
LEGAL EMPOWERMENT OF THE POOR: EMPOWERING INFORMAL BUSINESSES IN ZAMBIA

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OVERVIEW

Job creating economic growth, of above 7% of the GDPs of most developing economies experiencing high levels of poverty, offers the most potent strategy for eradicating poverty at a rate consistent with achieving the Millenium Development Goal, MDG, of halving poverty levels by 2015. Globally, indications are that job creation in informal economies, particularly in developing economies is growing at a much faster rate than the job creation in formal economies. Today informal sectors, in most developing economies, account for far greater numbers of jobs than those in the formal sectors. This trend is being accentuated by “the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies”². The incidence of poverty in most of these economies, however, remains high and, in some cases, is deepening which clearly suggests that informal sector jobs do not make a significant contribution to poverty reduction. The dominant thesis, therefore, is that since the value and quality of jobs in the informal sector are well below the threshold required for poverty reduction, Governments should be directing their efforts towards creating “more and better jobs in the (formal sector) to reduce the need for people opting for poor quality jobs in the informal economy”³. There are those who reinforce this argument by noting that the downside effects of informality stifle “the more efficient use of resources and improvements in productivity leading to the economy functioning below its potential resulting in lower rates of economic growth”⁴.

The other view suggests that the “cat and mouse” relationship between Governments and the growing numbers of their peoples in their respective informal sectors marginalises and lowers the productivity and work standards in the informal economy. In other words, it seriously undermines the potential the informal sector has in the fight against poverty.

The UNDP Commission on the Legal Empowerment of the Poor, (UNCLEP, in short) has embarked on a global initiative involving 28 countries which includes Zambia. The initiative has an agenda anchored on four pillars:

- Access to Justice and the Rule of Law
- Property Rights

² The Informal Sector in Sub-Saharan Africa, report prepared by Pat Horn, Shirin Motala, and Jantjie Xaba at p. Iii – Published by the Employment Sector (ILO: 2002)

³ Report VI: Decent work and the informal economy, ILO International Labour Conference, 90th Session 2002, p 29

⁴ See for example, N Loyaza: The economics of the informal sector: A simple model and some empirical evidence from Latin America, World Bank Policy Research Working Papers (Washington DC World Bank, 1997) quoted *ibid* at p7

- Labour Rights
- Legal Mechanisms to Empower Informal Businesses

The pillar that focuses on legal mechanisms to empower informal businesses is exploring the idea that wealth creation through legal empowerment of informal businesses offers a sustainable and viable route to poverty eradication in developing economies. UNCLEP endorses the need for decent and well-remunerated jobs but contends that a world community committed to the eradication of poverty and its scourges cannot afford to ignore or to treat indifferently the informal sector. Informal sector businesses are a valuable nursery for growing better quality jobs, potentially, at a faster rate than is possible with policies centred purely on the formal economy. Hernando De Soto's work in Peru⁵ demonstrated that elimination of red tape for small businesses can achieve impressive economic gains. He is quoted as having said: "All we had to do was make sure the costs of operating legally were below those of surviving in the extralegal sector, facilitate the paperwork for legislation, make a strong effort to communicate the advantages of the programme, and then watch hundreds of thousands of entrepreneurs happily quit the underground". In large measure, it was de Soto's work, which, by 1994, had enabled Peru to achieve the World's highest GDP growth rate of about 13% per annum. Governments must show a willingness to invest in measures which nucleate and promote the increasing prosperity of informal sector businesses to empower them achieve decent work standards and enhance the sector's contribution to the respective national economies.

Zambia powerfully illustrates the need for poverty eradication through empowerment of informal businesses. The latest statistics from the 2005 Labour Force Survey, (LFS), show that the vast majority of Zambia's working population is in the informal sector which accounts for 3.18 million out of an estimated workforce of 4.13 million⁶. As a developing country with 68% of its population in poverty and 53% experiencing extreme poverty, the country's need for new jobs is enormous if it is to meet its MDG on poverty by 2015. The dilemma for Zambia is that its entrepreneurial and productive capacities are being severely under-exploited in the informal sector while the capacity of the formal economy to generate jobs through the expansion of formal enterprises is limited. Formal sector jobs have been shrinking in relation to the nation's population growth rate. The 2005 LFS figures indicate formal sector jobs amounted to 416,000 jobs⁷ in 2005 for a population of approximately 12 million

⁵ Hudson, J (ed) 'The mystery of capital: Why capitalism triumphs in the west and fails everywhere else': A South African conversation with Hernando de Soto *CDE Focus* November 2001, p.2.

⁶ 2005 Labour Force Survey, Chap 8 at p. 51

⁷ 2005 Labour Force Survey, Chap 8 at p. 45

people. Clearly a major challenge for the Government in addressing poverty is to facilitate job creation and increase the number of productive and sustainable jobs. As the above figures show the formal sector is not succeeding in meeting the desired levels of employment. On the other hand, the informal sector boasts a large number of struggling little businesses and a large number of “jobs” which are characterised by low productivity, low pay generally below the poverty datum line and poor working conditions. The MDG of halving poverty by 2015 and Zambia’s Vision of becoming “a prosperous middle-income nation by 2030”⁸ cannot be met by strategies solely focused on the formal economy.

The central proposition of this issue paper is that legally and economically empowered informal sector businesses hold the key to poverty eradication in Zambia.

The proposition is driven by the fact that informal business activities are already a significant part of the economy. The informal sector in Zambia is reported to contribute an estimated 48.9% to the country’s gross national income⁹. Even if the figure is very wrong, we can safely say that a large part of Zambia’s economy lies in the informal sector. Even though these businesses do not pay corporate income tax, they are still significant sources of revenue through indirect taxes such as VAT and customs and duty levied on imported goods and services. Secondly, the informal sector is home to a large number of under-value businesses and a large number of under-value jobs, the premise of the strategy is that a concurrent approach which seeks to increase the business value of existing businesses and to enhance the job value of existing jobs both of which are in abundance in the informal sector is a superior strategy to one which concentrates exclusively on a greenfield approach of creating new businesses and new jobs in the formal economy. It is the case of a bird in hand being worth two in the bush!

