

# A Pro-poor Business Enabling Environment: The case of Zambia

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Governments and donors are increasingly focusing on creating strong business enabling environments. This paper looks at the context of Zambia and makes the case that a *pro-poor* business enabling environment (BEE) is essential.

A pro-poor BEE considers the set of policies, institutions, regulations, support services and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive to the benefit of the poorest. Given the number of poor people who work in small and micro enterprises, it is especially important to consider the conditions and interventions which will support these to be more successful and thrive.

Business Enabling Environment reforms, if well defined, focused and implemented, can play a role in promoting equitable economic growth, reducing inequality, creating sustainable jobs and reducing poverty. Evidence from the United Kingdom's Department for International Development (DFID) (2008) suggests that making BEE reforms pro-poor, so that they address the bottlenecks that the poor face in business, is likely to yield benefits. The link is not however automatic and care needs to be taken if pro-poor outcomes are to be achieved.

Zambia is a classical example of BEE reforms that are narrow, Foreign Direct Investment (FDI) oriented and mainly focused on administrative and regulatory reforms. These types of reforms can deliver economic growth but may not deliver significant poverty reduction and job creation as the case of Zambia shows. They are also fairly generic, missing some of the specific challenges within the Zambian context. We therefore urge decision makers to look at the national and local context when planning these reforms.

In light of this, this paper highlights specific challenges and bottlenecks facing small businesses in Zambia. These are the key areas that should be focused on if a pro-poor BEE is to be pursued by the Government of Zambia (GoZ). Based on this, JCTR and CAFOD then provide recommendations to GoZ and international donors around how best to achieve a BEE that works for the poor.

## 1. INTRODUCTION

This paper explores what a pro-poor Business Enabling Environment (BEE) within the Zambian context would look like. It agrees with the general assertion that private sector development is crucial to growth, development and employment creation and that the business environment needs to be conducive for business growth if the private sector is to play its expected role. But the private sector is not a uniform grouping; businesses and their needs vary dramatically. Small businesses, as much as big ones, matter in an economy and are of central importance to the poorest.<sup>1</sup> This paper argues that business environment reforms need to be wider and pro-poor in nature if small businesses are to have a chance to contribute to economic development, grow and be successful, and consequently lift people out of poverty. The 2010 GDP Benchmark reports that the Micro, Small and Medium business sector contributes 34% of the country's GDP.<sup>2</sup>

### **This paper focuses on the following topics:**

- Section 2 looks at what a pro-poor BEE is and why it is important.
- Section 3 considers the Zambian context and look at how the business environment impacts on poor entrepreneurs in the country.
- Section 4 reflects on the question of the specific challenges the government should focus on to create a BEE that supports the poor, with specific recommendations proposed.
- Section 5 considers what these lessons from the Zambian context mean for donors who are interested in promoting BEE reforms that are pro-poor and support small businesses.

The paper is informed by both primary and secondary data.<sup>3</sup>

## 2. WHAT IS A PRO-POOR BUSINESS ENABLING ENVIRONMENT AND WHY IS IT IMPORTANT?

The Business Enabling Environment (BEE) is a very broad concept and often not easily defined. While it is generally agreed that a thriving private sector is crucial for poverty reduction and that certain business-friendly conditions are required to achieve this (i.e. a BEE), there is little consensus on what constitutes a BEE or what approach to take in creating one.

The BEE is mostly narrowly defined by equating it to administrative and regulatory business environment. Thus most BEE reforms are focused on improving regulations and laws (regulatory) and streamlining and simplifying processes and procedures (administrative) that govern business so as to enhance private sector investment.

In its broadest sense however, the BEE should refer 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.<sup>4</sup> It should be broad enough to address all the challenges that hinder businesses from flourishing. Importantly for this, the composition of businesses and their needs and challenges, which BEE reforms attempt to address, vary considerably depending on business size and sector.

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<sup>1</sup> See CAFOD 2014, "Why think small?" for a full discussion around the value of small and micro enterprises.

