

# The Business Enabling Environment-Economic Development Nexus, The Zambian Context

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**Abstract** Using a Desk Based Research and literature review coupled with experience on the developmental work in Zambia, the present study, examines the relationships between Business Enabling Environment (BEE) and economic development for the period 2004 to 2019. The paper conclude that Zambia's Business Enabling Environment has been both narrowly defined and implemented in policy to focus more on administrative and regulatory reforms. The move that has supported more Foreign Direct Investments and leave out the majority small business in the informal sector. This explains the Zambian paradox of high FDI and economic growth but high poverty levels and one of the countries with higher GINI index in the world. The results of this paper are consistent with many others' findings of negative relationship between Business Enabling Environment and Economic Development among African countries which do not adopt pro-poor Business Enabling Environment. The study recommends that the economic managers of Zambia's economy should adopt such Pro Poor Business Enabling Environment policies that promote broader challenges of the majority informal sector such as enhanced access to Financial services(Not only credit);enhanced Business Development Services to support growth of small businesses; Improved conducive environment through laws, policies and regulatory focus on small businesses and access to competitive markets. The drive is not to leave anyone behind if this increased economic growth recorded in Zambia must translate into economic development.

**Keywords** Business Enabling Environment (BEE), Economic growth, Economic development

## 1. Introduction

Zambia is such an ambitious country. Its ambitions and aspirations can easily be seen in its long-term plans such as the Seventh National Development Plan (2017-2021). This plan does not only visualize Zambia as a prosperous middle-income country by 2030 but most importantly, also brings out the lessons from the past to accelerate development efforts towards vision 2030 without leaving any one behind. My interest has always been in the last part of the phrase, of not leaving any one behind. As at 2012, Zambian population was approximated to be 14.36 Million, which ranks 65th in the world. We all know that, the fertility rate in Zambia is 6.2<sup>1</sup>. The population estimates by 2019 must be more than 2012. It is estimated that, as at 2019, the Zambian population is approximately 17,381,169

people [1]. Do not be alarmed, this is relatively not bad as compared to the entire Zambia's land space. Zambia is the 17th largest country in Africa, covering 290,587 square miles (752,618 square kilometres) but is not nearly as large in terms of its population. As at 2019 population of 17,381,169, it has been urged that, the population density of Zambia is roughly 62.38 people per square mile (24.09 people per square kilometre), making it the 160th most densely populated country in the world. Going by the research on the possible positive relationship between population and economic growth, we have a lot to do to fill up our God given land space of 752,618 square kilometres. We need to make use of it for our good. Nevertheless, my point here was that, our Seventh National Development Plan (SNDP) visualize a prosperous middle-income country by 2030 without leaving, any one of the 17,381,169 people living in Zambia, behind.

As it has always been said, a journey of several miles starts with one step and plans can mean nothing if there are no steps to actualize them. We are all Zambians. Zambia is our inheritance. We need to accelerate development efforts towards our ambitions of a prosperous Country. A Prosperous country is one that is successful in material terms; and flourishing financially. The long-term goal requires more hard work. We need both Economic growth and Economic development. I have deliberately introduced

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1 Total fertility rate: Average number of children a woman would bear during her lifetime, assuming her childbearing conforms to her age-specific fertility rate every year of her childbearing years (typically, age 15 to 44).

two concepts to drive the point home. There are many discussions and conclusions by scholars on the definition of the two concepts. For the sake of this article, I may agree and disagree with a few scholars to contextualize my analysis to Zambia. This paper is informed purely on literature review and observation of national events.

Economic growth is usually measured by the increase in a country's total output or real Gross Domestic Product (GDP). It is an increase in volume everything produced in the economy measured in both monetary terms and in percentage terms. The concept focuses on the increase in a country's production capacity of individuals and companies of a country. Every year, through this concept, you could assess yourselves if you produced more valuable goods and services as compared to last year. Every citizen of the country contributes to this total amount of final goods produced. In the real world, we have limited resources at our disposal, which are used to make final valuable products and services. The more we produce, the more our Production Possibility Curve shifts outwards. We aspire for more and more as the human nature dictates. The essence of producing these valuable final products is to accumulate income or wealth, that should in turn afford us a good standard of living. This is where the concept economic development comes into play. Economic development is the growth in the standard of living of a nation from lower income to high income. This concept aligns itself with the Zambia's ambition of a prosperous country. A country which is successful in material terms; and flourishing financially. This situation in the country means higher productivity, more job creation, increased disposable income and reduced poverty levels.