Current half-hearted approaches aimed at bringing the informal sector within regulatory control have been flawed largely because they have been revenue-driven without giving due regard to the medium to long term economic benefits that unlocking the business potential of the sector promises. Demolitions of market stalls and using drastic action to remove street vendors from streets are not the best ways of persuading upcoming, albeit informal businesses, to become part of the formal economy. It sometimes appears the police are more interested in action against street vendors than in taking action against street hooligans and thieves. Inclusive approaches have not fared much better.

⁸ VISION 2030, a 2006 publication by the Zambian Government

⁹ World Bank (2004) *Doing Business in 2004, Zambia Country Profile*, p 5. The exact percentage of national income from the informal sector is estimated at 48.9%

The existence of a large informal sector should be perceived as a measure of the inability by Governments to recognize and work with emergent businesses in their countries. The goal is to remove the legal and socio-economic barriers on which informality thrives and arrive at a continuum of the informal/formal business chain. A three component strategy is proposed:

- Prosperity-inducing measures
- Regulatory integration
- Compliance with tax and other regulatory obligations

The underlying principle of the strategy is for Governments to facilitate wealth-creation in the informal sector, which then facilitates and enables the integration of the sector into the regulatory framework, in other words, progressively induce the dismantling of the informal sector and then enforce tax compliance and other regulatory measures to a homogeneously regulated business sector. Sometimes the pressure to broaden the tax base or enforce anti-street vending provisions has contributed to the growth of the informal sector. For most in the informal sector, legal compliance can sound a death nail on their struggling survival businesses. Thus legal compliance equates to destruction of livelihoods. In such circumstances, operating outside the law is the only option. At the forefront of the proposed strategy is the requirement for Governments together with the coalition of collaborating partners to improve access to credit and other banking services, encourage formation of larger business units, provide standards and other technical support, help establish group marketing schemes, etc. These and similar measures help to nurture entrepreneurship and business growth which would successfully underpin the sector's prosperity. Seeing is believing through concrete service provision offers the only way of removing skepticism and mistrust of Government by operators of informal businesses. Once this has been successfully accomplished it provides the driving force for tackling regulatory integration. During the regulatory integration phase, Government's role is to remove administrative hassles, simplifying regulations and procedures for doing business and reducing the transaction costs and ultimately applying to the legalized "informal sector" businesses the regulatory and tax compliance standards which obtain in the rest of the business sector. In effect, the approach exploits the enlightened self interest of business operators in the informal sector by demonstrating that there are greater profits to be made through legalization and improved working standards.

The proverbial saying, it is easier said than done fully applies to the mammoth and complex task of bringing down what has, hitherto, been an impregnable wall of legal, institutional and cultural barriers separating the informal and formal sectors of the economy.

At the cultural level, the limited liability principle which is the defining characteristic underlying company incorporation as an effective tool for capital mobilization which drives business growth is not well-grounded in the culture of most business

promoters in the country because ownership is considered indivisible. Consequently separation of company assets, business accounts between those belonging to the company and those belonging to the owner of the company has met with cultural resistance, particularly, for small and micro enterprises which populate the informal sector. Thus, a personal-to-holder vehicle allocated to a company executive, can, without notice, be deployed on domestic chores of the business owner. Indeed the company responsibilities of management and other operating personnel are often inseparable from personal assignments undertaken at the direction of the business owner. A significant proportion of informal sector enterprises rely on family members as workers. In cases of blatant abuse, when a labour officer or any officer of the law asks the abused worker: Are you employed by the employer, alleged to have abused him or her. No, he is my uncle. Was he abusing you? I wouldn't say that. He was just scolding me like any parent does! Without well-defined contractual relationships, courts are of little help.

The informal sector business entities are quite often without a legal identity making their legalisation a formidable challenge. In the absence of a legal vehicle for legally dealing with and channeling business support services to it, implementing the envisaged reforms presents a practical problem. In equal measure, it is difficult to persuade unregistered informal enterprises to register and discharge their statutory obligations, however user-friendly the regulatory and administrative procedures are made, because their informal status will still be financially more appealing.

Clearly, there are no overnight answers, however, the case being outlined in this issue paper, seeks to drive the process of reform from the unutilized resources and assets possessed by Zambia's informal community network. The starting point is to address the point of greatest need - access to credit. The mobilization of internal surpluses generated by informal sector operators should be targeted for initializing the formation of savings schemes controlled by themselves. Because of inaccessibility of credit, marketeers and other informal sector business owners are forced to obtain credit at exorbitant interest rates, in *lunda lunda* money lending transactions with severe penalties for defaulters. Further the monies borrowed are often in amounts too small to fuel business growth. Once informal sector workers join the banked community, it becomes possible to establish their credit worthiness through the incoming credit reference bureaus. Building the capacity of the informal sector's ability to deliver goods and services that are competitive in terms of quality, consistency and reliability to expand their access to high value markets is essential on the road to formalization and growth. For this to happen considerable institutional support and skills training and skills enhancement are required. Indirectly, affirmative measures in support of business activities in the informal sector have been taken legislatively. Disadvantaged Zambians are being targeted for increased business opportunities under the newly-enacted, Citizens Economic

Empowerment legislation. The initiative is discussed in later sections of this issue paper.

Business models of relevance to Zambia's informal sector are in evidence. In the issue paper we have singled out the work of Celtel, the largest cellular operator in Zambia, with emergent entrepreneurs; the support Shoprite, a country-wide retail chain, is providing to small scale farming co-operatives is highlighted; and finally, Dzithandizeni Trades School, a community-based business training initiative in one of the heavily populated compounds of Lusaka, Garden Compound, is identified as a successful experiment in empowering the informal sector.

The widening gulf between the rich and the poor in our one World is threatening a developmental divide with Darwinian implications between peoples habiting the (post industrial world in developed economies and those who are persistently experiencing extreme poverty in developing economies. Empowering informal sector enterprises provides a platform for Governments in developing economies like Zambia to work with a valuable resource within their borders in narrowing the developmental divide. The themes in the overview are elaborated in what follows.