<sup>2</sup> Republic of Zambia, 2014, p.4

<sup>3</sup> This paper is largely based on desk-based research and literature review and is supported by workshops and interviews with entrepreneurs (identified through purposive sampling) and entrepreneur associations.

<sup>4</sup> Konig et al., 2013.

In Zambia, while 2006 BEE reforms have identified micro, small and medium business development as a focus area (Box 1), more attention has been paid to creating an enabling regulatory and administrative environment aimed at attracting foreign direct investment (FDI). Even with the current improved regulatory and administrative environment, which has successfully increased inflow of FDI into the country, most small businesses continue to struggle and remain outside the formal sector. This supports international research which found that there was no evidence that purely regulatory reform packages “aimed at establishing a ‘level playing field,’ are pro-poor and appropriate to lift the workforce in the informal economy out of poverty”.<sup>5</sup> A different, pro-poor solution is needed.

BEE reforms are pro-poor if they benefit the poor by supporting their work and livelihoods to be more successful. Such reforms should tackle *all* impediments to business development so should be broader than simply administrative and regulatory reform. A pro-poor BEE is especially important in developing countries because the private sector is dominated by poor and vulnerable people who struggle to grow their businesses and get out of poverty (Box 2).

### **Box 1: Private Sector Reforms Programme of the Government of Zambia**

The Private Sector Development Reform Programme is a framework of the GoZ established in 2004<sup>6</sup> to make it easier to do business in Zambia. Priority areas within the reforms include:

- Doing Business reforms (these are linked to those suggested in the World Bank Doing Business report. An example would be the 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)<sup>7</sup>
- Business Licensing reforms (aimed at substantially reducing the number of unnecessary licensing requirements in order to make the process simpler, transparent and less costly)
- Public Private Partnerships Development (GoZ intends to develop a legislative climate conducive to private sector investment in public private infrastructure and services)
- Micro, Small and Medium Enterprise (MSME) Development (GoZ has put together an MSME policy which defines how to address challenges faced by MSMEs. It provides for services such as a credit guarantee scheme and business support services).

## **3. THE ZAMBIAN CONTEXT**

Zambia is one of the many developing countries that has embraced a Business Enabling Environment as a means to achieving sustainable private sector development and poverty reduction. The GoZ has made a commitment through the establishment of the Private Sector Development Reform Programme (PSDRP – Box 1) to BEE reforms aimed at enhancing a competitive business environment and investment climate. 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 names search facility<sup>8</sup> for business registration, the electronic submission of income tax returns and elimination of 93 out of 170 targeted licenses.

<sup>5</sup> UNIDO & GTZ, 2008, p. x.

<sup>6</sup> Ministry of Commerce, Trade and Industry, 2014

<sup>7</sup> The Doing Business Report is an annual report that tracks regulatory reforms aimed at easing doing business. It ranks economies based on 10 indicators of business regulation that record the time and cost to meet government requirements (for 2013 report see: World Bank-IFC, 2013, <http://bit.ly/1mYfONG>)

<sup>8</sup> The online name search is a facility that enables people who want to register a business to search for potential business names and identify those that are not registered and so are free to be used.

As a result of these reforms, among other factors, the country ranks high in terms of ease of doing business. According to the World Bank Doing Business Report of 2013,<sup>9</sup> Zambia ranked 3<sup>rd</sup> in COMESA<sup>10</sup>, 6<sup>th</sup> in SADC<sup>11</sup> and 9<sup>th</sup> in Africa. The reforms have seen substantial increase in FDI, from US\$72 million to in 2001 to US\$1.7 billion in 2012,<sup>12</sup> especially in the mining sector. This has spurred unprecedented economic growth rates, recording an average annual real GDP growth rate of 6% in the last ten years. Consequent to this sustained growth, the country was reclassified as a lower middle-income country in 2012 by the World Bank.

Zambia however remains one of the poorest countries in the world; ranking 163 out of 187 countries according to the 2013 Human Development Index Report. With a Gini Coefficient<sup>13</sup> of 0.65<sup>14</sup>, Zambia's income inequality is one of the highest in the world. Thus despite these reforms and the related increasing private sector growth and economic growth of the last twenty years, poverty and inequality have remained high.