If one must differentiate economic growth and economic development in simple words, it suffices to say, economic growth is the necessary but not the only enough condition to attain economic development. Economic development is the final and long-term outcome of planned and result-oriented activities. It enables improvement in the life expectancy rate, infant mortality rate, literacy rate and poverty rates [2]. However, a country cannot attain economic development (Prosperous country) without being productive. Being productive means attaining higher economic growth, which is in turn necessary for economic development.

A productive nation largely depends on the Business Enabling Environment (BEE) that has been created. Just recently, on October 24, 2019, the World Bank launched the 2020, Doing Business Report under the theme- Sustaining the Pace of Reforms as in [3]. Doing Business Report looks at quantitative indicators on easy to do business in 190 countries in the world<sup>2</sup>. The easy to do business reforms is part of the Business Enabling Environments (BEE) created in any country to increase business activities and productivity in the country. In 2019, the key areas where Zambia was mentioned to have improved is on areas to do

with protecting minority investors and resolving Insolvency. According to [3, p.4], Zambia has been commended for introducing reorganization procedure and granting debtors the possibility of obtaining post-commencement finance. This has moved Zambia from 87th to 85th Position out of 190 countries on easy to do business. Zambia is now ranked 5th in Sub-Saharan Africa and COMESA<sup>3</sup>. It's also 3rd in SADC<sup>4</sup> on the World Bank Ranking of easy to do business. Which is really a fantastic move towards attaining a prosperous nation.

Many development economists have found a positive link between sound pro-poor Business Enabling Environment reforms to economic growth. Which is a necessary condition to attaining economic development. The main aim of this study is to determine the observable relationship between Business Enabling Environment and economic development using a Desk Based Research and literature review coupled with experience on the developmental work in Zambia.

Below are the key questions relating to specific objectives this paper:

- a) What kind of Business Enabling Environment Reforms to have been implemented in Zambia?
- b) What is the relationship between our adopted Business Enabling Environment reforms and economic growth, economic development and poverty reduction?
- c) Are we carrying everyone along in the quest for Economic growth, economic development and poverty reduction? If not, what is it that can be done to avoid leaving the majority behind?

## 2. Business Enabling Environment Reforms in Zambia

Zambia's aspirations to attain a prosperous country by 2030 through the National Development Plan, started as far back as 2006. Zambia's first long range plan, was launched in December 2006, following a broad national consultation process. The current plan is the Seventh National Development Plan (2017-2021) according to [4]. This means that, Government of Zambia began implementing Business Enabling Environment Reforms as far back as 2006 through the implementation of Private Sector Development programmes. This was after acknowledging that, the private sector is the huge platform for promoting more innovation and productivity to enhance economic growth and poverty reduction. The private sector has both small and big businesses. However, the majority includes the small and marginalized businesses such as petty traders, artisans, street vendors, Light manufacturers in agro processing, metal fabrication, wood processing and auto mechanics, home enterprises and restaurant owners. Small business face

2 This is the 17th edition in series of World Bank annual reports measuring the regulations that enhance or constrain business activity in an economy.

3 COMESA- Common Market for Eastern and Southern Africa.

4 SADC- Southern African Development Community.

different challenges compared to big businesses in the same private sector framework. Even where these challenges are similar, their impact is more serious for small businesses.

It is very Important to first understand Business Enabling Environment before we can evaluate the progress so far. Business Enabling Environment (BEE) refers to a set of policies, institutions, regulations, support services and other conditions including infrastructure that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive [5,p.2]. These policies, institutions and support services that collectively create a business setting where business begin and thrive, are not one size- fits all. They are tailored to address needs and challenges of different private sectors and sizes. For example, what may work in Salon and barbershop business sector, may not work in metal fabrication for business to start and thrive.

For the sake of this paper, institutions as part of things that makes up Business Enabling Environment(BEE), and according to [6, p.3] shall be defined as sets of rules, procedures or norms that constrain behaviour of individuals in an organization, to achieve a set objective such as maximizing shareholders' funds or implement government policy. Under this definition, we shall pay attention to how changes in resource endowments can cause individuals to change their economic behaviour within a given institutional context and potentially cause the institution itself to change in the longer run. Such a focus is particularly relevant when thinking about institutions in low income countries (since development, is about change.) The weaker the set of rules, the more individuals in these institutions are more likely to negatively influence the image and stance of an institution as well as the objectives it stands for. Many development economists have linked institutional quality to be a determinant of economic development. [6] argues that improvements in the quality of contracting institutions, better law enforcement, increased protection of private property rights, improvements in central government bureaucracy, improved operation of formal sector financial markets, increased levels of democracy, and higher levels of trust are all correlated with higher economic growth<sup>5</sup>.