THE NATURE OF ZAMBIA'S INFORMAL BUSINESSES

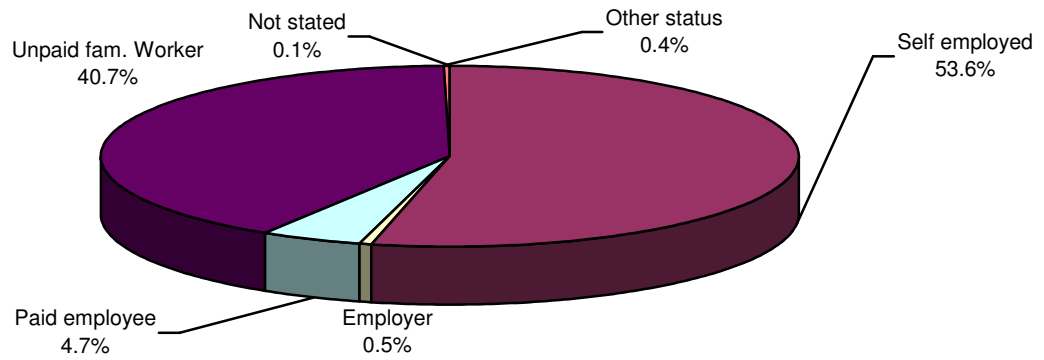
Our common understanding of informal businesses in Zambia is akin to what *Statistics South Africa* characterises as those businesses that are not registered. They are generally small in nature, and are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements. However, in Zambia, the informal businesses extend to self-employed individuals. Indeed, as Figure 1 below shows, the self-employed account for 53.6% of the informal sector. The definition of the informal sector in the 2005 Labour Force Survey report combines the concepts of informal production units and informal employment. Informal sector employment is defined¹⁰ as employment where the employed persons are not entitled to paid leave, pension, gratuity and social security and worked in an establishment employing less than 5 persons. According to this definition, all the three requirements must be fulfilled in order to classify a person as working in the informal sector. Informal agriculture is also included.

The informal sector belongs to the family that is characterised as the “Non-Observed Economy”, NOE, which comprises: illegal, underground activities and the informal sector.¹¹

¹⁰ 2005 Labour Force Survey, at P.44

¹¹ 2005 Labour Force Survey, at P.44

Figure 1: Informal Sector Employment by Employment Status



As mentioned above, the vast majority are self-employed (53.6%) with an equally large proportion of unpaid family workers (40.7%). Table 1 below underscores the large involvement of family members in informal sector enterprises.

Table 1: Employee Status for the Enterprise by Industry¹²

Household members	Apprentices	Hired labour	Total (%)	Total workers	Working proprietors	Number of informal businesses
43.2	16.3	40.5	100.0	264,780	496,149	618,877

In essence, therefore, informal sector enterprises are largely unregistered small family businesses. Can they be perceived as a gateway to formal businesses or are they simply a manifestation of the survival instinct at play? The dominance of the rural peasantry in the informal sector would seem to suggest that business development is not the primary goal of a large percentage of informal sector players. From the author's informal observations, the rural peasantry is engaged in agriculture and fishing at a subsistence level mainly. Table 2 below, which excludes informal agriculture demonstrates the dominance of trading activities among informal sector players. An appetite for business is also clearly in evidence. The 2003

¹²Zambia, CSO Publication: "The Non-farm Informal Sector in Zambia 2002 – 2003" at P.10

household-based survey showed that, of a total of 506,724 households in the country, 25.3% operated an informal non-farm enterprise¹³. Significantly, 12% of the informal enterprises were contributed by households operating two enterprises¹⁴.

Table 2: Distribution of Informal Enterprises by kind of Economic Activity, Zambia, 2002 – 2003¹⁵

Forestry & Fishing	Manuf	Const.	Trade	Bars & Resta.	Trans. & comm	Real Estate & Bus. Services	Comm., Social & Per. Services	Other	Total No. of enterp.
16.8	14.5	1.1	54.0	0.8	1.9	3.6	5.3	2.0	618.877

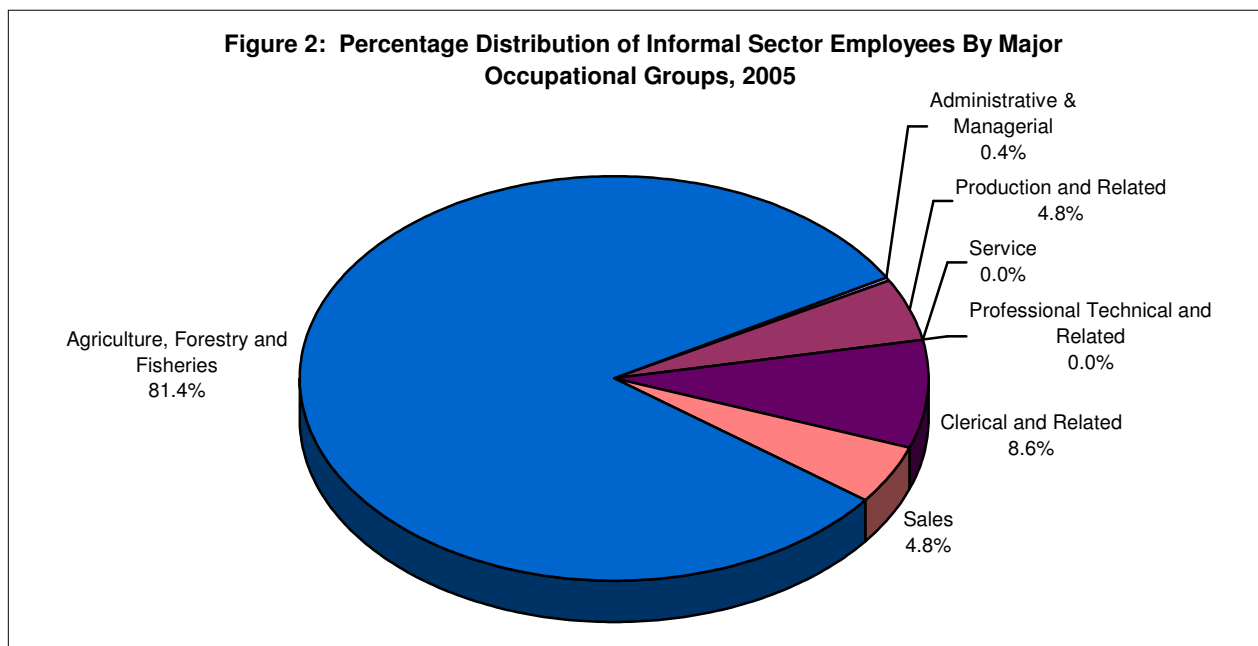
For the non-farm informal sector, what seems to emerge is a strong entrepreneurial culture underpinned by small family businesses that are engaged in trade-related activities. As discussed later, inaccessibility of investment and working capital is largely responsible for the dominance of trading businesses in the informal sector, a characteristic that is shared with the formal sector of Zambian businesses.