World Bank figures show that between 1998 and 2010 economic growth steadily grew from a negative growth rate of -4.5% to 4.4%. Despite significant growth, the percentage of people living in extreme poverty also increased over this time rising from 56% to 75% (table 1).<sup>15</sup> Additionally, the growth has not translated into a commensurate increase in the number of jobs. The World Bank reports that while real GDP expanded significantly, job creation only increased by 1% per year.<sup>16</sup> Of the estimated 6 million labour force, only about 14.6% are formally employed and the remainder of the workforce is either engaged in the informal economy or unemployed.<sup>17</sup> Statistically, there are 1.02 million informal and 30,000 formal micro, small and medium enterprises in Zambia; 70% of which are largely rural farming businesses<sup>18</sup> (Box 2).

	1998	2003	2006	2010
GDP per capita growth (annual %)	-4.5	2.5	3.4	4.4
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	55.7	64.6	68.5	74.5
Poverty headcount ratio at national poverty line (% of population)	..	..	62.8 <sup>20</sup>	60.5

<sup>9</sup> World Bank-IFC, 2013

<sup>10</sup> COMESA – Common Market for Eastern and Southern Africa. For member states see <http://bit.ly/1pLjeaW>

<sup>11</sup> SADC – Southern African Development Community. For member states see <http://bit.ly/1ozB0uc>

<sup>12</sup> Zambia Development Agency, 2013

<sup>13</sup> The Gini coefficient measures inequality. A Gini coefficient of zero expresses perfect equality (for example, where everyone has the same income). A Gini coefficient of one expresses maximum inequality (for example all wealth is owned by one person)

<sup>14</sup> UNDP, 2013

<sup>15</sup> It is worth noting that the overall poverty rate according to the national poverty line decreased slightly by 2.3 percentage points from 2006 to 2010 (table 1) but extreme poverty increased.

<sup>16</sup> World Bank, 2013

<sup>17</sup> International Labour Organisation, 2012

<sup>18</sup> Shah, 2012

<sup>19</sup> Data from database: World Development Indicators. <http://databank.worldbank.org>, Last Updated: 07/01/2014

<sup>20</sup> Note this figure is cited in: Republic of Zambia (2010) rather than from the World Bank's databank where other results are from.

### **Box 2: Statistics on the informal sector in Zambia**

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. The informal sector contributes 34% to the total GDP.<sup>21</sup> In terms of jobs, the informal sector provides 67% of employment.<sup>22</sup> With the Public Sector only accounting for 6% of total employment, the informal sector is critical to employment in Zambia. The informal sector is increasingly becoming dominated by women, especially in rural areas where they work on farms. Data from the World Bank Economic Brief shows that there is a larger share of women workers (74%) on farms than men (59%). Other research has found that informal sector businesses consist of up to 65% women.<sup>23</sup> Youths are equally joining the informal sector, including farming, due to the absence of alternative opportunities.<sup>24</sup>

This paradox between high growth and simultaneously high poverty rates highlights the need for proactive measures to ensure that economic growth is inclusive and benefits all people. A pro-poor BEE is one such measure as it aims to support small and micro enterprises where most poor people work. Without this there is the risk that economic growth will continue to offer no real benefit to poor people – especially where they have inadequate access to resources to engage in business and access to markets on favourable terms.<sup>25</sup>

The question for Zambia therefore, is around how the reforms can bring on board the interests of the poor who form the majority of the private sector. The current MSME policy needs to be informed by the needs of poor. While some services such as the credit guarantee scheme may respond to the financial needs of MSMEs if implemented, the policy is not widely publicised enough to allow sufficient a number of people to access the services. It is clear that most of the reforms that have already been implemented, as referred to above, are administrative and regulatory oriented and that they are targeted at FDI. This area of reform is important, but the literature is clear that in order for businesses to prosper and grow (and invest), a broad range of interventions, support measures and structures need to be in place.<sup>26</sup> The reforms undertaken in Zambia are not however comprehensive and do not cover all aspects of what would be needed in a pro-poor BEE. The reforms need to be broader and more targeted at small businesses that are either excluded from the current reforms or lacking the information about how to benefit from them.