As seen by the definition of Business Enabling Environment, the concept is very broad and there is always a temptation to narrow it to focus on administrative<sup>6</sup> and regulatory<sup>7</sup> aspect. According to [4], when the Government of Zambia established a framework called the Private Sector Development Reform Programme in 2004, it was meant to

make it easier to do business in Zambia. This was the beginning of creating an enabling environment for the private sector which constitute the largest part of the Zambian population. Priority areas within the reforms included the following but not limited to: First, doing business reforms (as suggested by World Bank Doing Business Report, such as Government of Zambia (GoZ)'s efforts to reduce the time it takes to start a business; it now takes one day for example to open a bank account, to register a business with the revenue office and register for the national social security scheme). Secondly, Business Licensing Reforms (aimed at substantially reducing the number of unnecessary licensing requirements in order to make the process simpler, transparent and less costly). Thirdly, Public Private Partnerships Development (GoZ) intended to develop a legislative climate conducive to private sector investment in public private infrastructure and services) and last but not the least, development of an MSME policy which defines how to address challenges faced by MSMEs. The MSME Policy provides for services such as a credit guarantee scheme and business support services.

Fifteen years since these Private Sector Development reforms were launched. It would be nice to evaluate the progress so far, especially with the drive now, reinforced not to leave anyone behind. As a result of these reforms, among other factors, the country ranks high in terms of ease of doing business. Regarding the foresaid, according to the World Bank Doing Business Report of 2020, Zambia has been commended for introducing more reforms such as reorganization procedure and granting debtors, the possibility of obtaining post-commencement finance. This is regarding protecting minority investors and resolving Insolvency. This has moved Zambia from 87th to 85th Position out of 190 countries on easy to do business. Zambia is now ranked 5th in Sub-Saharan Africa and COMESA. It's also 3rd in SADC on the World Bank Ranking of easy to do business. Indeed commendable. Just in 2014, Zambia ranked 3rd in COMESA, 6th in SADC and 9th in Sub Saharan Africa. In addition to this, the Private Sector Development reforms have seen substantial increase in FDI, from US\$72 million to in 2001 to US\$1.7 billion in 2012, especially in the mining sector. However, after 2014, UNCTAD World investment Report [7], noted that, Foreign direct investment (FDI) flows to Africa fell to \$54 billion in 2015, a decrease of 7 percent over the previous years. An upturn in FDI into North Africa was more than offset by decreasing flows into Sub-Saharan Africa, especially to West and Central Africa. Low commodity prices depressed FDI inflows in natural-resource-based economies such as Zambia, which ranked within the Top 20 FDI destinations in Africa out of the 54 countries. The volume of FDI inflows to Zambia was down 48% from the volume recorded in 2014. The slowing in FDI was mostly attributed to electricity shortages and uncertainties related to the mining tax regime which continued to constrain the Zambian mining sector. Lower prices for copper (which accounts for over 80 per cent of Zambia's exports), the collapse of the national currency and

5 These findings are of fundamental importance for development economists and policy practitioners in that they suggest that institutional quality may cause poor countries and people to stay poor. However, the economic interpretation and policy implications of these findings depends on understanding the specific channels through which institutions affect growth, and the reasons for institutional change or the lack thereof.

6 Administrative -streamlining and simplifying processes and procedures (administrative) that govern business to enhance private sector investment.

7 Regulatory - focused on improving regulations and laws as means of creating general business setting for startups to grow and thrive.

surging inflation also affected reinvested earnings. All in all, FDI has been increasing due to strides by government to improve Private Sector Development Programme. This had spurred unprecedented economic growth rates, recording an average annual real GDP growth rate of 6% in the years up to 2014, although the trend is now slightly lower of average annual real GDP of 3% average in 2018. Consequent to this sustained growth, the country was reclassified as a lower middle-income country in 2012 by the World Bank.