Figure 2 illustrates the dominance of agriculture in the informal sector. Agriculture, forestry and fisheries is estimated to account for 81.4% of informal sector activity which is statistically significant but is not typical of the challenges of legal exclusion that is prevalent in other business sectors. Suffice to say that small gains in productivity and efficiency made by the large subsistence sector in agriculture result in large economic gains because of the large numbers involved.

¹³Zambia, CSO Publication: "The Non-farm Informal Sector in Zambia 2002 – 2003" at P.7

¹⁴ Zambia, CSO Publication: "The Non-farm Informal Sector in Zambia 2002 – 2003" at P.8

¹⁵ Zambia, CSO Publication: "The Non-farm Informal Sector in Zambia 2002 – 2003" at P.8



The duration of informal enterprises as revealed in Table 3 below lends proof to the fact that a high percentage of them are stable. 28.7% and 26.5% of informal enterprises in forestry and fishing and manufacturing respectively have been in existence for more than 10 years while in construction the figure is considerably higher at 46.2%. Even informal businesses in trade, have a proportion of 11.2% clocking over 10 years.

Table 3: Period of Years the Enterprise has been in Active Operation¹⁶

Period of Opera.	Forestry & Fishing	Manuf.	Const.	Trade	Bars & Resta.	Trans. & comm.	Real Estate & Bus. Services	Comm., Social & Per. Services	Other	Total
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	618,877
>1 yr.	10.3	10.0	1.2	17.6	23.0	11.4	10.7	16.0	36.6	
1-2 yrs	18.5	22.4	19.0	29.5	14.7	24.4	20.7	21.2	27.7	
3-4 yrs	20.9	16.7	4.7	22.4	35.7	24.0	21.7	19.3	21.1	
5-9 yrs	21.6	24.5	28.9	19.3	13.4	12.1	18.9	21.8	5.3	
10 + yrs	28.7	26.5	46.2	11.2	13.2	28.1	27.9	21.7	9.3	

This degree of stability in the harsh informal sector business environment affords an opportunity for growing flourishing formal businesses.

Government is anti-business. They make it difficult and expensive, sometimes prohibitively so, and yet they are always finding ways to raise taxes from these subsistence business activities

¹⁶ CSO Publication, "The Non-Farm Informal Sector in Zambia 2002-2003" at P.9

KEY BARRIERS TO EMPOWERING INFORMAL BUSINESSES IN ZAMBIA

The legal and administrative climate

A byword for informal sector businesses is hardship. Most of these businesses operate under very difficult and hazardous conditions for very little return. Despite their adverse business environment, informal sector businesses do not queue in the line for joining the formal economy. This is because the only door that is open to them is the one that makes things harder. It increases the cost of doing business and exposes them to complex and continuing administrative obligations. The door that leads to greater business prosperity by providing access to credit, security of tenure at their places of business, access to markets and generally business expansion is firmly barricaded. In such circumstances, their choice of the informal sector is the only option that will give them a livelihood by keeping their marginal businesses in existence. Indeed the existence of a large number of informal businesses is a measure of the degree to which Government is failing to meet the needs of business survival in the economy. The Foreign Investment Advisory Services, FIAS, of the World Bank and the "Doing Business" comparative surveys by the same institution have used survey data from selected parameters to illustrate the extent to which legal and administrative barriers hinder formal business development. These have included business entry, business closure and other related administrative obligations.

Business entry compliance

New business entrants are required to comply with 6 procedures before they can establish their businesses in Zambia. On a comparative basis, this is not too onerous. They include:

1. Obtaining a pre-approval of a business name
2. Opening a bank account
3. Registering a company
4. Registering with ZRA
5. Registering for VAT
6. Registering with social security

The cost of compliance and the time it takes to obtain approvals are major disincentives especially for the informal sector business owners. The time of 40 days given below for accomplishing these procedures is conservative and does not include the bureaucratic inertia and inefficiencies of the system. It is nonetheless a formidable barrier. For the informal sector operators, the cost of compliance, at 24.1% of the income per capita is high especially when they have to raise a minimum capital of 137.8% of the per capita income. The end-result of this costly and time-consuming procedure is not higher earnings but exposure to future tax liabilities and social security costs.

Table 4: Zambia business entry regulations

Number of procedures	6
Time (days)	40
Cost (as a % of income per capita)	24.1
Minimum capital (as a% of income per capita)	137.8

Source: Doing Business in 2004 Zambia Country Profile

These business entry barriers are not a springboard for better business performance. As has been rightly pointed out, Government authorities should be mindful of the fact that, “burdensome entry regulations do not increase the quality of products, make work safer, or reduce pollution. They hold back private investment, push more people into the informal economy, increase consumer prices and fuel corruption.”¹⁷

Enforcement of business-related obligations

Courts and systems of contract enforcement in Zambia operate in a manner that drives away informal sector enterprises from the legal system. Table 4 reproduces the results from the World Bank’s “Doing Business in 2004” on Zambia.

Table 5: Zambian contract enforcement¹⁸

Number of procedures	16
Duration (in days)	188
Cost (as a % of per capita GNI)	15.8%

The table above indicates that while the *cost* of contract enforcement seems reasonable, the *length of time* it involves is a significant obstacle to the entry of informal sector businesses into the formal economy.