## **4. ISSUES TO FOCUS ON TO CREATE A PRO-POOR BUSINESS ENABLING ENVIRONMENT**

The current growth sustained by FDI has benefited relatively few Zambians as shown in the previous section. There seems to be very few Zambian entrepreneurs who have made it big in business. In light of this there is a question around what, exactly, will help small Zambian businesses grow out of poverty.

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<sup>21</sup> Republic of Zambia, 2014

<sup>22</sup> World Bank, 2013

<sup>23</sup> Richardson et al., 2009

<sup>24</sup> World Bank, 2013

<sup>25</sup> Vandemoortele, et al., 2013

<sup>26</sup> UNIDO & GTZ, 2008.

Small businesses (including petty traders, artisans, street vendors, manufacturers, home enterprises and restaurant owners) face different challenges compared to big businesses. Even where these challenges are similar, their impact is more serious for small businesses: for example, if the owner of a bigger business gets sick, they have the staff, financial support and health insurance to ensure that their business continues to run and they are able to be cared for. In contrast, if the owner of a micro business falls sick there is little for them to fall back on. A lack of skilled staff, health insurance or other assets can mean that the business closes and they are pushed over the edge into poverty. Small businesses are also more vulnerable to a range of hazards that make it too risky for them to invest, innovate, specialise and take up economic opportunities.<sup>27</sup> One-size-fits-all reforms are therefore unlikely to achieve the desired development outcomes that offer economic opportunities to poor people to get out of poverty.

If we are to have a pro-poor BEE, or a business environment which allows small business to flourish, it is necessary to understand exactly the challenges faced and to address these in any reforms or interventions. In the following sections we will look at some of the specific constraints as reported by small businesses that need to be addressed within a pro-poor BEE.

#### **4.1 Financial Services**

Many BEE reforms focus on access to credit. In Zambia, however, interviews with small business owners highlighted that credit was only one aspect of the challenges they faced and what was needed was financial services more broadly.<sup>28</sup> For the majority of small businesses in Zambia, the need includes physical access to financial services (as some places are far from financial institutions), insurance to protect them against risks and financial management services. BEE measures, which focus on improving access to credit alone, are not broad enough to meet their constraints.

Even in terms of access to credit, the challenges small businesses faced were unique. While big businesses can negotiate for lower rates on credit from banks for example, small businesses have no capacity and basis to negotiate for lower rates. Instead they are subjected to microfinance credit whose lending rates are as high as 40%.<sup>29</sup>

Collateral is another major challenge for small businesses. One of the entrepreneurs interviewed explained how he failed to access a loan from a bank, which he needed to increase output of his products, on account of a lack of suitable collateral. This was despite the fact that he had a guaranteed market (he had been given an opportunity to supply his product, juice, to a South African chain store established in Zambia) and simply needed credit to be able to increase his production to meet this demand. How could such an entrepreneur grow out of poverty when he cannot access credit to grow his business?

It should also be noted that some of the measures that the GoZ has put in place to enhance access to finance, such as an increase in capital requirements for banks (intended to increase the amount of money available for companies to borrow) and the caps on lending interest rates, which were intended to promote private sector borrowing at minimal rates, are not very helpful for small businesses and many small businesses are still excluded as they do not meet other bank requirements such as collateral.

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<sup>27</sup> Wiggins and Higgins, 2008

<sup>28</sup> Financial services such as low bank charges on deposits, affordable insurance, shorter queues when making cash deposits or withdrawals, more automated teller machines etc

<sup>29</sup> Lusaka Times, 3 January 2013

Recommendations:

BEE reforms need to respond to the specific financial services challenges that small businesses face. To this end, the Government of Zambia needs to:

- Ensure that their policies address the need for wider financial services for small businesses including for example lowering the cost of saving or providing affordable insurance.
- Take financial services nearer to people by setting up rural banks and mobile phone banking in areas where private financial institutions have no presence.
- Provide a credit guarantee scheme that is easily accessible as this is important in enabling small businesses to access credit from banks.
- Communicate to raise awareness about the support available. It is not enough to offer services and credit guarantee schemes if businesses are not aware that these exist. Involving Civil Society Organizations that work with small businesses can be one way to disseminate information.

