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**SENIOR POLICY WORKSHOP ON STIMULATING AND  
SUSTAINING SMALL- AND MEDIUM-SCALE ENTERPRISES  
THROUGH EFFECTIVE OUT-REACH PROGRAMMES,  
ACCESS TO FINANCE AND IMPROVEMENT OF THE  
LEGAL AND REGULATORY ENVIRONMENT  
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**The Challenge of Small- and  
Medium Scale Enterprises:  
The Zambian Experience**

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**THE CHALLENGE OF**  
**SMALL/MEDIUM SCALE ENTERPRISES:**  
**THE ZAMBIAN EXPERIENCE**

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## INTRODUCTION

In Zambia the critical role of small and medium enterprises (SMEs) in national development has been generally recognised. The Small Industries Development Organisation (SIDO) was formed by an Act of Parliament in 1981 as the principal public agency for the implementation of public policy on small and medium enterprises. SIDO became operational in 1983.

In addition to SIDO there are a number of NGOs that support small business. While the role of NGOs must be recognised and encouraged, it is generally felt in Zambia that the government, through SIDO must play a significant role in supporting SMEs. In this short paper we present a brief outline of the constraints faced by SMEs and some of the strategies and support services being encouraged in Zambia.

### 1. MAJOR CONSTRAINTS

Our field experience in Zambia indicates tremendous potential for small scale enterprises both in urban and rural areas. It also reveals serious constraints on the individual small entrepreneur and on the small scale business sector in general. The typical small entrepreneur faces all or some of the following major constraints:-

- a) Inadequate Technical (or) management skills
- b) Inadequate access to credit facilities, and generally poor personal capital base.
- c) Inadequate physical infrastructure mainly for production, but also for distribution of the final

product e.g. proper workshop space, electricity and water, and retail outlets.

- d) Unconducive legal and administration environment e.g industrial zoning regulations, trades licensing laws and municipal regulations.
- e) Technological inadequacies.
- f) Underdeveloped industrial culture and its offshoots of poor local initiative in original technical and industrial activities, and inadequate public or commercial support for local inventions.
- g) Industrial structural weaknesses i.e. lack of strong linkages among various sectors of the economy, and in particular lack of operational (ancillary) relations between large and small scale industries.

2. SUPPORT SERVICES

Our experience shows a need for strong government intervention through a public specialised institutions that should work with and also coordinate the efforts of non government institutions that provide support services to SMES. The NGO's will be guided by their different charters that may determine the type of service, the type of client and geographical limits.

The public institutions will be guided by the general economic and social policies, and will find it polically imperative and indeed often economically prudent to cover all geographical areas. It should also ideally adopt an intergraded or so called single window delivery system i.e it should deliver all critical services as a coordinated package. Otherwise a system of a public SME institution concentrating on one service e.g. credit or extension services has the serious risk of such services being rendered impotent or ineffective by bottlenecks in other critical services.

If the public institution is delivering a broad package it is in a better position to collaborate with any NGO or other public institutions which might specialise in one narrow service. For instance an institution providing management training can be complemented with this public SME support institution with credit, factory shed, and extension services to render the required package of services to the SMES. With proper networking, the public institution should be able to collaborate with other institutions including those that have no special focus on SMEs to ensure a comprehensive package of services to any SME. Such macro capacity is only feasible if the public institution is financially and organisationally strong enough to act as pivot of this networking by having a reasonable range of critical services into which other institutions can hook to ensure the required package for various needs of SMEMs.

In Zambia, the principal public agency for supporting SMEs. i.e SIDO's operational strategy has been guided by this single window approach and networking with other SME specialist NGOs and other institutions that provide services that can be useful to SMEs. SIDO's main support activities include the following:

a) Technical and Management skills development and Support

This includes assistance with feasibility studies and business plans, general consultancy, business counselling and training.

Technical training will sometimes involve specialised and fixed centres such as a Tannery training facilities that SIDO established in Zambia. Where training facilities already exist, duplication of physical infrastructure should be avoided by networking with existing centres.

Management skills training should be brought close to the people.

b) Credit

Because of high credit administration costs involved in lending to small businesses, most commercial banks tend to shy away from lending to SMEs. This problem is not peculiar to underdeveloped countries, but is a universal problem. This might explain the world wide trend for specialised SME credit institutions. In Zambia SIDO is the principal institution giving credit to SMEs as part of a comprehensive package that usually also includes management support. There are also some NGOs that give credit to SMEs. SIDO usually does not give credit in cash, but in form of required goods to reduce the risk of diverting resources from intended purposes. This arrangement also facilitates procurement services and accords SMEs the benefit of bulk purchasing that is done by SIDO.

c) Physical Infrastructure

The problem of inadequate physical infrastructure is being tackled by SIDO through direct intervention of establishing industrial estates, and networking with local authorities and the mining group who have many disused buildings that can be rehabilitated to provide reasonable production sheds for SMEs. While emphasis is rightly on production infrastructure, SIDO has also recognised, at least for major urban centres, a need for special shopping malls to provide appropriate retail outlets for SMEs.