Among the major obstacles preventing the entry of informal sector enterprises into the mainstream economy is their inability to comply with the laws designed to protect employment and uphold decent working standards. For most informal sector enterprises strict compliance with the provisions of the Minimum Wages and Conditions of Service Act, the Industrial Relations Act, and the Employment Act is literally beyond the financial capacity and viability of their enterprises. Decent working standards and secure employment are essential ingredients of poverty-reducing business growth. Consequently, a successful and sustainable business model for transforming informal sector enterprises into legally recognised and viable

¹⁷ Monitoring, Analysis and Policy Unit, Investment Climate Department, World Bank Group (2003)

¹⁸ Source: Doing Business in 2004 Zambia Country Profile

businesses must incorporate these elements. The message to informal sector enterprises is that investing in higher labour standards and better quality products yields vastly superior returns. On the other hand, Government measures in this vital area must not be pegged at a price that is not achievable for that can inhibit job creation, technological innovation, R&D investment; all of which contribute to loss of productivity and business contraction. “And with fewer job opportunities in the formal economy, the expansion of an unofficial sector becomes inevitable.”¹⁹

Taxation

In attempts to broaden the tax base, a number of tax measures have, over a period of time, been employed to mainstream the informal sector and increase its revenue contribution to the national treasury. In 2004, a presumptive tax of 5% was applied to all small businesses with an annual turnover of K200million or less. Eligible businesses were not required to produce audited accounts or accounts of any description to qualify. The measure did not succeed in inducing greater tax compliance among the targeted small and micro enterprises in the informal sector. The requirement that businesses can only deal with vendors with tax clearance certificates resulted in a large number of small suppliers losing their markets and businesses. Small informal businesses without VAT registration found themselves unable to transact business competitively because of their inability to recover input VAT. A more successful measure has been the reduction of duty on the importation of buses which has transformed the public transport sector into a vibrant and highly competitive business sector. The success of the latter initiative is, in large measure, attributable to the cost benefit that the revenue authority has conceded to bus importers. In the medium to long term, the economy stands to gain from the multiplier effect that the large number of transport businesses that the tax concession facilitates.

Financing the informal sector

Inaccessibility of business finance poses the most intractable challenge confronting entrepreneurial and business growth in the informal sector.

Generally the high cost of borrowing has rendered the financing of projects unserviceable except for the most robust. Even though post 2005, single digit inflation has been attained, the prime lending rates are still above 15% which is still unsustainable for most informal businesses.

Getting starting capital

Table 5 shows that informal sector enterprises have no access to bank credit for their start-up capital. Bank loans account for less than 1%.

¹⁹ Monitoring, Analysis and Policy Unit, Investment Climate Department, World Bank Group (2003)

Doing Business in 2004 Zambia Country Profile, P.9

Table 6: Main sources of capital for setting up informal sector enterprises²⁰

Main source of Capital	Total		Rural		Urban		Total no. of Enterp.
	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	
Total Zambia	100.0	100.0	100.0	100.0	100.0	100.0	
Household savings	35.3	41.3	30.7	39.3	41.7	43.9	222,976
Bank loans	0.7	0.2	0.8	-	0.6	0.4	3,835
Remittances from abroad	0.0	-	-	-	0.1	-	204
Family farm proceeds	17.3	12.9	27.9	21.4	2.6	1.7	103,738
Family non-farm proceeds	6.7	8.8	7.8	10.6	5.1	6.4	42,748
Family property incomes	3.2	1.3	2.2	0.6	4.5	2.3	18,417
NGO support	0.3	0.0	-	-	0.7	0.1	1,667
Association support	0.0	-	0.0	-	0.0	-	233
Church assistance	0.4	-	0.2	-	0.6	-	1,926
Relative /friends	24.1	26.3	18.7	18.1	31.4	37.1	150,617
Other	12.1	9.1	11.6	9.9	12.7	8.1	72,516
Total	545,627	73,250	316,565	41,820	229,062	31,430	618,877

Unsurprisingly, sources of capital for commencement of enterprises in the informal sector is from own savings or relatives/friends. The pattern is repeated in respect of sources of working capital. As Table 6 below shows, an estimated 90% of enterprises use no credit for operating their enterprises!

Table 7: Working capital sources for operating the Enterprise²¹

Source of Credit	Total		Rural		Urban		Total no. of Enterp.
	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	
Total Zambia	100.0	100.0	100.0	100.0	100.0	100.0	
No credit used	90.2	92.2	91.7	92.4	88.0	92.0	559,457
Bank	1.2	0.8	1.7	1.0	0.5	0.4	7,058
Other financial	0.5	0.0	0.5	-	0.6	0.1	2,834

²⁰ CSO Publication, "The Non-Farm Informal Sector in Zambia 2002-2003" at P.10

²¹ Ibid, at P.11

agencies							
Co-operatives	0.3	0.2	0.2	-	0.3	0.6	1,561
Money lender	0.5	2.0	0.3	3.5	0.9	-	4,305
Family/friends	2.8	1.4	3.0	1.9	2.7	0.6	16,540
Proceeds	1.8	1.9	0.7	1.2	3.3	2.8	11,122
Other	2.7	1.5	2.0	-	3.8	3.5	16,000
Total	545,627	73,250	316,565	41,820	229,062	31,430	618,877

With practically no access to financial markets, the amount of credit that can be raised is extremely limited. Table 7 below demonstrates the inadequacy of personal/family credit sources.

Table 8: Average value of credit used in a 12 month period, 2002/3²²

Average value	Total		Rural		Urban		Total no. of Enterp.
	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	First Enterp.	Second Enterp.	
Total Zambia	100.0	100.0	100.0	100.0	100.0	100.0	
100,000 or less	71.4	34.8	70.4	92.9	41.8	44.3	5,226
100,001-1,000,000	23.0	58.9	29.6	7.1	40.7	43.1	2,859
Over 1,000,000	5.6	6.4	-	-	17.4	12.7	500
Total	6,125	2,460	3,416	2,303	2,709	157	8,585

For Zambians to effectively contribute to the country's economic growth, access to credit requires to be made easier and cheaper.

Performance and quality standards

If we exclude the agricultural sector, trading is the dominant business segment in the informal sector. However, manufacturing activities are rapidly growing among informal sector business activities. They include furniture making, metal fabrication, plumbing and electrical maintenance jobs, etc. The informal sector is involved in fabricating door and window frames for house construction, burglar proofing perimeter fences, doors and windows, geysers, etc. Without heat-treatment facilities, the basic science underlying the welding of metals and alloys, standards specification, the products are of inferior quality, poor consistency and low reliability. Further customers requiring electrical, plumbing, carpentry, bricklaying services, etc, have no means of knowing the levels of capability of the self-employed artisans whose services they are contracting. Retrogressively, for lack of capacity and organisational reasons, trade-testing by Government to certify artisans according to their competences is now practically non-existent. This has severely limited the

²²CSO Publication, "The Non-Farm Informal Sector in Zambia 2002-2003" at P.11

scope and growth potential of informal sector enterprises because their markets are confined to low income customers.