**Box 3: Case Study – the Citizen Economic Empowerment Commission**

The Citizenship Economic Empowerment Commission<sup>30</sup> (CEEC) is the GoZ’s strategy to provide credit to small businesses at affordable rates. CEEC was established in 2006 by an act of Parliament to provide credit to Zambian businesses as a way of empowering them. Any applicant to loan adverts, including start ups, are considered. CEEC falls under the Ministry of Commerce, Trade and Industry which is tasked with the responsibility of facilitating and promoting the growth, development and competitiveness of commercial, trade and industrial sectors. This form of proactive government support is welcomed.

CEEC however has not yet benefited many people<sup>31</sup>. In the first instance, the amount of financing given to CEEC is limited. From inception of CEEC in 2008, the Government has only given the fund approximately US\$33 million dollars<sup>32</sup> to give out in the form of loans. This is only 0.2% of the country’s GDP.

A second challenge is that the funding that CEEC provides is sometimes not in line with people’s own priorities. Some of the businesses interviewed in Kabwe<sup>33</sup> complained that the rule of financing businesses in prescribed specific sectors was disadvantaging small businesses that were operating in other sectors. Where these prescribed sectors are picked from prioritised sectors according to national development strategies/plans, efforts must be made to help small businesses move to prioritised sectors.

Policy coherence has also been a challenge within CEEC. Small businesses that were interviewed explained how two well-intentioned policies such as this can work at cross-purposes if not carefully designed. For example, small businesses in the poultry sector in Lusaka Province were provided with access to small loans through CEEC. Most of these poultry businesses are run from entrepreneurs’ back yards. Subsequent to the disbursement of loans and investment of these funds in poultry businesses, the Local Authority enforced a new bylaw that bans the rearing of chickens in backyards for health reasons. This action will lead to the loss or closure of many of the small poultry businesses, affecting people’s newly established livelihoods and wasting valuable assets.

<sup>30</sup> Citizens Economic Empowerment Commission, 2014

<sup>31</sup> Priscilla Kachapulula,

<sup>32</sup> Citizens Economic Empowerment Commission, 2014

<sup>33</sup> Kabwe is the provincial town of Central Province. It is located 140 kilometres north of the capital city, Lusaka

CEEC has also struggled with administration and corruption challenges resulting in the intended beneficiaries not being able to access this support. A group of traders interviewed by JCTR in the small town of Monze complained that they applied for funds to CEEC in 2011 but had failed to access funds. They could not understand why no one in the entire trading place they operated within could qualify for CEEC loans. JCTR wrote to CEEC querying the same issue but never received any response from CEEC. There have also been numerous reports of corruption and abuse in the way funds are managed, ultimately disadvantaging small businesses that the money is meant to benefit.<sup>34</sup> GoZ subsequently had to suspend the loan disbursement in order to address the issue of abuse of funds and the disbursement was only recently resumed, although the probe report has not been made public.

Recommendations on the CEEC:

- While the idea behind the CEEC is a good one, GoZ needs to do more to ensure that financial services are appropriate to the needs of small businesses. To ensure that this is the case, small businesses need to be consulted and participate in policy formation.
- The CEEC's budget needs to be increased if it is to have the desired impact.
- Assistance must be given to small businesses to engage in prioritized sectors for them to increase their chances of accessing loans.
- GoZ agencies need to collaborate so that unintended outcomes are minimised. One way to do this could be to facilitate the development of policy councils relating to specific issues.<sup>35</sup>

## 4.2 Infrastructure

Lack of good infrastructure, such as roads, is one of the biggest challenges that businesses faces in Zambia – especially in rural areas. The poor state of roads has made it difficult for businesses, especially those engaged in agriculture in rural areas, to access markets in towns. Small businesses are often particularly disadvantaged and disproportionately affected when infrastructure is not present as they do not have the resources that other, bigger businesses may have to work around these realities. Further, where infrastructure is developed these are often designed to meet the needs of bigger business.<sup>36</sup>