Nevertheless, the paradox between high economic growth and simultaneously high poverty rates still takes us to the question of what has not been done right and what more needs to be done, so as not to leave anyone behind. International Monetary Fund, world economic outlook, [8] April 2019, confirms that Zambia remains one of the poorest countries in the world, ranking 45 out of 191 countries. The value for GINI index<sup>8</sup> (World Bank estimate) in Zambia was 57.10 as of 2015. Over the past 24 years, this indicator reached a maximum value of 60.50 in 1991 and a minimum value of 42.10 in 2002. According to the Gini Index, Zambia in 2015, was named among the 10 most unequal countries in Africa, namely: South Africa (65), Namibia (61.3), Botswana (60.5), Zambia (57.5), Honduras (57.4), Central African Republic (56.3), Lesotho (54.2), Colombia (53.2), Brazil (52.7) and Guatemala (52.4). This report compelled African Development Bank (AfDB) to term it as disturbing, in that, the continent which has consistently posted robust economic growth in the past decade, shows the bastion of inequality recording of 42.6 on average. The GNI provides evidence suggesting that rich Africans, who account for less than five percent of the population, hold about 20 percent of total income while the poor who account for 60.8 percent of the population own 36.5 percent of the continent's total income. The AfDB acknowledged that while Africa has grown at an unprecedented pace from 2005, the benefits of the economic resurgence have been concentrated sectors or geographical areas within countries, excluding large sections of people [9].

Zambia, inclusive had partly neglected a more inclusive growth based approach in order to lift the majority, poor and vulnerable Africans out of poverty by creating employment opportunities through a better business and investment climate that enables the private sector to thrive; and connecting remote areas to growth poles through better infrastructure and deeper regional integration within countries and across national borders. The proof that, reforms made only resulted into more Foreign direct investments and less of poverty reduction and equal distribution of income, is one sure way of acknowledging the gaps in the private sector reforms that, will ensure we develop and implement a Business Enabling

Environment (BEE), that do not leave anyone behind. BEE was narrowly defined for Zambia, in the initial days of reform implementation to only incorporate the regulatory and administrative private sector reforms. The Regulatory and administrative reforms that have already been implemented include measures to make it easier to do business in Zambia: the establishment of a One Stop Shop for business registration, an online facility names search for business registration, the electronic submission of income tax returns and elimination of 93 out of 170 targeted licenses. Which are necessary but not sufficient reforms to create the needed Business Enabling Environment for majority marginalized MSMEs to start enterprises, grow and thrive in Zambia. It is commendable to Government of Zambia to reduce regulatory and admirative market barriers for ordinary Zambians to easily formalize his business. We have not only reduced time it requires to register with ZRA, PACRA, NAPSA etc. but also substantially reduced the number of unnecessary licensing requirements in order to make the process simpler, transparent and less costly. However, there more to be done to, help majority Zambians to grow business.

Zambia's private sector development dialogue is inextricably linked to debates about its Informal Sector, which, according to most estimates, employs about 90% of its labour force [10]. While some data on informal sector workers is available and has been used to understand the nature of the informal labour force, little is known about enterprises that constitute the informal sector. According to the latest statistics, the informal sector constitutes a significant part of the Zambian economy. The informal sector is defined by productive activities that are conducted by unincorporated enterprises that are unregistered and / or are less than a certain size in terms of employment. In [10] a study done in 2012, whose statistics came from Studies like Zambia Business Survey (ZBS, 2008), whose sampling methodology encompasses all businesses in Zambia, including informal enterprises in agriculture and services, and the World Bank Enterprise Survey (WBES, 2008) database, which includes a module covering urban microenterprises in major cities of Zambia. Going through this study, gives insight on how big the informal sector is in Zambia. Defining informality to include businesses that are not registered with the Zambian Revenue Authority (ZRA) for tax purposes, this study found that there are about 1.02 million informal micro and small enterprises (MSMEs) in Zambia, along with about 30,000 formal MSMEs. While this number seems strikingly high at first glance, and could imply enormous taxation potential, further examination shows that a vast majority of these "businesses" are very small: only 15% of firms have revenues greater than 1m kwacha per month; less than 8% have revenues more than 2 million kwacha. If one uses the 2m kwacha threshold for taxation eligibility; only about 80,000 businesses would qualify for taxation. Majority of these businesses (70%) are farming operations; others are mostly in the retail sector.

8 Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality (Where everyone has same income), while an index of 100 implies perfect inequality (All wealth owned by one man).