EFFORTS BEING MADE TOWARDS EMPOWERING INFORMAL BUSINESSES IN ZAMBIA

The policy framework

Government's position on informal sector enterprises is equivocal, to say the least. On one hand, official statistics acknowledge that the informal sector provides most of Zambia's employment and that the sector accounts for a significant proportion of economic activity in the country. On the other hand, Government treats the informal sector as an underground economy which should be buried and remain buried. Indirectly, an inclusive policy approach is, however, becoming discernible. In the nation's "VISION 2030" the goal is stated as being the creation of "a prosperous Middle-income Nation by 2030" through, among other strategies, promoting citizenry participation in socio-economic development²³. With a high proportion of socio-economic activity being concentrated in the informal sector, this can only be construed as a policy commitment to the legal and economic accommodation of informal sector enterprises. The economic potential of the informal sector is not fully recognized. In the "Fifth National Development Plan 2006-2010", FNDP, the need to create a social security scheme for the informal economy is recognized but strategies for facilitating its migration into the mainstream economy are only diffusely stated, if at all.

Empowering informal sector enterprises through legislation

Introducing Marketing and Bus Stations Management Boards

Under Act No. 79 of 2007, the Zambian Government has introduced reforms which are intended to facilitate the participation of marketeers, bus operators and other stakeholders in the management of registered markets and bus stations where they conduct their businesses. Though the Minister responsible for Local Government and Housing wields overriding veto powers with respect to the appointments and tenures of members of these management boards, their composition is broadly representative while their jurisdiction enables considerable self-management at the affected markets and bus stations. Markets and bus stations are the major centres for informal sector enterprises in Zambia. These are naturally the places which should be targeted for developing and growing businesses which will expand the role of the private sector in the economy. The Market and Bus Stations act is a significant development in that it provides for the Minister of Local Government and Housing in consultation with the relevant Local Authority to appoint Management Boards for any authorized market or bus station. Such Management Boards are corporate bodies which will enter into a lease agreement with the relevant local authority to manage

²³ Zambia Vision 2030 at P.6

designated markets in accordance with approved 5-year business plans. The business plans are intended to provide for the development of markets and bus stations as forward-looking business organizations. Among the many other responsibilities of Management Boards is the requirement to assist marketeers or operators of bus stations with business development. The second important provision is the recognition of street vendors. At the instance of a local authority or a private individual, club or co-operative, the Act provides for the designation of particular streets as market streets where street vending in specified goods can be conducted on prescribed days. Thirdly, the Act makes provision for the Minister to approve public/private partnerships for the private sector to partner local authorities in developing new markets and new bus stations for a period of 14 years. Fourthly, the Minister of Local Government and Housing is empowered to establish a National Market and Bus Station Development Fund as a general fund for assisting markets and bus stations.

There are notable weaknesses in the provisions of this innovative Act. Firstly, the property rights of marketeers and bus operators remain unprotected. S.8 institutionalises the power of local authorities in consultation with the Minister to “demolish, reconstruct, abolish, close or move a market or a bus station”. Secondly, the Act has vested enormous discretionary powers with respect to approvals, dismissals and establishment of markets and bus stations

Empowering informal sector enterprises through the Citizens Economic Empowerment Act

An important and highly relevant objective to informal sector enterprises is to “encourage an increase in broad-based and effective ownership and meaningful participation of targeted citizens, citizen empowered companies, citizen influenced companies and citizen owned companies in the economy in order to contribute to sustainable economic growth”²⁴. Most informal sector operators come within the purview and objective of the empowerment legislation. The principal task of the Commission established under the Act is “to promote the empowerment of citizens that are or have been marginalized or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors including race, sex, educational background, status and disability”²⁵. This is a fitting description of most business operators in the informal sector. With the possible exception of the race factor, informal sector enterprises are populated by citizens marginalized through sex, educational background, status and disability. A CEE Fund is established under S.29 as a source of funding for supporting the development of broad based economic empowerment programmes. Among other purposes, S.29(3)(c), enables the Commission to use the funds to render development services to companies within its statutory scope so as to enable them access financial resources. This is of particular relevance to informal sector enterprises.

²⁴ The Citizens Economic Empowerment Act No. 9 of 2006

²⁵ The Citizens Economic Empowerment Act No. 9 of 2006, S.6(1)

Properly interpreted and directed, most of the work of the CEE Commission should focus on the empowerment of informal sector enterprises. Will it? most probably not. Technically, the Commission may be unable to channel its energies to the informal sector. Firstly, the CEE Act does not make explicit reference to citizens operating in the informal sector even though they constitute the largest group that needs its services most. Secondly the eligibility for support to companies requires them to have a minimum of 25 persons (S.2(b)). And, thirdly, of course, Zambian law does not recognise the existence of informal sector enterprises.

RECOMMENDATIONS

The informal sector already hosts a huge number of jobs, involved in a large variety of enterprises and business activities, clearly conditions exist for forging a job creating business strategy for eradicating poverty. The first step in the reform process is to unlock the legal and administrative barriers that are largely responsible for keeping the growing informal sector out of the formal economy. The second phase is to design value-adding business models which can nucleate the transformation of informal sector enterprises into legal businesses that are thriving and sustainable. To drive the process of reform, *Government must invest in the prosperity of informal sector businesses before such businesses can respond positively to value-adding reform measures.* At the centre of the reform process of informal sector enterprises is the challenge of standards. Skill standards are low, productivity standards are low, product quality standards are low, all of which translate into low prices and low business returns. Closely allied to the challenge of standards is the pervasive inaccessibility of business credit. Without business credit, there can be no business growth which results in informal sector enterprises operating at a subsistence level. To address these challenges and the other constraints outlined above we make the following recommendations:

Strategic approach

All business is founded on self-interest, sustainable business is a product of enlightened self-interest. Informal sector enterprises are no exception. Consequently, the approach rests on the principle that informal sector enterprises stand to gain from legalisation. To build mutual confidence, it is imperative for the authorities to demonstrate how informal sector businesses can benefit from registration and legal compliance.