Conversely, where infrastructure is developed for small businesses, it is often done without consultation and does not meet their specific needs. In an interview, Ndola Handicrafts and Curios Association reported how they had struggled to find a trading place for their crafts and curio products. Following numerous demands to the local authority for a trading place, a place has been provided. Traders however feel this place is not suitable for their business as it is isolated and outside the catchment area of their customers. They expressed disappointment that they were not consulted on their preferred location. Cases where trading places remain abandoned by traders because their locations are not suitable for business are numerous. If government is serious about tackling this business constraint, it should be consultative when deciding where to put infrastructure for traders. Poor as they may be, they know the infrastructure location ideal for their businesses.

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<sup>34</sup> Chanda, 2012

<sup>35</sup> These bring together key stakeholders from government, civil society and business to discuss policy formation. The food policy council model provides useful inspiration – see Los Angeles Food Policy Council, 2014

<sup>36</sup> Most roads being developed or prioritized for development are town roads such as Great East Road, Ndola – Kitwe Road etc and not rural roads that link poor people to markets.



### Recommendations:

Government needs to:

- Consult small businesses when planning and designing infrastructure. Consultation could take the form of a participatory mapping to look at where people are informally using markets and what infrastructure is missing.
- Infrastructure should be extended to rural areas and not simply concentrated in urban areas. This would be important for supporting the priority agriculture sector.

### **4.3 Demand/ market for products**

Lack of market for products ranks highly among small businesses' challenges. Most entrepreneurs find it difficult to find customers for their products, especially customers who will pay a fair price. A group of farmers in Northern Province, for example, complained of how the lack of market for their products, beans, has led them to incurring losses. Buyers from towns offer them a very low price when they go to buy beans in their villages and they have no power to negotiate as they are unable to access other viable markets. If small businesses are to be successful in providing a vehicle for people to step out of poverty, they need direct support in dealing with seasonal over supply of products, securing regular clients and negotiating better terms.

### Recommendations:

In order to increase demand and support the local market the GoZ needs to:

- Prioritise local procurement. This could, for example involve directing boarding schools and hospitals in rural areas to buy food from local suppliers so as to create market for rural small producers. Government procurement can provide a stable source of demand for small businesses, in non-exploitative relationships.
- Prioritize rural road development in GoZ's infrastructure development agenda to enable rural small businesses access to markets.
- Promote formation of cooperatives or associations in rural towns so that farmers can negotiate better prices for their produce.

### **4.4 Taxes**

Tax regulations can often be challenging for businesses of all sizes. The Government of Zambia has gone some way to reform tax regulation by creating an online payment process for taxes to make the payment process quicker and more efficient. This may be helpful to some (larger) businesses, but it does little to address the actual constraints that small businesses face. Small businesses interviewed in Kabwe, for example, indicated that they had limited access to the internet and so could not access the services. What they needed instead was the physical presence of government to offer the services.

Further, this measure did not address the number one challenge that small businesses face with regards to tax: this is not with to do with the process but instead with the tax rate. Small businesses and Business Chambers<sup>37</sup> report that the tax rate is unfairly applied as smaller businesses are taxed on turnover while big businesses pay their tax on profit.<sup>38</sup> This means that small businesses are made to pay tax even where they make a loss. Most small businesses, especially in rural areas, make very small profit margins and should therefore not be liable to pay tax. In fact the study by the International

<sup>37</sup> Kabwe District Chamber of Business Association confirmed in an interview that tax was very high for local small businesses.

<sup>38</sup> Turnover tax for small businesses means that even if they make a loss, they would pay tax as tax is applied on the total turnover and not profit. For big businesses with turnover of over about US\$120,000 turnover, they pay tax on profit. This means that in an event of a business not making profit, they don't pay tax.

Growth Centre on Zambia's informal sector reveals that over 70% are not liable to pay tax as their annual turnover is below the taxable threshold.<sup>39</sup>

Government revenue agencies were also cited to be too hard on small businesses, forcing many to opt to remain in the informal sector outside the tax net where they hardly receive any business support services from government.