Industrial estates and shopping malls in urban areas provide investment opportunities even for profit oriented investors. These are commercial propositions with a service orientation, and should be attractive to District Councils, SIDO, other SME support institutions, commercial investor. For rural areas modest rural industrial centres should be

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commercially attractive but are unlikely to attract commercial investors. District Councils and Development oriented institutions should be involved here, preferably with development rather than commercial finance.

d) Legal and Administration Environment

The most restrictive legal practices are zoning and Municipal marketing regulations. SIDO and other Development agencies are involved in policy dialogue through the Ministry of Commerce and Industry. The District Councils and the Ministry of Local Government should be active in improving the municipal legal climate to make it more conducive to small entrepreneurs.

e) Technological Services

The acquisition and development of appropriate technology is an important factor in industrial development. Research and Development (R & D) is the basic strategy for achieving this objective. Effective collaboration among local small and large enterprises, and with outside countries and multilateral institutions can also help to improve the technological base.

R & D can be very expensive, and the typical small entrepreneur does not usually have the physical facilities and the required technical know-how. There is at present adequate physical facilities for R & D at National Council for Scientific Research (NCSR) and the Universities technical schools. SIDO has been collaborating with these institutions in R & D with very encouraging results. SIDO has also been collaborating in transferring new knowledge developed by these Research institutions - independently of SIDO - to the small entrepreneurs. SIDO and other SME support institutions can collaborate with these

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transferring new knowledge to the small industrial sector. Given the capacities at NCSR and Universities, there is no need to duplicate physical research facilities.

With regard to external transfer of technology, industrial attachments under which small entrepreneurs work at advanced factories for some time are useful, both on the local and international level. SIDO and other support institutions can arrange these facilities. On the local scene, large industries can collaborate by making their facilities available for short-term attachments (practical training) of small entrepreneurs.

f) Strengthening Industrial Culture

Weaknesses in industrial culture are generally reflected in poor technology, lack of self confidence at individual and national level in industrial initiatives, lack of public and commercial support for local inventions, low level of local inventions, low technical competence, lack of venture capital, excessive barriers to credit facilities. Unfortunately, these factors are not merely symptoms, but also active cause of poor industrial culture and general underdevelopment.

A number of entrepreneurs have exhibited high creativity in improving, adapting, and even making original designs and (or) fabrications of equipment

and production processes. The research Centres have done a commendable job in producing formulae of new products based on local resources, designing appropriate physical equipment. But the business community has not been active in commercialising production of these new equipment or consumer products even though there is demand for these products, and

they involve technically and commercially viable projects. This is one example of an unsatisfactory industrial culture.

The issue of industrial culture is too complex to be covered here adequately, but we can indicate here some basic requirements for assisting small scale entrepreneurs in broadening their perspectives in industrial activities. SIDO has been active in running technical courses which show people - both potential and actual entrepreneurs - how to make certain products based on simple and available technology and locally available raw materials. Such training must be linked with other support services including Financial facilities if it is to result in commercial production of these new products. Coordination or collaboration with many private and public institutions is required if we are to improve our national self confidence in our capacity to improve the range and quantity of our industrial activity.

g) Ancillary Relations Between Large and Small Industries

While some competition between large and small industries is inevitable, and indeed desirable, there is substantial scope for mutually beneficial ancillary relations under which large industries subcontract small industries to manufacture spares, components, and even finished consumer goods. SIDO has been active in identifying possibilities for such relations. Our research indicate tremendous scope for such relations, for the motor assembly plants, Mansa Battery, Luangwa Bicycle plant, the Mining group operating Divisions, the large companies including the retail chain stores.

Ancillary relations are the basic strategy of big Japanese Industries and Indian Industries. In these countries the big (parent) company often provides the physical facilities mainly equipment and sometimes

factory shades, basic designs, and assistance with quality control and training of the small entrepreneur. The entrepreneur's responsibility is to produce according to the specifications of the parent company.

In Zambia, large industries can benefit from active ancillary relations. SIDO, can help in linking small entrepreneurs with large ones.

3.

CONCLUSION

In most African countries, SMEs constitute the most dependable and strategic sector for overall social economic development. Unfortunately, due to poor effective political weight of the people involved in this sector, the SME sector usually fails to get the level of public funding that is commensurate with the sector's economic importance.

Due to financial and technological difficulties, the industrialisation process in most African countries cannot realistically be premised on large industries - it will inevitably be based on SMEs. The potential of SMEs is tremendous, but a lot of support needs to be given to the sector before it can play its meaningful role in social economic development.

There is need for direct Government intervention through a public institution that can give a package of essential support services which in the case of Zambia include credit; management and training; industrial estates, technology support services; and a sound policy environment. The public institution must liaise with and if necessary facilitate coordination of NGOs and other institutions that render services to SMEs. The challenge for the Zambian government is to ensure adequate financial and political support for SIDO and the SME sector.