It is suggested the first step in this approach is to prepare a number of “How To” series of booklets designed to demonstrate clearly the principle that going legal pays. The series can include topics such as:

1. How to make money out of business registration and legal compliance
2. How to expand your business through VAT registration
3. How to access credit through property registration and credit histories

4. How to trade on the street legally
5. How to protect your trading rights at a market
6. How to own and develop a market or a bus station

The strategy should then focus on providing a road map for enhancing business performance. The road map should then show informal sector entrepreneurs how to achieve greater competitiveness and improved business performance through improved product quality standards, improved skill standards and other value-adding business inputs. Informal sector enterprises require to make a paradigm shift from reliance on cheap labour as a comparative business advantage to reliance on higher prices from improved and consistent quality of products. The second component of this phase is to show ways in which the obstacles to obtaining business credit can be made less formidable through mobilisation of financial resources within the informal sector and the broad financial services sector.

The Government should then spare no effort in making it easier and cheaper for the many informal sector operators who will be queuing to join the ranks of registered enterprises. Even a modest migration rate of 10% from the informal sector to the formal economy would double the size of formal sector jobs.

Enhanced baseline study of informal sector enterprises

In the course of preparing this issue paper, it became clear that we need to know more about informal sector enterprises before a sustainable business model can be developed for their integration into the formal economy. The 2002-2003 CSO Survey of the Non-Farm Informal Sector and the 2005 CSO Labour Force Survey are a good start on the profiling of the non-farm informal sector. However, data is needed to better understand the entrepreneurial and business character of informal sector activity in the country. We understand that most of the businesses in the informal sector are family owned and family members are often used to run them. It would be useful to know if such businesses are purely for supplemental income purposes or they are decisive shifts to self-employment. There is also a large group that operates survival businesses at a subsistence level. What proportion of this latter group is seriously looking for a business opportunity? In the face of these and similar questions, an essential pre-requisite is the generation of a mapping exercise that classifies informal sector players in various categories of entrepreneurial and non-entrepreneurial activity. Who are in it as business owners, employees, or simply see it as a survival activity, in other words, generate a profile of informal sector operators as well as develop further the profile of their businesses. We have to be careful to exclude informal activities that are inherently illegal that is those which are strictly forbidden by law or activities conducted by unauthorised persons. The objective is to gain a much better understanding and more in-depth characterisation of informal

sector enterprises before developing a sustainable business model for their migration to the formal economy.

The second purpose of the enhanced baseline survey is to provide information on the barriers that are preventing informal sector enterprises from gaining entry into the formal economy. It should include information on the cost and procedures covering business entry requirements, tax obligations, dispute resolution, securing business premises, cessation of businesses and other legal and administrative barriers. Another important category of barriers relates to inaccessibility of credit. The survey should detail factors which contribute to the scarcity of credit.

The data and information that the enhanced baseline survey will generate will form the basis for developing a reform action plan for addressing the barriers to the entry of informal sector enterprises into the regulated economy.

Product quality and skill standards

A major component of the strategy for empowering informal sector enterprises is the creation of an institutional infrastructure that can facilitate the elimination of skill and product quality standards in the sector. The financial and performance results of informal sector enterprises are usually below the threshold needed to sustain growth and growing prosperity. The main reason for this is lack of access to lucrative market segments because their products lack quality and consistency and the unreliability of supply. Without a successful strategy for eliminating these business deficits the business performance of informal sector enterprises will be ceilinged below the level needed to break the poverty cycle. Among the indicative measures being proposed to address these weaknesses are:

➤ Skill standards

1. Introduce skill improvement courses for practicing informal sector operators across the range of activities. The duration of these “live” courses should be determined on a need basis. They should be organized on the basis of “work for training” basis
2. Reinvigorate trade testing for certification of competency standards of various trades and crafts
3. Introduce registration showing the class of competency possessed by practitioners of trades and crafts

The scheme would greatly assist in improving workmanship standards and induce market confidence that can lead to improved prices for goods and services.

➤ Product quality standards

Under capitalization combines synergistically with low skill standards to produce poor quality products which can only be marketed at prices well below those charged in regular markets. The variety of goods and services being provided by the informal sector has grown to a degree where it encompasses the bulk of those being offered in the regulated economy. The informal sector has a market share in the supply of consumer goods and services, home construction, metal fabrication, health services, the food industry, etc. Again on the basis that quality pays, we are proposing the following measures:

1. The Government should greatly expand the scope of the Zambia Bureau of Standards to enable it to work with the informal sector providers of goods and services
2. The expanded Zambia Bureau of Standards should engage in an outreach programme of raising awareness among the providers of goods and services regarding the risks of non-compliance with standards and specifications of tradable goods and services
3. In conjunction with the private sector, the Zambia Bureau of Standards should facilitate the development of licensed centres for affordable testing and certification of goods and services
4. Encourage through incentives the development of co-operatives for acquisition of capital intensive equipment for provision of quality control services. Group supply contracts and generally group marketing should be encouraged as a way of overcoming problems associated with lack of economies of scale.

Organisational and institutional empowerment of the informal sector

The introduction of management boards at markets and bus stations represents an important development towards facilitating the organisational and institutional empowerment of informal sector enterprises. The Management Boards, however, require more managerial autonomy not only to plan and manage the development of markets and bus stations but also to play a representative role for marketeers and bus operator in their individual and collective capacities.

It is therefore recommended that the relationship between Management Boards on one hand and the Ministry of Local Government and Housing on the other should be restructured into a formal public/private sector partnership in which the Management Boards will operate under a Management Contract for a given term. The rights and obligations of the parties will be articulated in the respective contracts. As presently constituted, the Management Boards appear to be confined to assisting the Minister of Local and Housing manage markets and bus stations.