The question for Zambia, therefore, is around how the reforms can bring on board the interests of the poor informal sector, who form most of the private sector. The current MSME policy needs to be informed by the needs of poor. This paper acknowledges that, Government of Zambia has been fine turning these reforms since 2014 to incorporate broader reforms for Business Enabling Environment of the informal sector, through national policy guidelines launched along the way, such as National Industrial Policy; Local Content Strategy<sup>9</sup>, National Export Strategy<sup>10</sup> [4]. National industrial Policy for example, emanated from the understanding that, the implementation of the Private Sector Development Reforms has resulted in the elimination of unnecessary licenses and tedious business licensing procedures. However, in the industrial sector, there has been a gradual, but sustained, expansion of the manufacturing sector particularly in the processed food sub-sector which provides extensive linkages with the agricultural sector. The past decade has also shown noticeable growth in some non-traditional export sectors, notably the horticultural, cement and sugar industries. There is need to do more. Government further restructured its Citizen Economic Empowerment Programme by targeting value chains in order to add value to Zambia's abundant natural endowment across the country. Other interventions such as the Multi Facility Economic Zones (MFEZs) have resulted in expanded industrial infrastructure facilitating billions of dollars in foreign investment and the expansion of the country's productive capacities. The Government has also secured market access for Zambian products through deeper regional integration under the COMESA and SADC frameworks as well as preferential access to several large international markets on the African continent and beyond. Which are good steps towards all-inclusive Business Enabling Environment.

Where, then is the gap? Why are we failing to groom the private sector that should grow and thrive in the Zambian economy?

### **3. What Should Be Done to Achieve a Sufficient Business Enabling Environment That Would Lead to Both Economic Growth and Economic Development**

It is very important to note that, despite the established

positive link between Business Enabling Environment and Economic growth, acceptable income redistribution, good standard of living and poverty reduction, there has been little consensus on what should constitute an enabling environment. The Business Enabling Environment (BEE) is a very broad concept and often not easily defined. However, what is generally agreed is that a thriving private sector is crucial for poverty reduction and that certain business-friendly conditions are required to achieve this. It is not a one size-fits all model. It is contextual and highly dependent on the target group of the private sector. With Zambian economy, as established, the informal sector which constitute the largest part of the private sector include: Small businesses (including petty traders, artisans, street vendors, barbershops and salon business, manufacturers, home enterprises and restaurant owners). The needed Enabling Environment should constitute policies, institutions, regulations and other support survives that should collectively, not in isolation, create a platform for a small business to start, grow and thrive. The litmus paper of this environment is seeing small and medium business grow for self-sustainability. Growth is a delicate issue. Parents do not leave children to grow on their own. There are lot of deliberate actions intended to protect children from outside world, when necessary and expose them to what they feel is beneficial. The principle is the same in the growth of small businesses in Zambia, if the impact on job creation, income generation and poverty reduction can be realized.

Below are some of the recommendations of this paper, on the growing of the local industrial sectors. This paper looks at four (4) Pillars that would contribute to a prosperous Zambia by 2030.

#### **3.1. More Conducive Policies, Laws and Regulations**

If the Zambia's Private Sector constitutes a vast majority of very small business, then, on average, only 15% of firms makes revenues greater than 1 Million kwacha per month; less than 8% make revenues more than 2 million kwacha. And If one uses the 2-Million-kwacha threshold for taxation eligibility; only about 80,000 businesses would qualify for taxation. Majority of these businesses (70%) are farming operations; others are mostly in the retail sector [10]. In my humble opinion, it is a country of infant industries and retail sector. The AfDB defines inclusive growth as economic growth from pro-poor BEE, that results in a wider access to sustainable livelihood opportunities for a broader number of people, regions, or countries, while protecting the vulnerable, all in an environment of fairness, equity, and political plurality. A pro-poor BEE is one such measure as it aims to support the Informal sector (small and micro enterprises) by building human capital and skills and addressing climate change to ensure a smooth transition towards an environmentally sustainable growth path, would further promote inclusive growth as explained in [9]. Therefore, policies should be aimed at empowering them with both skills and financial services, while protecting

<sup>9</sup> This strategy integrates the use of local primary resources and locally manufactured goods and services, employment of locals and participation of local service providers in production processes.

