therefore, significant investment should be made by government to improve literacy levels and also introduce courses in the secondary school curriculum that focus on entrepreneurship.

The government will need to partner with banks by offering government guarantees that will reduce the risk of bank lending to MSMEs. By doing this, government will be able to provide affordable financing in form of working capital loans to new businesses thus, making it easier for them to export and produce good quality goods that match international standards.

In order to get as many MSMEs formalized, the government will have to introduce tax breaks and reduce the cost of doing business. The implication of doing this in the short term would be that the government's income may reduce but in the long term, it will increase as a result of having created a larger tax base. This ultimately has the potential to boost the country's GDP.

#### **5.4 Limitations of the study and directions for future research**

The biggest obstacle that negatively impacted this research was the lack of data relating to the current contribution of each MSME sector to the country's GDP. This data would have enabled the researcher establish correlation between the sector with highest GDP contribution to the sector with the highest number of MSMEs. This study was also limited by scope and resources, as a result only 50 SMEs from the formal sector were analyzed. Future studies could focus on determining why MSMEs in sectors such as agriculture and manufacturing seem to have a relatively longer life span than say those in the service sector.

#### **5.5 Chapter Summary**

This chapter summarised the findings, conclusions and recommendations of the study which was guided by 4 research objectives. Each of the research objectives was answered and conclusions drawn. The study concluded that in order for MSMEs to thrive in Zambia, there is need to invest in building capacity in MSME owners, providing access to affordable financing, and reducing the cost of doing business. A huge tax potential exists in the informal sector and government should consider a favourable approach to formalizing informal MSMEs in order to increase its tax base.

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## 7.0 APPENDICES

### 7.1 Appendix A: Introductory Letter





## 7.2 Appendix B: Survey Questionnaire

### MSME QUESTIONNAIRE

<b>SME Name</b>	
<b>Contact Person</b>	
<b>Date</b>	

1. How many employees does your business have?

a)	Less than 10
b)	Between 10 and 20
c)	Between 20 and 80
d)	Between 80 and 250

2. What is your company's main activity?

a)	Manufacturing
b)	Industry
c)	Service

3. How long has your business been operational?

.....  
.....

4. Has your business been registered with the Patents and Company Registration Agency?

YES	
NO	

5. Has your business been registered with Zambia Revenue Authority?

YES	
NO	

6. Does your company/enterprise have a business bank account?

YES	
NO	

7. Do you have a Business Plan?

YES	
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NO	
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8. Does your Business Plan clearly outline how you will generate revenue?

YES	
NO	
NOT SURE	

9. Have you obtained any bank loan?

YES	
NO	

10. If YES, what challenges did you face in obtaining the loan?

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11. If NO, what factors hindered you from obtaining the loan?

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12. Have you received any form of financing since you started your business?

YES	
NO	

13. If YES, what was the source of the financing?

Bank Loan	
Internal Funds	
Trade Credit	
Equity Investments	
Other Loan (e.g. family and friends)	

14. Does anyone on your company possess basic accounting or bookkeeping skills?

YES	
NO	

15. Does anyone on your team have any management experience?

YES	
NO	

16. Do the premises you are currently operating from belong to you?

YES	
NO	

17. What is your company's annual turnover?

.....  
 .....

18. Is your company fully *Zambian* owned?

YES	
NO	

19. What would you say is the biggest challenge your company currently faces?

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 .....  
 .....  
 .....  
 .....  
 .....  
 .....

20. Does your company have a comprehensive marketing plan in place?

YES	
NO	

21. Do you think your business is affected by fluctuating foreign currency?

YES	
NO	

22. Would you say a lack of financing is the biggest problem your business faces?

YES	
NO	

23. Do you have audited Accounting records from the time your company started operating?

YES	
NO	

24. How often do you review your company's performance?

Monthly	Quarterly	Annually	Never

25. Do have a strategic plan?

YES	
NO	

26. Can you suggest any policies you think government should put in place to help MSMEs like yours succeed?

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