#### Recommendations:

The GoZ needs to:

- Change tax laws to enable small businesses to pay tax on profits just like big businesses do.
- Sensitize small businesses on the benefits of formalizing their businesses and paying taxes.
- Reduce corruption in the use of public resources and actively demonstrate how taxes benefit the public.
- Consult small businesses when designing interventions to ensure that their constraints are addressed. We encourage Government to make use of existing networks (such as business chambers or traders associations) and to take an active role in creating platforms where civil society can engage with them and other key stakeholders on policy formation, implementation and monitoring. The CONSEA in Brazil is a useful case in this regard.<sup>40</sup>

## **5. RECOMMENDATIONS FOR DONORS WORKING ON BUSINESS ENABLING ENVIRONMENT INTERVENTIONS**

Donors are playing an increasingly important role in BEE support and much of this support is given to governments as budget support or project support with an increasing focus on macro-level policy advice around BEE interventions. There are important lessons from the Zambian case which can be drawn out for donors who wish to support pro-poor BEE reforms:

### **Recognise the diversity of the private sector and employ a range of complementary strategies:**

The private sector is not a uniform group and donors need to respond to this heterogeneity and complexity in any economic development support.

- This means a focus on the specific needs and challenges of domestic micro and small enterprises as well as trans-national companies (TNCs).
- It also means a range of complementary strategies to ensure that the benefits of FDI can be experienced by all economic actors. This could include for example donor and government local procurement policies to support the development of local markets or the design of specific strategies to ensure local small businesses benefit and are linked to FDI in a non-exploitative and risk-protected way.

### **Target the sectors where poor people work:**

As shown in this paper, most of the poor people whom donors aim to support work in the micro and small business sector. Women and youth, who are among the most excluded from economic opportunity, also predominate in this sector. Mainstreaming micro and small enterprises in donor

<sup>39</sup> Shah, 2012

<sup>40</sup> The CONSEA is a governance structure between government and civil society ensuring policy coherence and action around food security in Brazil. Installed in 2003, the Council is consultative and encourages high-level interaction between government and civil society. It is a progressive step towards ensuring that society takes part in the formulation, execution and monitoring of the Food and Nutritional Safety policies.

support will therefore not only grow the economy but produce more equitable growth and reduce inequality as more people benefit from economic growth.

- To achieve poverty alleviation, strategies and programmes which target the poorest where they are currently located are needed. For example, research<sup>41</sup> shows that it is easier for poor people to benefit from growth, if that growth occurs in the sectors where they work.
- This emphasises the need for donors to include small and micro enterprises in any economic or private sector development strategy, with details of how they will work with, include and empower this sector.

### **Tailor support according to the local context and develop plans with local stakeholders:**

As illustrated by the situation in Zambia, local entrepreneurs face contextually specific challenges.

- Donors should consider the local context before embarking on enabling environment or macro-level programmes or providing policy advice.
- Specifically this would involve a BEE analysis of a specific country context to ensure that any interventions respond to the specific in-country challenges.
- This analysis should include consultation or discussion with small and micro entrepreneurs so that they are active participants in designing BEE interventions.

### **Use measures beyond GDP to determine levels of country support:**

In 2012 Zambia gained a lower middle-income status after a consistently high growth rate. Even though this growth has seen little corresponding decline in poverty, donor support is consequently declining as a result of this reclassification.<sup>42</sup> Ongoing targeted donor support would however be crucial in supporting this growth to be inclusive, reaching those who have not yet benefitted from it. The Zambia case highlights that GDP alone cannot be a measure of wellbeing and should not determine levels of development assistance.

- Donors need to work together to look at measures beyond GDP to determine levels of support. This includes looking at other indicators such as the Human Development Indicator, levels of inequality and total number of people living in poverty.

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<sup>41</sup> Christiaensen & Demery (2007)

<sup>42</sup> Government has consequently resorted to external financing from the open market through issuance of bonds. This is to the detriment of the poor as government will need to tax Zambians more in the long run and divert resources from social sectors to repay the loans being borrowed from the open market.

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