<sup>10</sup> NEST as a National agenda of diversifying the Zambian economy seeks to address challenges in both the goods and services sector in a coordinated and systematic manner by focusing and spelling out interventions to tackle bottlenecks related to market expansion, trade facilitation, production, access to finance and in more general terms, wealth and job creation. The objective is to enhance the competitiveness of Zambia's exports at regional and multilateral levels, while creating opportunities for expansion of the.

them from the wind of the free market economies, until such a time that, they can be able to stand on their own. By the majority of private sector reforms such as administrative reforms where we have streamlined the impediments to registration of a company through PACRA, ZRA and NAPSA, a small business can easily be registered and later on, die in its infancy by accumulating more administrative and legislative charges, that genuinely comes by having been registered from the very beginning. This is a common phenomenon among MSMEs in Zambia. If we are able to tailor a case by case monitoring system where, policy can give tax holiday, similar to one given to huge corporations until, they reach a certain profit mark, for them to begin paying taxes from profits and not their revenue, it shall create a policy environment that will allow poor businesses to start, grow and thrive. Growth is not an easily step, so more resources should be allocated to the cause to ensure, we can track small business that have grown from the poor marginalized informal sector. One would argue that, if such measures are put in place, the Government would lose a lot of revenue. That kind of thinking looks at the short-term needs of the government. However, this paper employs you to look at an economy with viable MSMEs and the future revenue that could be collected. The tax evasion and avoidance can easily be reduced, because by then, these small businesses would have realized that, Government is business partners in growing their business.

Additionally, drafting better Business Enabling Environment (BEE) and implementing them without alerting the intended beneficiaries, yield no or little results. Since information is very vital for an individual to make rational decision, the cycle of rational small businessmen and women will remain among those few who are informed. As you travel to the rural parts of Zambia such as Lukulu, Mitete and Chilubi Island, you find that, the majority Zambians are unable to read or write in their own language. Yet active labour force. Capable of contributing to the economic development of this country in their capacity. For instance, there are a lot of reforms and policy directives in Zambia, vibrant in creating enabling environment for these in rural areas but not highly publicized. You talk of the cost of publicizing them. I would employ you to consider the future cost of maintaining the huge informal sector, that will remain poor and unattended to. The future cost shall outweigh the benefit. It is the issue of intertemporal choices. Policies around Reservation Schemes and Local Content Strategy are one of the best recent policies that benefit the local MSMEs, very few are aware of them. Very few. Policies and its implementation are likened to parenting. We do not give up on our children by virtue of them not keeping up with our pace. We look at the benefit of training and teaching them the basic principles applicable to them in the future. Lest the neighbour's child comes to take advantage of the opportunity. We are the ones to suffer the future consequences of keeping an irresponsible child.

### **3.2. Business Enabling Environment Needs Innovation Around Access to Financial Services**

For a long time, the private sector development models, especially when dealing with poor majority informal sector has been centred on access to credit as explained in [5]. Access to credit is just one component of the broader need of the majority informal sector. Zambia's informal sector needs a broad based accessible and responsive financial sector. What do we think happens to a farmer or a small trader that access credit at low interest rates (Simplifying the model) and undergoes some of these scenarios? First scenario, an MSME who makes more profit in his/her initial stages of his business? This paper believes that, lack of discipline as a result of lack of financial literacy might compel him/her to consume the profit at once. This could be also be due to lack of other trusted saving or/and investments options for him/her to think of growing future proceeds. Second scenario, an MSME make a loss due to unforeseen circumstances, such as fire or drought. These are typical challenges of small businesses and farmers. If an enabling environment looks at growth as a goal, sorting out those challenges should be our priority. Zambia needs a pro-poor and viable financial services industry. The financial sector services are not only limited to credit market. Financial sector involves services and products provided by financial institutions such as banks, insurance companies, brokerage firms, consumer finance companies, and investment companies to consumers and businesses, all of which comprise the financial services industry. Collectively, all those financial institutions must have laws, policies and trust, that should compel individuals driving them not to compromise the goal of supporting the majority MSMEs. They should not only sort out challenges of big companies but small businesses too. The challenges include physical access to financial services (as some places are far from financial institutions), insurance to protect them against risks and financial management services. Viable saving schemes as well as investment options that are tailored specifically for each sub sector. Even on the credit market front itself, we need to strive towards more sources of financial instruments applicable to each target group such as credit guarantees, matching grants funds, capital markets options, unit trust, joint ventures, Trade finance, Venture Capital and syndicating.

The Zambian financial services have been tilted towards access to credit. The credit market is structured in such a way that small business fails to access due to higher interest rates and lack of collateral. In 2014, The Jesuit Centre for Theological Reflection, Zambia (JCTR) and Catholic Agency for Oversea Development (CAFOD) as in [5] noted that, institutions that government has developed to address financial market failure as well as drive the need for small businesses to access lower interest rates at 12% p.a are not prioritized in terms of budget allocations. For instance, the amount of financing given to CEEC is limited. From

inception of CEEC in 2008 to 2018, the Government has only given the fund approximately US\$33 million dollars to give out in the form of loans. This is only 0.2% of the country's GDP. While some services such as the credit guarantee scheme, that may respond to the financial needs of MSMEs if implemented, is not widely publicized enough to inform access to the services. Just recently, in September 2018, Lusaka Times, briefly reported in [11], the launch of the credit scheme by Former Minister of Finance-Margaret Mwanakatwe. This paper argues that, this scheme, especially if it was implemented as a public guarantee Scheme, would enhance access for micro-small and medium scale enterprises to affordable financing by mitigating risks that worry traditional financial institutions. Public guarantee schemes as established by public policy involve state subsidies, managed by a private Organisation or an administrative unit of the government. An advantage of this system is that, in case of loan default, the guarantee is paid out directly from the government budget. This gives such a scheme higher credibility within the banking sector. This would not only put government to task to ensure repayments are done, if not few defaults by promoting Business Development Services. According to United Nations Industrial Development organisation [12], Credit guarantee schemes are designed to diminish the risk associated with lending to SMEs. As already mentioned, Credit Guarantee Schemes can reduce information asymmetry and alleviate high collateral requirements whereby improve loan terms and facilitate access to formal credit for small firms. Additionally, by allowing loans to be made to borrowers that otherwise would have been excluded from the lending market, with the support of government backing, these firms are now able to establish a repayment reputation that itself can, in the future, act as a type of collateral. Finally, by extending more loans to smaller businesses, lending institutions gain experience in managing these types of loans, encouraging further development in this market segment.

Nevertheless, the extent to which credit guarantee schemes provide these benefits is a major area of debate. Experience suggests that credit guarantee schemes do play a role in expanding credit to SMEs. This paper calls it a process of Vouching for your own. What is needed is a contextual business enabling environment that will support growth of our informal sector.

### **3.3. Business Enabling Environment Needs Improved Business Development Services**

Access to a viable financial industry, may not be enough condition on its own. It needs to work collectively with other supports services such as Business Development Services (BDS). BDS is a collection of business services [such as training, consultancy, marketing, information communication technologies, technology development and transfer, business linkage promotion, etc.), that help sustain business operations and /or to improve the performance of a business. BDS are generally understood to exclude financial services. There two forms of BDS, namely operational and

Strategic BDS. On one hand, operational BDS are those business services that serve the purpose of ensuring that the day-to-day operations of a business are sustained. These include services such as accounting support, maintenance of equipment and software, courier services, conferencing and events management support, branding, advertising services, business registration, etc. It is one thing to make it easier to register a business as promoted in Zambia, necessary but it is another thing to know how to do it. Operational BDS mentors and train the informal sector on how to run business on a day to day basis. On the other hand, Strategic BDS, seek to secure market share, to improve competitiveness of a business in the medium term to long term, to turn the performance of a business around, etc. These include services such as business plan development, facilitation of mergers and acquisitions, quality assurance support, business turnaround support, backward and forward market linkage, et.

The principle is to grow the businesses of MSMEs. One small business might have access to a viable financial sector but lamentably fail to learn on how to manage his business and plan for growth based on the available incentives. This process requires a mind change to focus on a business as a long-term income generation venture, where one must be, not only hardworking but also strategic in terms of adopting measures that should help them survive. It is an art that should be mastered and inculcated in small business by those trained or experienced. The group or individuals who provide BDS are Called Business Development Services Providers (BDSP). We should strive to create a private sector market for such BSDPs, not only to be government oriented like private for profit firms, parastatals, government, industry associations and donor initiatives (usually not for profit), whose funding, threatens sustainability of the services.

A viable BDS must aim at achieving productivity and efficiency throughout the production and marketing cycle of doing business, which is very vital for growth of small MSMEs as it promotes competitiveness in both local and regional markets. A Zambian small business should be able to know acceptable standards of, making a product or service that can be certified by Zambia Bureau of Standards (ZABS). Further be mentored with strategies to penetrate local market and international market. This mentorship is continuous and sector specific based on products or services offered. This paper acknowledges the emergence of BDS in Zambia, though they should be pushed further to be growth orientated. A BDSP should be able to point at a small business that have grown and thrived under their tutorage. That way, it will act as a basis to certify those who should be called real BDSPs. Zambia should move away from motivational talk only. We should have BDSPs that are growth oriented. Furthermore, Funding of these BDS services has not been given much attention as a need for small business in Zambia. Yet, lack of it has resulted in fatalities of several small informal businesses. If the biggest proportion of the Zambian economy is the informal sector, BDS must be kept as priority

to attain a prosperous nation by 2030.

### 3.4. Zambia Business Enabling Environment Requires More Access to Competitive Market

Regarding the foresaid, the enabling Environment requires that all the nit-grit of the elements that creates a business setting where a small business start and thrive. A favourable policy environment, enhanced access to financial services, just like improved Business Development services would not give us the intended results if they do not work with other support services and initiatives such as increased access to Competitive markets. A small business would easily register a company, be given tax incentives and protection to growth, under experienced strategic BDSP, yet still fail to thrive for lack of Competitive markets. This paper maintains that, many small Farmers in rural areas have produced wheat or maize but lack of market and infrastructure such as Roads, makes them susceptible to briefcase buyers. This paper further acknowledges the strategic policy frameworks on local content, export market as postulated by Ministry of Commerce Trade and Industry and line Statutory bodies. It suffices to conclude that, there is strategy on paper to enhance domestic scaled markets such as local supermarkets and chain stores, that has not realized much results because it has not been ranked as urgent. We have not implemented them at the scale the need of small-scale business requires it. We all have a responsibility to do our part. Market linkages and access to markets cannot be overemphasized in Zambia, if an enabling environment must drive growth that reduce poverty in the long run.

## 4. Conclusions

The Zambia has made improvements in creating a business enabling Environment, especially in areas noted by Word Bank doing business report. However, since the improvements are just necessary but not enough enabling environment to pull out the majority informal sector, it can safely be said, it is not pro-poor. As noted in the paper, the enabling environment has benefited more, the big businesses, that constitute the smallest proportion of the population. This in turn has continued to rank Zambia among the unequal and poor countries in the world, despite the economic growth recorded in the recent past. The paradox of the positive link between Business Enabling Environment (BEE) and economic growth but that leaves a country among top 10 African countries with higher GNI Index, is the reason to go back to the drawing board and begin to focus on pro-poor BEE, that will not leave any one behind as postulated by the Seventh National Development Plan and help attain a prosperous nation as vision 2030. This paper also notes that, the majority small business does not require a one size-fits all kind of BEE. It requires a lot of resources and efforts to grow the informal sector to sustainable levels. This paper argues that, the focus should be on the four broader strategies, first: improved BDS that are result oriented targeted at small

business; Secondly, increases access to Financial services, which should not be mistaken to be credit only. An array of broad sources of financial services such as insurance, public guarantee Schemes, matching grants etc; Thirdly, increased access to competitive markets; and lastly more favourable laws, regulations and policies that should look at Informal sector as an infant who really need special care. If we can give incentives to bigger Organisation to invest in Zambia, we can equally do the same to small business. All these, should, however, work collectively to create a business setting that would grow and thrive small businesses. Additionally, the paper notes that, much of the four strategies have been started in Zambia, by way formulating strategies such as National Trade Policy, National Industrial Policy, Local Content Strategies to mention but a few as well as revision of strategic plans of relevant authorities and statutory Organisation, the task of contextualizing the BEE to support small business, requires urgent attention in order to arrest the situation now. If Zambia had any priority, growing the majority informal sector should be that goal. Budget allocation and well as disbursements should show that drive, where market failure is inevitable. The paper further, notes that, Institutions that should drive the move to a productive informal sector as part of the enabling environment, should get rid of weaker set of rules. The more individuals in these institutions adhere to set rules and act independently on set strong rules, the more likely the image and stance of an institution as well as the objectives it stands for, shall be upheld. This creates trust between Small business and this institution to be partners in development. Many development economists have linked institutional quality to be a determinant of economic development. It argues that improvements in the quality of contracting institutions, better law enforcement, increased protection of private property rights, improvements in central government bureaucracy, improved operation of formal sector financial markets guarantees the Enabling Environment and further foster economic development.

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