In Zambia, the reality is that markets and bus stations are mobilization centres for political aspirants. Therefore, to the extent possible, it is necessary to depoliticize their management and control in order for Management Boards to play an effective role in the registration and legalisation of the informal sector businesses operating within their jurisdiction. be effective as agents of change for legal accommodation of informal sector enterprises they have to exerciseAs presently constituted registration of informal sector enterprises

The private sector developing and running markets through the public/private sector partnerships envisaged under the Markets and Bus Stations Act should be carefully balanced against the need to have adequate market places for small businesses.

Financing informal sector enterprises

Financing business in the informal sector poses one of the most formidable challenges. The 2002-2003 survey of the non-farm informal sector confirmed that the principal sources of start-up and working capital were own resources, family and friends. The money that is raised from these sources are grossly inadequate as shown in Tables 7 and 8 above. Indeed, a market trader informed us that the most difficult challenge he and others face is securing and holding on to a place for conducting business. In his case, at the time he made the decision to start trading he had saved the princely sum of K300,000 (approx. US\$75), he used K250,000 (roughly US\$62) to bribe the market chairman to secure a trading place. He then borrowed K50,000 which, together with the remaining K50,000 gave him capital of K100,000 to start a rice-trading business. Two years later he has 3 employees and is a joint owner of a one-mini bus passenger business. This anecdotal account illustrates both the hunger for capital and the entrepreneurial capacity that resides in the informal sector. We make non-expert financing model that has been inspired by a funeral fund scheme that a group of marketeers have initiated at Lusaka's largest market, Soweto. On a mutual assistance basis, a group of 10 marketeers have converted the practice of making ad hoc contributions if and when a member of the group had a bereavement into a fund to which each makes a daily contribution of K1,000 (or roughly US\$0.25). The funeral fund idea is growing in popularity and after only 4 weeks, it boasts a membership of 42. This has led to the proposal of a banking initiative that is driven by informal sector enterprises.

The proposal entails the creation of an Investment Fund piloted at a market or bus station which meets the criteria of a business plan that is developed with the assistance of an investment fund specialist. In the early stages it should be structured as a savings scheme established with a bank willing to supervise its growth into an investment fund. There should be a clause that enables the co-operating bank to exit when the fund grows to a pre-determined level. A major drawback for most enterprise owners in the informal sector is that they are unbanked

and conduct business through cash transactions. Without being banked, they have no credit histories for them to have a credit rating that can enable them to get bank credit. This will be even more relevant now that credit reference bureaus are being introduced. The proposed scheme will introduce banking to a growing number of informal sector enterprises.

With a strong organisational base that Management Boards and organized savings schemes make possible, it becomes realistic for to partner micro-financing institutions or conventional banks in designing products tailor made for them. Anecdotally a Bolivian colleague whose family runs a bank in that country has ingeniously adapted the concept of a letter of credit that is very often used in cross-border and other international trade transactions to facilitating domestic trade in that country. His bank uses internal letters of credit to enable goods of all descriptions to be traded domestically without sellers having to transport and deliver the goods and wait to be paid before releasing them. The introduction of an internal letter of credit would be immensely useful in Zambia. The country is vast with a large unexploited potential for domestic trade.

The potential for self-help financing schemes in the informal sector exists but requires external technical and financial seeding support to design working models that can be replicated.

Legal recognition of the informal sector

The legal stigmatization of informal sector enterprises deepen their isolation from financial markets and other institutional sources of business support which fuel its growth. It should be noted, however, that the objective in recognizing informal sector enterprises is not to create a new body of law that gives recognition to the informal sector as a separate and distinct business sector. The objective is to unlock barriers to entry such as prohibitive registration costs and administrative complexities in order to open doors to credit facilities, acquisition of business premises, etc which legalisation makes possible. As part of preparing the “How to” series of guidelines it will be necessary to conduct experiments of live examples which will demonstrate the regulatory and administrative impediments.

Building on existing business empowerment models

Dzithandizeni Trades School

Dzithandizeni Trades School, a community-based business training initiative in one of the heavily populated compounds of Lusaka, Garden Compound, has emerged as a manufacturer of high quality furniture apart from imparting valuable skills to the youths who are participating in the scheme.

Celstel working with the informal sector

Celtel, the largest cellular operator in Zambia, is offering emergent entrepreneurs business opportunities by enabling them to acquire mobile phones and resell mobile phone services to local communities. This has generated thousands of nascent businesses with potential for growth and diversification.

Shoprite support to small farming co-operatives

In the retail sector, Shoprite, a country-wide retail chain, is providing a reliable market for the produce of small scale farming co-operatives, enabled to supply vegetables and fruits reliably in consistent qualities and volumes. The beneficiaries are making the transition from subsistence peasant farmers into small-scale commercial farmers.

WHAT ROLE CAN THE COMMISSION PLAY?

In the view of the author, the major role UNCLEP can play is to persuade UNDP and the UN system in general to use its tremendous convening power to deliver a grass roots message to Governments such as Zambia to use their regulatory and administrative authorities in favour of empowering their burgeoning informal sector enterprises instead of driving them underground which can only entrench poverty and misery. In order to support its case, the Commission requires to initiate business models that show that a reformed regulatory and support environment in Zambia, for example can benefit both enterprise owners in the informal sector and their national economies.

CONCLUSION

The challenge is to uplift performance standards of informal sector enterprises to a competitive level and ease the obstacles to accessing business credit because low standards and scarcity of capital are the two most important negative factors that hold back the progress of informal sector enterprises. Government and other collaborators in private sector development are in a position to join forces with informal sector enterprises in easing these barriers to high productivity and high business returns.

Government, in the short to medium term should down play its revenue raising objective and concentrate on working with informal sector enterprises in providing business support services. Even without direct taxes from an extra legal business sector, it makes a valuable contribution through indirect taxation and customs duty. Down the road when significant numbers of informal sector enterprise owners are facilitated into joining the formal economy through “carrot” approaches, immense benefits will accrue to both the national treasury and the affected informal sector enterprises. The major outcomes of increased contribution to the national economy, decent working standards will only be possible from business stabilisation and

improved financial returns that integration of informal sector enterprises into the formal economy will make possible.

Investing in the growing prosperity of the informal sector is the most assured way of allowing informal sector enterprises to invest in quality jobs and quality products.

APPENDICES

APPENDIX 1: A LIST OF MAJOR EMPOWERMENT LEGISLATION

APPENDIX 2:
