

The State and Contribution of SMEs to the Economy: A Case study of Chadiza District.

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Abstract:

The study investigated the state and contributions to the economic growth of the Small and Medium Enterprises (SMEs) in Chadiza District. The study objectives were to establish the levels of employment creation, the levels of tax compliance and to promote SMEs contribution to the Economy. The overall research problem to be addressed in this study was that despite substantial information written about the vital role SMEs play in economic development, there was very limited evidence in literature to show the contributions of SMEs in economic growth especially in Chadiza District. It was hence, of greater importance that this research explored the state of SMEs in Chadiza and their contribution to the country's economic growth. This research was conducted on those SMEs which operate and conduct business within the District of Chadiza. The research used primary and secondary data. Primary data was collected using questionnaires and interviews. Secondary data was collected through review of previous literature on the subject and employ observation as the major technique. Purposive sampling technique was used to select SMEs for this research. The study was exploratory in nature and a lot of quantities of data were gathered and analyzed using tabulations especially in MS excel and MS word applications. The research study has made many revelations with regards to the contributions of Small and Medium Enterprises in Chadiza District. Lack of financial support and entrepreneurial skills for businesses in Chadiza District need to be well addressed if the country as a whole is to reap maximum benefits from Small and Medium Enterprises (SMEs). It is clear that supporting enterprises and acknowledging their various contributions in the country is key to achieving economic growth. The study may have only revealed some of the conditions under which SMEs operate and their contributions in remote areas and Chadiza District in particular. It has also been observed that a lot of research on this subject matter has been mostly done in the urban parts of Zambia. Therefore, more research needs to be conducted in more remote areas so as to bring to the fore the state and contributions of SMEs in those areas in order to enhance the growth of SMEs in the nation so as to significantly contribute to economic development.

Keywords: SME, Taxation, Employment, Economy and Economic growth.

1.0 Introduction and Overview

Small and Medium Enterprise can be defined in terms of sales volume, number of employees or the physical assets possessed by such an enterprise. However, Megginson (1991) says that a small business is one which is independently owned and operated and not dominant in its field of operation.

Small businesses also vary from trading, manufacturing, tourism and many others. The owners of these businesses are called or referred to as entrepreneurs. According to Mwiya (2007), an entrepreneur is defined as an individual who discovers market needs and then launches new firms to meet those needs.

He further goes on to explain that an entrepreneur is a risk taker who provide an impetus for change innovation and progress in economic life. From the given definition of an entrepreneur, it is evident that entrepreneurship is the capacity for innovation, investment and expansion into new markets, products and techniques.

The vast availability of natural resources and human resources given financial resources makes the environment ripe and conducive to accommodate and provide fertile ground for the growth of Small and Medium Enterprises in Chadiza District. There are many areas which can be exploited by entrepreneurs which include agriculture, small scale mining, and tourism.

With less availability of formal employment in Chadiza District and Zambia as a whole, the government of the Republic of Zambia should foster an entrepreneurial spirit and encourage the people of this country to become entrepreneurial so as to support the private sector in the economy. In fact, by so doing, the government will, to a significant extent, increase economic growth of the District and the nation thereby reducing the levels of poverty. There is, in fact, a

positive correlation between entrepreneurship growth and economic development.

The culture in Zambia from time after independence has been that people should attain education in order to be employed. It was perceived that becoming an entrepreneur was an unsafe and risky option not particularly appealing and less socially rewarding than other more traditional occupations. The education system has hitherto not been geared towards the development of entrepreneurship and self-employment, hence the final goal of education path being either to produce employees working in companies or public administration. This among other reasons contributed to slow growth rate of Small and Medium Enterprises in Chadiza District.

With the high rate of unemployment in the District and the nation, people with skills should in a way be encouraged or influenced by business associations and the government, as major stakeholders, to undertake entrepreneurship and use the technical skills they have to contribute to the economic growth of the District through employment creation and reduction of poverty.

SME associations and also various stakeholders like Universities, which are the reservoirs of knowledge, can play a key role influencing people with skills to form SMEs. Much as we can appreciate the Technical Education Vocation and Entrepreneurship Training Authority (TEVETA), which aims at promoting self-employment and career opportunities in the informal/micro and Small enterprise sectors, it is still less significant as only few in the Zambian populace have acquired skills in entrepreneurship.

The government should recognize that SMEs are key generators of innovation, wealth and employment to the economy. In this regard, people need to be educated in order for them to start business undertakings and to actually nature

and grow such undertakings. It is something that cannot be overlooked that in the quest for reducing unemployment and poverty levels in the economy, SMEs can be the best alternative for the people and government. The private sector forms a large part of the country's economy and hence the greater need for SMEs to be supported.

In Zambia, around the year 1980, **550000** people were employed in the formal sector with a population of approximately 7 million. In 2004, **472,000** were employed in the formal sector when the population stood at 11 million (CSO living conditions monitoring survey report 2006, 2008). With this high number of people unemployed, it is imperative that the government and other stakeholders encouraged especially the rural populace to take up entrepreneurship and form SMEs as levels of poverty are rife in these areas of the country. Moreover, most of our natural resources are in the rural areas and people do not just have the capacity to exploit those resources.

In order for the government to achieve its goals of industrialisation and making the country a middle-income country by 2030, through its vision 2030, there is great need to incorporate small and medium enterprises.

This path is not peculiar to Zambia alone. Many other countries have used SMEs as a vehicle for development. For instance: Italy, Japan, India, Nigeria and Kenya to mention only a few. In Italy, small firms have established a competitive position in world markets in shoes, leather goods, furniture, musical instruments, and in the machinery used to make these products.

The Italian experience is about flexible specialisation based on the development of cluster small firms spatially concentrated and sectorally specialised, developing forward and backward linkages such as exchange of goods, information and supported by local government.

The fundamental idea is that the clusters of mainly small and medium sized firms can gain economies of scale by increased flexibility and inter-firm corporation (Chataway & Allen 2000: 524). The Italian model has contributed significantly to their country's economy in general.

The Japanese case undoubtedly has implication for third world countries. Although being a late comer, its industrialisation has been rapid and can be said to be 'imitative'. Japan has moved sequentially from light technically unsophisticated industries to more capital intensive and technologically advanced industries. Here, the Japanese government playing a critical role in the framework of industrial strategy (Gwynne 1990: 183).

As it can be deduced from the examples above, adopting someone else's technology or model is not a simple, costless task. Each model is unique to a particular locality.

1.1 Background to the study

From the rule of the British colonial masters, Zambia got independence on the 24th of October 1964 and ushered into power the UNIP government under the leadership of Dr Kenneth Kaunda. This therefore changed the way laws were legislated and the management of most companies changed to favour mostly Zambian people.

Most of the Zambians at that time did not have the necessary education and technical expertise to effectively run those businesses and companies left by the British. This caused a huge gap as far as skills were concerned. Most people were hence trained to fill the formal sector. This led to the establishment of the University of Zambia (UNZA) and other trades institutes were people were to be trained to occupy the formal sector.

At the time of independence and a few years thereafter, people were encouraged to join the formal employment sector because of the availability of employment vacancies in the public service, mining and parastatal companies.

However due to the falling copper prices on the London metal exchange in the late 1970s, the government realized the need for and started pursuing the development of small sectors of business so as to hedge against the unemployment which could have been caused by the continued falling copper prices on the London metal exchange and subsequent collapse of companies dependant on the mineral.

In addition to this, the government recognized the need to empower the rural community by initiating and creating the Village Industry in 1975.

Furthermore, the government of the day, in 1981, created the Small Industries Development Organization (**SIDO**) through an act of parliament. **SIDO** was further renamed to Small Enterprises Development Board (**SEDB**). During this period, the Zambian economy subsided as copper prices had fallen to lower levels. The levels of unemployment increased which prompted some food riots in 1989 because the country had failed to produce food for domestic economy consumption.

Imports were also restricted as the government employed foreign exchange controls. On the other hand, unemployment was on the increase as the government introduced the public sector reform program which resulted into massive job losses. Many mining companies and parastatals closed. Those that lost jobs included people who were semi-skilled, skilled and professionals whose alternative was now entrepreneurship.

In the year 1991, a new government was elected into office. The new government under the

movement for multi-party democracy came into office promising among other things job creation as this was the cry of many Zambian people at that time. The new government also brought with it many changes to the economy.

The main focus of the government was to liberalize the economy. The government also decided to privatize most of the companies which were under the arms of government. The economy went through massive restructuring and adjustments. This saw the sale of many state owned companies. Other parastatal companies were left to collapse which included the now defunct Mansa batteries and also the Livingstone motor assembly.

The move to privatize nearly all the companies which were state owned also brought with it consequences which some even now are still felt. It eventually affected the economy as many monopolies broke down as well as the mines creating room for Small businesses to emerge to fill in the gap left by these defunct parastatals.

The new owners of the companies were not willing to maintain a large work force so as to maximize on their profits. The Zambia privatization agency (**ZPA**) was formed and was charged with the responsibility to privatize state owned companies on behalf of the government of Zambia. However, a few years after privatization, many companies were expected to continue operations through increased capital injections but only few managed and many of them were liquidated thereby creating further unemployment and poverty.

The advent of privatization, therefore, left many people in the country with no formal sources of income. Many people were now forced to find alternative sources of income. With the massive availability of natural resources and human resources and indeed the liberalized economy and

some financial resources, many people took entrepreneurship as the best alternative source of income.

From henceforth, there has been a steady rise in the number of entrepreneurs who among others have partnered with government in the provision of education through private schools, colleges and Universities.

The rise in the number of entrepreneurs has also spilled over to the rural community of Zambia including outlying Districts like Chipata District whose employment source was mainly in the Luangwa bicycle plant. Therefore, owing to this rise in the number of entrepreneurs, many associations and boards for SMEs have been formed to solve the various challenges faced by SMEs and help them to grow to contribute to economic development.

These associations were formed to help entrepreneurs with the knowledge about business operations and how challenges encountered can be handled in order for them to contribute to economic growth. The Zambia Chamber of Small and Medium Business Associations (**ZCSMBA**) is an example of an association whose duty is to support business enterprises. The main objective of this association is to be self-driven vehicle through which members will have access to quality business development and advisory services.

The Eastern Chamber of Commerce and Trade (**ECCT**) is a business association which oversees the operations of many SMEs in Eastern province. Recently, the Citizen Economic Empowerment Commission (**CEEC**) and the Youth Empowerment Fund (**YEF**) were also created in a bid to stimulate the economy through increasing enterprise by providing financing to entrepreneurs.

The role that Small and medium enterprises (SMEs) play in our economy and the world over cannot be over-emphasised. SMEs are important to our economy in that they provide sustainable economic growth through job creation, development of entrepreneurial skills and the potential to contribute significantly to the much-needed foreign exchange earnings through exports.

According to Parker (1996) the baseline survey asserts that SMEs in Zambia, about 97 percent of businesses are in the micro small and medium enterprises sector and the sector employs about 18 percent of the labour force and a lot of them are women accounting for 47 percent. To support the above assertion Fjose et al (2010) reports that SMEs cover more than 95 percent of all firms in Sub-Saharan Africa.

The majority of SMEs are tiny, microenterprises which are mostly informal, owner-operated businesses. Most have not paid employees and are more like home based, income-generating activities than clearly structured businesses. Most of these SMEs are located in rural areas (81 percent), and are involved in agricultural production (70 percent) or wholesale/retail trade (21 percent). Very few SMEs are registered with any government agencies as alluded to by *Zambian Business Survey* (2010).

The contribution to the economy by SMEs in most rural areas, Chadiza inclusive, is hampered by lack of education. Many SME owners, especially in rural areas, have only basic levels of education. About half of SME owners in rural areas have a primary education and about 45 percent have a secondary education.

Very few, if any, in rural areas have any vocational training and virtually none in urban or rural areas have a university education. The return on improving physical infrastructure will be higher when concomitant investments in education are made.

It is the responsibility of the Zambia Development Agency to monitor not only the activities of SMEs in the country but their development as well; it considers programs that include establishing strategic partnerships with different SME development organizations and building their capacity so as to improve their operational proficiency (IFAD, 2013).

SMEs operations in the country and their lack of adequate documentation on their activities are not clarified thereby making it difficult to clearly portray their contribution to the country's economic development. Thus, this research is aimed at understanding the state of the SMEs sector in Zambia, especially in Chadiza District, how they contribute to the development of the economy and establish some of the major challenges faced by the SMEs in the District.

1.2 Statement of the problem

Looking at countries that have developed and those that are continuing to develop worldwide, SMEs have really helped them in attaining their current levels of development and they are doing so well. For instance, studies carried out in Nigeria indicate that SMEs are 85-97 percent of all enterprises in the economy and the sector provides 50 percent of jobs in the country. (Okezie et al, 2014).

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The overall research problem to be addressed in this study is that despite substantial information written about the vital role SMEs play in economic development, there is very limited evidence in literature to show the contributions of SMEs in economic growth especially SMEs in the rural parts of Zambia such as Chadiza District. It is hence, of greater importance that

this research explores the state of SMEs in Chadiza and their contribution to the country's economic growth.

1.3.0 Overall Objective

The main objective of the research was to investigate the state of SMEs in Chadiza and their contribution to the growth of the economy of the country.

1.3.1 Specific Objectives

The specific objectives of the study were the following:

- (i) To assess levels of employment creation by SMEs in Chadiza District
- (ii) To evaluate levels of tax compliance by SMEs in Chadiza District
- (iii) To suggest measures which can promote SMEs contribution to the growth of the economy

1.4 Research Questions

Research questions for the study were as follows:

- (i) What are the levels of employment creation by SMEs?
- (ii) What are the levels of tax compliance by SMEs?
- (iii) What do you think can be done to promote SMEs contribution to the Economy?

1.5 Significance of the Study

Looking at the prevailing situation in Zambia, the government must consider coming up with business policies that encourages the creation, organisation and growth of SMEs in the nation. Considering the Districts like Chadiza District, which is without any major manufacturing and mining activities, the government should consider encouraging agriculture-based SMEs to form a major component of the private sector.

Government should encourage the formation of firms that add value to such raw materials as cotton, maize, tobacco and groundnuts. This would assist in the contribution of poverty reduction as well as reduction in unemployment levels in the District and the nation as a whole. It is evident therefore that promoting SMEs in the Districts is key to creating jobs and improving competitiveness and economic growth for the District and the nation as a whole.

Zambia had an average gross domestic product of 5.2% growth rate in the period between 2001 and 2007 (CSO, 2008). This growth rate of the gross domestic product (GDP) was drawn from the diversification away from the mining activities which also included SMEs formation and promotion. With availability of natural and human resources, Chadiza District needs more economic growth, which means more new firms, new entrepreneurs willing to embark on innovative ventures and high growth rate of SMEs.

In order to achieve this, the contributions of the SMEs to the economy need to be fully accounted for through the registration of SMEs with PACRA and the Zambia Revenue Authority (ZRA). To help the growth of SMEs in the District, there is not only need to establish challenges that SMEs face but establish the challenges that hamper the SMEs contribution to the economy.

This study is therefore significant in the sense that it will bring to attention of business associations and government the contributions of SMEs in Chadiza District, it would be a training manual for the District entrepreneurs in SMEs, and it would also be a background study for future researchers on small and medium enterprises in Chadiza.

3.6 Limitations

The research was affected by the following limitations; researcher did not get the response in time especially from key respondents who were usually very busy, some questions in the questionnaires were not filled by the respondents hence increased non response rate and limited local literature on the topic under study was also a limitation to the study. Finally, it was costly as the exercise demanded a lot of money which was another limitation.

1.7 Conceptual framework

Many concepts have appeared in this research, but the following have been distinguished in relation to small and medium enterprises contribution to the economy so as to give a clear understanding of what is being talked about. These are economy, economic growth, tax and employment as it is government's desire or policy to ensure that there is economic growth, reduced unemployment levels and to effectively broaden the tax base. The following are concepts beginning with the policy and effectiveness:

Policy: in this study policy has been referred to as a purposive course of action taken or adopted by those in power in pursuit of certain goals and objectives (Sapru 2014). Gil (1973), defines a policy as a guiding principle or courses of action adopted and pursued by societies and their governments as well as various groups or units within societies like non-governmental organisations. Policies may cover various domains including social, and society as a whole.

Effectiveness: this is the degree to which something is successful in producing a desired or intended results. This entails the ability to achieve the desired or intended goals.

Economy: in this study refers to a state of a country or region in terms of the production and

consumption of goods and services and the supply of money in that particular locality.

Economic growth: in this study refers to an increase in the amount of goods and services produced per head of the population over a period of time.

Tax: in this study refers to a compulsory financial charge or some type of levy imposed upon citizen by government in order to fund various public expenditures.

Employment: in this study refers to a relationship between two parties, the firm and an individual, usually based on a contract where work is paid for. Well performed SMEs will be able to create employment and pay taxes to government which leads to economic growth.

Therefore, the government of the Republic of Zambia should foster an entrepreneurial spirit and encourage the people of this country to become entrepreneurial so as to support the private sector in the economy. In fact, by so doing, the government will, to a significant extent, increase economic growth of the District and the nation thereby reducing the levels of poverty. There is, in fact, a positive correlation between entrepreneurship growth and economic development.

These small and medium enterprises if well managed have to potential to reduce unemployment levels and contribute to nation treasury through payment of taxes.

1.8 Operational Definition of key concepts

i. State: in this study referred to a condition under which small and medium enterprises operate in Chadiza District.

ii. Contribution: in this study referred to the input of small and medium enterprises to the economy.

2.0 LITERATURE REVIEW

This chapter encompassed the relevant literature reviewed regarding the state and contributions of small and medium enterprises in Chadiza District. The literature reviewed was in line with the specific objectives of the study; the state and contributions of the SMEs to the economy. The themes have been reviewed based on global, regional, and local perspectives. Finally, personal critique, summary and identification of gaps were presented.

2.1 Global Perspectives

Globally, Small and Medium Enterprises (SMEs) are tools for empowering the citizens and economic growth. SMEs are associated with rapid economic growth of countries in Asia and North America (Schaper 2002). Among developed countries such as the USA, SMEs still play enormous role in the country's economy (Aranoff et al. 2010). Available evidence points that, SMEs occupy an important and strategic place in economic growth and development in all countries (Abor & Quartey 2010) constituting as high as 90% of enterprises in most countries worldwide.

SMEs are the driving force for large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Owing to the success of the Asian tigers, interest is running SMEs particularly in developing countries that are in the rat race to meet and reduce the economic and development gap, the Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Schaper 2002). These SMEs creates

jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market-based economy.

According to (Cook & Nixson 2000), interest in the role of small and medium-scale enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. In view of the relevance of SME's, in 2006 the government of Taiwan launched a \$61 million "branding" initiative, which aimed to propel the economy from being production-based to knowledge-based (Lin 1998; Onuorah 2009; SAN 2006).

According to the report in English language version of the online edition of Electronic Engineering Times-Asia print magazine, formerly *Asian Sources Electronics Engineer* (EE Times Asia) in August 2006, the so-called "Branding Taiwan Plan" is a seven-year program designed to help promising small-to-medium enterprises (SMEs) in developing their own brand, according to the Taiwanese government.

This was initiated with the view of SMEs ability to boost the economy particularly in the medium term. Small businesses employ 72,000,000 people (Schaper 2002). More than 90 per cent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka are small enterprises (Cook & Nixson 2000).

Pandya (2012) noted that the Small and Medium Enterprises (SMEs) in the development of world economy's contribution has been significant in two folds; in terms of contribution to Gross Domestic Product and creation of employment opportunities. A remarkable role as played by SMEs in the development of several countries is visibly clear as they constitute a major part of the industrial activity both in developed or developing economies.

Recent studies show that there is a close link between the economic growths of any country with the SME development. For instance, Pandya (2012) quoting Beck (2005) noted that there is a robust, positive relationship between the relative size of the SME sector and economic growth. In addition, Pandya quoted Ayyagari

(2007) stated that on an average, the contribution of formal SMEs in high – income countries amount to almost 50 percent of GDP.

Majority of employment generation is through the growth of SME sector only, as noted by Ardic, Mylenko & Saltane (2011). Although the role of SMEs, as already observed, is increasing significantly in respective national economies, SMEs are generally underrepresented in world trade (OECD, 2004).

Tambunan (2008) notes that Small and Medium Enterprises (SMEs) play a significant role in development of the economy due to the fact that they are the major source of employment generation and output growth not only in developing countries but developed ones as well. The roles of SMEs become more crucial in developing countries as they have potential to the improvement of income distribution, employment creation, poverty alleviation and export growth. It also leads to the development of entrepreneurship, industry and the rural economy. The importance of SMEs (small and medium enterprises), account for 60 to 70 per cent of jobs in most OECD countries, with a particularly large share in Italy and Japan, and a relatively smaller share in the United States. Throughout they also account for a disproportionately large share of new jobs, especially in those countries which have displayed a strong employment record, including the United States and the Netherlands.

Some evidence points also to the importance of age, rather than size, in job creation: young firms generate more than their share of employment. However, less than one-half of start-ups survive for more than five years and only a fraction develops into the high-growth firms which make important contributions to job creation.

High job turnover poses problems for employment security; and small establishments are often exempt from giving notice to their employees. Small firms also tend to invest less in

training and rely relatively more on external recruitment for raising competence.

The demand for reliable, relevant and internationally comparable data on SMEs is on the rise, and statistical offices have started to expand their collection and publication of data. International comparability is still weak, however, due to divergent size-class definitions and sector classifications. To enable useful policy analysis, OECD governments need to improve their build-up of data, without creating additional obstacles for firms through the burden of excessive paper work.

A limited number of so-called high-growth SMEs make important contributions to job creation and productivity growth in the OECD area. At the earlier stages, *management capabilities* are crucial to survival. As the firm matures, human resource and innovation strategies increase in importance.

By the time the firm has become established, *innovation* is crucial for growth. The fastest growing entrants are those that translate strategy into action in the form of R&D, innovation and training, put great emphasis on hiring skilled employees and motivating employees, and balances the enhancement of their capabilities in different areas - the last being particularly important in high-knowledge sectors.

The main barriers to the development of high-growth SMEs are market failures in capital markets, government regulations, indirect labour costs, access to foreign markets, and difficulties in recruiting qualified staff and skilled workers.

Women-owned SMEs are growing at a faster rate than the economy as a whole in several OECD countries, allowing capitalization of the skills of educated and trained women who might otherwise be blocked in corporate advancement because of the "glass ceiling". The increased flexibility inherent in owning one's business allows women to contribute to the income of their families while balancing work and family

responsibilities. However, the economic potential of women entrepreneurs remains partly untapped; measures are required to improve information and statistics in this field, as well as to strengthen the preconditions for financing, networks and technology.

The term "SME" - small and medium-sized enterprises - covers a variety of definitions and measures. In OECD Member countries, employment is the most widely used criterion for determining firm size. SMEs are usually defined as firms with fewer than 500 employees, although a number of countries - including those in the European Union - use a lower cut-off point of 250. Employment and job creation: It is apparent that SMEs play an important role in all OECD economies: they make up over 95 per cent of enterprises and account for 60 to 70 per cent of jobs in most OECD countries.

The share tends to be somewhat lower in manufacturing, although it varies between 40 to 80 per cent of employment in manufacturing. The overall share of small firms in employment and output may be even higher given that establishments or firms in the service sector are normally of smaller average size than in manufacturing. Table 1.2 illustrates the variability across sectors: for example, wholesale and retail trade and hotels and restaurants are dominated by SMEs.

In construction SMEs account for 80 to 90 per cent of all employment. The fact that these industries loom large in overall employment underscores the importance of SMEs as sources of employment.

Furthermore, the share of large firms in employment and output has tended to show a certain

decline. The average establishment size in manufacturing has fallen since the early 1980s in Canada, the United Kingdom and the United States, has remained constant in Germany, and has risen in Japan. The importance of smaller

establishments in job dynamics is often assessed on the basis of net employment changes. From the mid-1980s to the early 1990s, in all countries, small establishments (fewer than 100 employees) displayed more rapid net employment growth than larger ones (OECD Employment Outlook 1994, Chapter 3).

Analysis suggests that a small group of high-growth small and medium-sized enterprises (HGSMEs) make important contributions to job creation and productivity growth. In particular, it has been shown that both job creation and job destruction tend to be concentrated: a significant part of gross job creation is in a comparatively small number of very rapidly expanding firms and a large part of gross job destruction is in a relatively small number of rapidly contracting or exiting firms.

However, the role of, and factors influencing, growing firms is not fully understood. A more complete understanding of high-growth firms may lead to adjustments in government policies to enhance their unique contributions to economic growth.

In Canada, there has been a series of three studies on SMEs conducted by Statistics Canada on the causes of firm dynamics: the first study, "Strategies for Success" (Baldwin *et al.*, 1994), provides an overview of the strategies and activities of a group of 2 000 typically "established" SMEs experiencing rapid growth between 1984 and 1988. It focuses on the differences between the faster and slower growing firms in the sample and finds that innovation is the key to success.

However, the research also shows that business performance depends primarily on the insight and energy of the entrepreneur and that financial management provides a core capability of a firm. The study also reported on other areas in which the practices of these growing firms differ from those of less successful ones: the importance given to the quality of labour skills; the

significant amount of business conducted outside their regions; and the use of networking for learning and assistance.

The second study, "Successful Entrants: Creating the Capacity for Survival and Growth" (Baldwin *et al.*, 1997), looks at a group of new firms. In general, it was found that the faster growing successful entrants outperform in every area - innovation and the search for improvement being the key factors. Moreover, these faster growing firms also reach more often beyond the bounds of their established market.

The third study, "Failing Concerns: Business Bankruptcy in Canada" (Baldwin *et al.*, 1997), investigates the characteristics associated with failure. The major findings of this study are that internal and external factors are equally responsible for firm failure. Internal factors are more important among firms that are less than five years old. Major internal deficiencies, particularly in these younger firms, fall into the area of management capabilities. For the 1991-95 period, it was found that 3 per cent of new firms i) start with at least US\$100 000 in first year sales; and ii) generate at least 20 per cent annual sales growth. Gross job creation tends to be concentrated among such high-growth firms or "gazelles" (Birch, *et al.*, 1996) that are found in all economic sectors, accounting for 6 per cent of start-ups in manufacturing, 3.4 per cent in trade (wholesale and retail), 2.4 per cent in finance, insurance and real estate (FIRE); 2.1 per cent in services; and 3.5 per cent in other (agriculture, mining, construction, and transportation, communications and utilities). Smaller firms, including high growth firms, are a major source of job growth in all of the nine major regions of the United States. In an analysis of all sectors of the US economy before 1976-88, it was found that 31 000, or 4 per cent, of the 814 000 firms created in 1977-78 were responsible for 74 per cent of the gross

employment growth of the entire cohort by 1984 (Kirchhoff, 1994, p. 187). After eliminating those firms that recorded “unbelievable growth”, firms with growth rates in excess of 300 per cent (an average of 50 per cent per year over six years) were considered high-growth (Kirchhoff, 1994, p. 178-179).

Analysis was carried out using data provided by representative samples of new firms 1-6 years old in all economic sectors from Minnesota (1985 sample), Pennsylvania (1994 sample), and Wisconsin (1993 sample). About 8 per cent of these firms had both growth and initial annual sales above the median (high-growth, high-start). They were responsible for 15 per cent of the jobs, 27 per cent of the sales and 40 per cent of the out of state exports of the cohort (Reynolds and White, in press).

The top 2 per cent of the firms from the Minnesota and Pennsylvania samples with at least two years of sales accounted for 10 per cent of the jobs created in the cohort (Reynolds, 1993). Given this diverse and incomplete assessment of firm growth, its relationship to age, and its contribution to overall economic growth, there is clearly a strong justification for a more careful assessment.

This case study uses the database of the Ministry of Industry and examines the complete set of 23 000 manufacturing firms with more than 20 employees in 1994. The first analysis shows that half the enterprises were permanent throughout the period between 1985 and 1994. These permanent enterprises lost jobs equivalent to 10 per cent of their aggregate workforce, but these job losses stemmed solely from very large firms with over 2 000 employees.

This confirms the observation of concentration of job losses in a 36-small number of firms. No analysis has yet been conducted concerning job creation but a similar pattern of concentration is likely.

Comparisons across European countries have

been carried out in an extensive analysis sponsored

by the European Commission. The study shows that during 1989 and 1984, a period of recession, 500 of Europe’s most dynamic entrepreneurs increased employment levels in their companies by almost 160 per cent.

The report focuses on these entrepreneurs and explains how they managed to create jobs during a period of rising unemployment across Europe. These dynamic entrepreneurs are typically male, aged 40-50, generally have a university degree, they consider themselves to be “trained professionals”, and rate themselves most highly on skills typically associated with general management. They are typically “team starters”, but at the same time they own a majority of the company’s shares and seek to maintain its independence.

Dynamic entrepreneurs are found in all the European countries and in all major sectors, but there is an above-average representation in the service sector. The majority of the entrepreneurs selected for Europe’s 500 have pursued well-defined strategies to achieve rapid rates of growth.

Their strategies are proactive and outward-looking, based on product differentiation rather than low cost. Quality is their watchword throughout their organisations and in the products and services they offer. They like to be financially self-reliant to the greatest possible extent, but say that people are the key to their success. They devote enormous energy to creating and then maintaining a highly motivated and well qualified staff.

Innovation and attention to human resources are most strongly related to growth. Regardless of sectors, innovators grow faster than non-innovators. At the earlier stages, management capabilities are crucial to survival. As the firm matures, human resource and innovation strategies increase in importance.

By the time the firm has reached an established stage, its management and human resource capabilities are typically quite developed, and growth is more closely associated with innovation. Faster-growing successful entrants are almost twice as likely to innovate as slow-growing firms.

Similarly, fast-growth firms place more emphasis on strategies relating to enhancing, updating or expanding their product line, and improving production. Successful fast-growing entrants are those that translate their strategic emphases into action by undertaking R&D, innovation and training.

Successful fast-growing firms place greater emphasis on hiring skilled employees and motivating their employees. Balance - an emphasis on striving to enhance their capabilities in all areas - is a consistent theme among faster-growing firms. Nevertheless, balance appears to be more important to growth in the high-knowledge sectors than in the low-knowledge sectors.

Women-owned SMEs are growing at a faster rate than the economy as a whole in several organisations for economic cooperation and development (OECD) countries. The potential of women-owned SMEs for job and wealth creation, as well as innovation, is increasingly focusing the attention of policy makers on this sector and was recently the subject of the "OECD Conference on Women Entrepreneurs in SMEs" held on 16-18 April 1997.

While data and statistics on this phenomenon are not available in all Member countries, the following information appears to indicate the importance of this trend throughout the G7 countries:

In the United States, in the last several years, the number of firms created and managed by women have grown twice as fast as those set up and managed by men. Recent statistics indicate that approximately 8 million businesses

are owned and managed by women in the United States. According to the same source, one out of four private sector jobs in the United States is provided by firms headed by a woman. Three out of four female-owned companies stay in business longer than three years, compared to only two out of three male owned companies.

According to the Japan Small Business Research Institute (JSBRI), 23.3 per cent of private Japanese firms are set up by women (2.56 million of 11 million). In Germany, women in the new German Länder have been responsible for the creation of one-third of new firms since 1990, representing 1 million jobs and US\$15 billion in turnover per year. In France and the United Kingdom, one out of four firms are headed by a woman. In Canada, women own and/or operate 30.3 per cent of all firms, and the number of women led firms is increasing at twice the national average.

This trend is also evident in other OECD countries: in Australia, one-third of existing firms are

now owned and managed by women, while in the Netherlands and Denmark, one-third of new enterprises are held and managed by women. The need to improve economic performance and social well-being today calls for a closer look at the contributions and needs of women-owned SMEs and for the implementation of commensurate structural reforms.

This is true for a number of reasons: facilitating the development of women-owned SMEs allows societies to capitalize on the skills of educated and trained women who may be blocked in corporate advancement because of the "glass ceiling"; the increased flexibility inherent in owning one's own business allows women to contribute to the income of their families while balancing their work and family responsibilities, thus enhancing social cohesion; lastly, the resulting economic independence reduces

disparities between men and women, thus leading to a more active and representative role by women in the economic and political life of their countries.

The Italian industrial model is known worldwide as a successful example of endogenous development based on SMEs strongly rooted in their communities. Is it possible to achieve a competitiveness and social stability through these mechanisms elsewhere, especially in emerging countries? In this paper we try to highlight the main elements of the Italian experience and to learn some lessons for emerging countries.

Bottom-up growth based on small firms is also considered as a source of increased employment, including self-employment, and a way to incorporate actors that are traditionally excluded from economic development like women and young people.

The inclusion of more people in economic development may have various positive effects on the local economy. First of all, it increases employment and contributes to making the local economy more vibrant. Secondly, a multiplicity of active participants helps ensure the social stability needed for sustainable economic development.

Numerous small firms, particularly if concentrated in the same industrial sector, or in complementary ones, also tend to increase the tendency for specialization among firms. Such specialization is seen as one of the key factors in success of small-firm networks and clusters. In particular, specialization allows for the focused use of resources. It is plausible that areas with consolidated systems of specialized small firms are also more likely to attract foreign direct investment.

Italy is known for its high concentration of small firms. In fact, within Europe only Greece and Spain have comparable average enterprise size and percentages of micro-firms. Although many other countries have a large number of small

firms, Italy is interesting in that it is among the largest economies in the world and, yet, 98% of industrial firms have fewer than 100 employees. Almost 90% of firms have fewer than twenty workers.

The average size of Italian industrial firms is seven employees. Italy is particularly interesting in that it is unique in the European Union because of its large economy characterized by relatively high labour costs and high GDP per capita, accompanying its high incidence of micro and small firms. In fact, in manufacturing sectors, Italy registers the highest EU percentage of SMEs.

Therefore, Italy has shown that in order to have a highly developed economy, it is not necessarily true that it must be based on large firms. Italian small firms that are internationally successful tend to export high-quality goods. These are usually consumer goods, often connected to fashion industries, or other products valued for high-quality design, seen to be typically Italian.

It should be noted that Italian SMEs are also strong exporters of agro industrial and food products. Some intermediate goods producers are long-time exporters; the firms producing textiles in Prato, near Florence, constitute perhaps the most famous. The production of capital goods is also characterized by SMEs.

Italy is among the world export leaders in: machine tools, textile machines, leather and footwear machines, food processing machines, agriculture machinery, packaging machines, wood processing machines, machines for ceramics, and machines for metalworking. Two of the best examples of these are: agricultural machines in Reggio-Emilia and automatic machines in Bologna. Italy is also a leading exporter of highly specialized products such as small domestic appliances, eyeglasses, compasses, etc.

Small and medium enterprises (SMEs) play an important role in China economic growth and

make substantial contribution to employment and outputs.

According to a report from the National Bureau of statistics of China, SMEs provide around 80% of urban employment; contribute 50% of Fiscal and tax revenue, account for 60% of GDP in china. Hence, a healthy development of SMEs is essential to ensure continual economic growth and social stability.

In many countries, and in particular OECD countries, governments are facing the challenges of

low growth, weak trade and investment, and rising, or persistently high inequality (OECD, 2016a). They also face a growing dissatisfaction among citizens with the current state of affairs, which is also manifesting itself in the form of a backlash against globalisation and technological change.

Against this backdrop, there is a need to create the conditions that enable the benefits of open markets and technological progress to be enhanced and shared more broadly across the economy and society.

SMEs are key players in the economy and the wider eco-system of firms. Enabling them to adapt

and thrive in a more open environment and participate more actively in the digital transformation is essential for boosting economic growth and delivering a more inclusive globalisation.

Across countries at all levels of development, SMEs have an important role to play in achieving the Sustainable Development Goals (SDGs), by promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialisation and fostering innovation, and reducing income inequalities.

However, boosting SME potential for participating in and reaping the benefits of a globalised and digital economy depends to a

great degree on conducive framework conditions and healthy competition.

2.2 Regional Perspectives

In Africa, the SMEs is the dominant sector and accounts for almost 90% of all the enterprises in rural and urban areas. SMEs are a major employment avenue to people and stimulate the development of the countries by promoting entrepreneurial and business skills amongst communities (Giovanna Ceglie & Marco Dini 1999).

In Sub Sahara Africa, SMEs are considered very important propellers for obtaining national development goals, such as poverty alleviation and economic growth (Zoltan Acs 2006). For example, in South Africa, the SMEs account for about 46% of the total economic activities and 84% of private employment.

It is also estimated that about 80% of the formal business sector and 95% of the total business sector are European Journal of Business and Management (Axel Volkery & Klaus Jacob 2004).

In Ghana efforts have been made by successive governments to reduce poverty and accelerate economic growth by increasing foreign direct investment, diversifying the economy, enacting policy frameworks which favour small business ownership and at most initiating employment and entrepreneurship programmes.

According to Milford (2000), while quoting from World bank (2000), “enormous effort has been placed on SMEs capacity to address extreme poverty, create desperately needed jobs, halt the on-going de-industrialization process and curtail any further ethnic unrest associated with bleak economic prospects and social collapse”. Ghana remains a country with very high potential but an equally high inertia to develop. The country is blessed with abundant supply of enormous human and natural untapped resources.

SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Abor & Quartey 2010), however, sustainability of SMEs in Ghana are threatened to stagnate due to the varied risks exposed to SMEs.

In the Ghanaian context the National Board for Small Scale Industries (NBSSI) classifies SME as an enterprise with turnover greater than US\$200,000 and not more than US\$5 million equivalent.

The SME market constitutes the vast majority of businesses in Ghana and over the years, they have evolved to become key suppliers and service providers to large corporations, inclusive of multinational and transnational corporations.

In view of the significance of SMEs in Ghana, this study sought to find out the contribution of SMEs to the economic development of Ghana with particular reference to Zebilla in the Bawku West District of Northern Ghana.

According to Oualalou (2012:57), SMEs play a very important economic and social role, both through their prominence in the economy and in job creation, a role which is greatly appreciated in these times of crisis and rising unemployment.

Notwithstanding so, the development of SMEs can help to face many challenges linked with economic development in the country, inequalities, very high unemployment, demographic developments and the need for structural change.

Furthermore, SMEs development offers many job opportunities which can help to lower the unemployment rate and address the demographic challenges posed by growing populations (Malefane, 2013).

In addition, the development of the SMEs sector may assist in increasing competition and productivity and thus stimulate the growth of income both overall and per capita. This development will also stimulate structural change, since a healthy small medium enterprise

sector is associated with innovation and technological upgrading.

Sibanda (2013:663) also concurs with the assertion that the SMEs sector plays a critical role in the South African economy by creating employment opportunities for communities within the second economy, as well as providing livelihoods to the dependents.

In these regard, South Africa SMEs contribute approximately forty-five (45%) to the GDP (Sibanda, 2013). Malefane (2013) however posits that the support that the South African government provides for SMEs is widely acknowledged as the country's effort towards economic restructuring and poverty alleviation; conversely this acknowledgement results from governments' political and legislative commitment, through policy and strategy, to ensure that SME development is viable.

SME development in the local sphere of government typifies part of a LED strategy that aims to, among other priorities; achieve the local government's constitutional mandate to promote economic development, in doing so, the political support for SMEs has set the tone for legislation, policy and strategy direction and has resulted in the South Africa's legislation setting forth the national objectives for the SME economy (Geyer, 2006:2).

Throughout Africa, SMEs are a critical force and drivers of economic activity across all sectors – from agriculture to ICT. They have emerged as key employment providers. This is evident from a fact that firms with fewer than 20 employees provide the most jobs in Africa's formal sector. Over 70% of Africans work for small and medium-sized enterprises (SMEs).

African SMEs have actively contributed to the supply and production chains that will increase the continent's manufacturing base thereby kick-starting massive industrialization (Elumelu, 2017). The good news is that African SMEs are already on the rise, with small companies

accounting for more than 60% of the continent's business-to-business spending. This figure rises to over 80% in Nigeria, Kenya, the United Republic of Tanzania, and Ethiopia.

Small and medium enterprises (SMEs) have overtime been at the forefront of accelerating economic growth in many countries and economic blocs. For example, the majority of the SMEs do employ at least about 50 employees in Southern African countries depending on their sizes and this helps to take a sizeable chunk of the employment burden from states (Tshuma & Jari, 2013).

Looking at South Africa, SMEs operates in every city and they provide employment for people and about 4 million jobs are created through this sector which in some cases may be regarded as informal sector and the formal sector just provides only 7 percent (Thamas, 1989 and Aymes, 1988).

The Majority of the SMEs in South Africa operate in the informal sector and there are about 700,000 such business which contribute and their contribution ranges between 16 to 40 percent of the country's gross national product (DeSmidt, 1990; VOL. 4, NO. 4). The SMEs have played and continues to play a bigger role in the social economic development of the country.

From previous studies by Kromberg (2005) on South African SMEs, it was found out that they contribute 30 percent to gross national product considering SMEs that are registered with the government, though the percentage could be higher if you consider SMEs that could be operating but not formally registered because of fear to pay state taxes (Skinner,2006).

In Tanzania, SMEs have played a big role in the social and economic transformation of the country since its transition from a command economy to a market economy and they contribute about 60 percent to the gross national product (Echengreen and Tong, 2005; Pyke et al., 2000).

In the Tanzanian consideration, an SME is viewed as one that employs at least 4 persons and with a capital of TZ shillings 5 million and the majority of the SMEs fall in the informal sector. It is however possible that you find some SMEs with capital of between 200-800 million employing above 49 employees (Hamisi, 2011). From such examples, Zambia as a country would look for ways of improving the SMEs market since it is evident from these studies, that they are can be a good source of jobs creation, taxes for the government among other benefits.

According to UNIDO (2006), there is a strong relationship between existence of SMEs and contribution to a country's GDP and in the case of Tanzania they contribute about 35 percent and this would have been better if the SMEs are operating efficiently and a full friendly business environment (Calcopietro and Massawe, 1999).

It is vital to understand how SMEs can function economically and with efficacy to increase their chances of survival in the competitive business environment. Governments can play a pivotal role in setting policies to protect SMEs by for example securing markets for the goods and services produced and offered by these companies, setting up of specialized financial institutions that deal with micro financing.

Clearly, SMEs in the South African economies have been the backbone of social economic development and this is the same for many other Sub Saharan African economies. They have played a big role in Jobs creation for example in the informal sector which has the majority of SMEs for example in Kenya, SMEs employ more than 5.1 million people, in South Africa, SMEs employ 50-60 percent of the work force (Kromberg, 2005; Tshuma &Jari, 2013).

The Informal sector which harbors most of the SMEs alongside the formal sector and in most situations the incomes realized in the informal sector is spent in the formal sector and this is to

say that they contribute a lot in the social economic development of countries.

A favorable business environment is vital for SMEs to thrive, but you will find that some of the advanced African economies do not make it easy for SMEs to operate as the business environment is hostile for example high taxes, inflation, unstable exchange rates which all impact profits and this has happened greatly in South Africa among other African countries (World bank, 2006; Olawale & Garwe, 2010).

More so, most African economies are poor and corrupt and such practices makes the operation of SMEs very difficult and this leads them to become noncompliant and to try and circumnavigate the regulatory requirements and this is why according to World bank (2005), 70 percent of SMEs confirm that corruption hinders so much their operations as opposed 60 percent for bigger organizations.

In comparison, a study by (Mader, and Winkler, 2013) revealed that 83 percent of the Ethiopians live in the villages employed in the Agriculture sector. This fetches them little income as they mostly grow for consumption.

The same study reveals that Ethiopia has more than 73,000 SMEs and employs more than 551,075 persons; however, the survival of SMEs in Ethiopia remains a big challenge due to poor political will, poor attitude towards SMEs and generally poor business environment (Devereux, 2010; Mader, and Winkler, 2013).

With reference to the Nigerian economy, it keeps growing amidst challenges, its informal sector which is composed of a lot of SMEs has also been growing, but with a lot of challenges mainly due to all the vices associated with harsh business environment for SMEs in the country (Okezie, Ihugba, Alex Odii, Njoku, 2014).

The challenges that are being faced by entrepreneurs in Sub Saharan African countries cannot be underestimated and, in most cases, they are the same across the continent. Such

challenges are; poor credit facilities which hinders Prospective entrepreneurs to easily access credit funding for their SMEs and those that are available charge higher interest rates of about more than 28 per cent in additional to loan collateral which SMEs may not have (Okezie, Ihugba, Alex Odii, Njoku, 2014, Obiajuru, 2012). There is a lot of corruption which makes it hard to obtain trading permits, contracts, goods and services from government and there are lots of kickbacks and bribes involved in the industry and this makes it unattractive for SMEs. In Nigeria for example, government policies on SMEs are inconsistent and they are formed without the involvement of SMEs entrepreneurs and in most cases, they become unrealistic at the implementation stage.

There is need to set consistent laws that are realistic with the prevailing business environment in the country. Taxation in Nigeria has been a major hindrance in the operations of SMEs as in some cases there is multiple taxation and such taxes have an effect on increasing cost of conducting business and ultimately the traders have to pass on the charge to the consumer and this may make some goods and services (International Journal of Economics, Finance and Management: 2015). unaffordable by an ordinary consumer as the country has over 500 types of taxes and levies by both the state and the local government (Okezie et al, 2014, Oghojafor et al, 2011).

The infrastructure for doing business in Nigeria is bad in form of bad buildings, poor roads, erratic power supply among others all make cost of doing business to be high and if the right SMEs policies are not made by the government, then it may not fully benefit from the essence of having SMEs play a vital role in the social economic development of a country.

There are a number of other challenges that SMEs in Nigeria face i.e. lack of proper environment that has business information

readily available, little formal education possessed by some entrepreneurs, poor security in some states to guarantee secure business environment (Arizona, 2009) etc. have made it difficult for SMEs operations in Nigeria.

These challenges may not be peculiar to Nigeria alone as these could be some of the challenges also in countries like Zambia, South Africa, and Zimbabwe among others. The findings from this study gives a clear indication of the SMEs sub sector standing in Zambia and strategies to smoothen the operations of the sub sector players for the benefit of the country.

2.3 Zambian Perspectives

According to Dr Gondwe (2012), Governor of the Bank of Zambia then, the role that SMEs play in the provision of sustainable economic growth through job creation, development of entrepreneurial skills and the potential to contribute significantly to export earnings cannot be over-emphasised. Notwithstanding the challenge that still remains in the provision of finances to the SMEs sector in Zambia.

A survey conducted by the World Bank on Enterprise Development in Zambia (2007) identified poor access to finance as a major impediment to investment and growth in Zambia as quoted by Gondwe in his speech during the launch of Stanbic bank branch at Soweto in 2012. Only 16% of firms surveyed reported having a loan or line of credit from a financial institution, compared with 23% for the region and 35% for all countries surveyed.

Therefore, while Zambia's cost of doing business index has progressively improved in recent years, access to finance continues to feature among the three key constraints to investment and growth. This is a big area that the government of Zambia should explore to make it possible for the operation of SMEs in the country.

In his speech to the quests he encouraged banks to seek various ways of supporting the SMEs not only in Soweto Market but in other underserved

places throughout the country such as Buseko Market in Lusaka and Chisokone Market in Kitwe, which could equally offer huge opportunities for banks and other financial players.

2.4 Personal Critique and Gaps Identification

The role that SMEs play in the economy growth is critical in many countries' world over. In terms of employment creation, SMEs in Nigeria contributes about fifty per cent. While in Zambia, the contribution towards employment creation is only Eighteen per cent.

Despite substantial information written about the vital role SMEs play in economic development in Zambia, there is very limited evidence in literature to show the contributions of SMEs in economic growth especially SMEs in the rural parts of Zambia such as Chadiza District. Most of the research on SMEs are done in urban areas and learning institutions. This knowledge gap becomes a motivating factor for conducting this study.

2.5 Summary

Globally, Small and Medium Scale Enterprises (SMEs) are a tool for empowering the citizens and economic growth. SMEs are associated with rapid economic growth of countries in Asia and North America (Schaper 2002). Among developed countries such as the USA, SMEs still play enormous role in the country's economy (Aranoff et al. 2010). In Sub Sahara Africa, SMEs are considered very important propellers for obtaining national development goals, such as poverty alleviation and economic growth (Zoltan Acs 2006). For instance, in South Africa, the SMEs account for about 46% of the total economic activities and 84% of private employment.

The role that SMEs play in the provision of sustainable economic growth through job creation, development of entrepreneurial skills and the potential to contribute significantly to export earnings cannot be over-emphasised.

Notwithstanding the challenge that still remains in the provision of finances to the SMEs sector in Zambia. Dr Gondwe (2012)

3.0 METHODOLOGY

Research methodology is a systematic way to solve a research problem. It might be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It involves analysis of the assumptions, principles and procedures in a particular approach to inquiry. It justifies and explains the rationale on the use of the particular methods on a research problem, (Kothari, 2004). The research methodology contained among others the following components: Research design, Target population, sample size, Sampling procedure data collection methods, Data collection instruments, Data collection procedure and data analysis, limitations and Ethical considerations. To get an insight into the contributions of SMEs to the economy of the District of Chadiza, a data collection exercise was conducted on local SME entrepreneurs in the District.

This research was conducted on those SMEs which operate and conduct business within the District of Chadiza. The research used primary and secondary data. Primary data was collected using questionnaires and interviews. Secondary data was collected through review of previous literature on the subject and employ observation as the major technique. Purposive sampling technique was used to select SMEs for this research.

The study was exploratory in nature and a lot of quantities of data were gathered and analysed using tabulations especially in MS excel and MS word applications. Other sources from written

literature by organisations dealing with SMEs, was used. What is of great importance here is to get accurate information from well qualified officers who understand SMEs market from the case study.

The data that was collected was related to four years for the periods of 2016-2019. This period is considered to be adequate to generate reliable findings that could be generalized.

3.1 Research design

The research design is the conceptual structure within which the research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. So, the research design can be defined as a master plan for the determined methods, structure, and strategy of a research to find out alternative tools to solve the problems, and to minimise the variances (Kothari 2004).

Kombo & Tromp (2006) define a research design as putting together all the elements of research. To ensure attainability or achievement of the research objectives, both exploratory and descriptive research was used. The former was used to obtain an insight into and additional ideas on the contribution of SMEs in Chadiza District.

After such ideas and a clear view of what is involved in the research have been obtained, the latter was used to describe the factors that contribute to the success or failure of SMEs according to different entrepreneurs who operate SMEs in the District.

3.2 Target Population

Kombo and Tromp (2001) states that a population consist of individuals, elements or objects of specific group with common characteristics to which the researcher plans to generalize the results. The study targeted all businesses in the District. These are

manufacturing, trading, agricultural and service industries.

3.3 Sample size and Sampling procedure

3.3.1 Sample size

A sample by definition is a number of individuals or objects from a population, containing elements representative of the characteristics found in the entire group (Orodho and Kombo, 2002). A total of 50 SMEs in Chadiza District in the Eastern province Zambia were used. This number was a sample of the District population of the SMEs from which the findings were used to generalize about the population. Thus, these sample SMEs were taken to reflect the nature of SMEs in line with the contribution to the District of Chadiza and the Zambian economy as a whole.

3.3.2 Sampling Procedure

The study employed purposive and multi-stage sampling methods. Purposive sampling was used because of the nature of the study where some respondents were perceived to be knowledgeable. The multi-stage sampling was adopted because it works well for studies that cover a wider geographical area where a complete list of members of the population is not available. It is also economical in reducing cost by concentrating on the selected clusters. It gives less precision than the simple random sampling.

3.4.1 Data collection instruments

Kasonde- Ngandu (2013) states that research instruments are the necessary tools that a researcher uses to collect data from the respondents. This research used a mixed approach in that it was both quantitative and qualitative in nature.

In sourcing primary data, questionnaires were administered, and oral interviews were carried out to entrepreneurs operating SMEs in the

District that were unable to read and write. This was for assessing the opinions of entrepreneurs in SMEs about the state of their enterprises and contributions they make.

Secondary data would be obtained from government sources as well as business associations inter alia the chambers of commerce and trade. Relevant literature such as books, journals, and newspapers were also used.

3.4.1.1 Primary data

Primary data gives a better understanding of the research problem as it comes from the concerned and reliable respondents, and as such, is considered to be original (Bless and Achola 1988). The source of this type of data in this study would be obtained by questionnaires and interviews.

Questionnaires were administered to a total of number of 50 SMEs in Chadiza which represent the total sample size for the research. Because some respondents could not return filled in questionnaires, interviews were conducted to supplement questionnaires.

3.4.1.2 Questionnaires

Questionnaires are a formulated series of questions which are used to gather information on a particular subject matter. They are one of the tools which were opted for in this research because of their effectiveness of capturing large amounts of the needed data per respondent. A total of 50 questionnaires were administered to the total sample of 50 SMEs in the District sampled for this research study.

Therefore, because the study involved many Small and Medium Enterprises, and whereas some were sparsely located, the questionnaires enabled the coverage of such businesses. The using of questionnaires as one of the data

collection tools outweighed their disadvantages because of its ability to be administered to and capture a large sample size, easier to administer, require less time to be distributed, they are a cheaper way of collecting large amounts of data per respondent and can be answered in detail.

3.4.1.3 Interviews

An interview, particularly in-depth interview, is defined as a situation in which the interviewer or researcher questions respondents face-to-face and records their answers, (Cohen et al, 2000). The rationale behind use of interviews was that it had a high response rate and the researcher was placed in a situation where he managed to probe the respondents for clarifications.

Similarly, respondents asked for clarifications as sometimes questions were complex or were interpreted differently. This type of data collection technique therefore, allowed the researcher, through the interactions to gain an in-depth understanding of the subject. The researcher was also placed to gain full understating of what the respondent really wanted to say. Interviews focus on the world of the interviewee and seek to reveal their beliefs, values, reality, feelings and experience of a phenomenon (Creswell, 2007).

3.4.1.4 Secondary data

Secondary data is data that has been documented and is obtained from sources such as books, research reports, seminar presentations, conference papers, working papers, among others which can be gotten from individuals, libraries and the internet (Twycross and Shields, 2004). This type of data would be collected in order to gain insight into what has been written by others.

Secondary data were obtained from government sources as well as business associations like the chambers of commerce and trade. Relevant

literature such as books, journals, and newspapers were also used. Furthermore, the other secondary data were sourced from the Eastern chamber of commerce and trade, brochures and text books from the Information and communication university AIMS and various relevant business publications.

3.4.2 Data collection procedure

The researcher distributed all the fifty (50) questionnaires in person and enough time was given to the respondents in order to respond to questions. Then, at an appointed time questionnaire were collected from them. The researcher used this method to help clear all concerns that were raised by respondents while working with questionnaires for instance, the technicality of some words that might have been used in the questionnaires were easily cleared during the administering and collection of the questionnaires. The researcher also conducted interviews with owners and managers of various businesses in the District.

3.5 Data Analysis

The data that were collected were both qualitative and quantitative therefore data analysis was done both manually and electronically using SPSS. Tables, graphs and charts were used to present the findings.

These techniques were used in a complimentary way so that results could easily be presented and compared using figures and tables as well as explanations using words.

3.6 Research Ethics

Ethical issues were highly considered in this study. Participants were informed about the nature and purpose of the study. Further, informed consent was sought from the participants before commencement of data

collection. In addition, the respondents were informed that the information gathered was purely for academic purposes. All the names of the respondents were kept anonymous to ensure that confidentiality is maintained.

3.7 Conclusion

The data that were collected by the outlined methods were used to achieve the aforementioned research objectives of this study and were analysed so as to establish the state and contributions of SMEs in Chadiza.

4.0 RESEARCH FINDINGS

This chapter will focus on and present the findings of the research as well as an analysis of the findings of the research study. The findings obtained through primary data as well as secondary data about contributions as well as its challenges of SMEs in Chadiza will be analysed and conclusions will be drawn from them.

4.1 Summary of the methods used

A summary of the methods of primary data collection methods that were employed in the course of this research study are hereunder given.

4.1.1 Response rate

A total number of **50** questionnaires were administered to small and medium enterprises in the District of Chadiza. Of the number of the questionnaires administered, only **38** were returned of which only **36** were filled in by respondents. This translates into a total percentage of **72%** of the sample size of the District SMEs. All of the answered and returned questionnaires were used for analysis and presentation of the results. The remaining **14**, **2** were blank questionnaires and **12** were not returned and, therefore represent a total

percentage of **28 %** with the breakdown indicated on table 1.

ACTIVITY	NUMBER	PERCENTAGE
Answered & returned questionnaires	36	72%
Blank questionnaires	2	4%
Questionnaires not returned	12	24%
TOTAL	50	100%

Table 1: Questionnaires administered

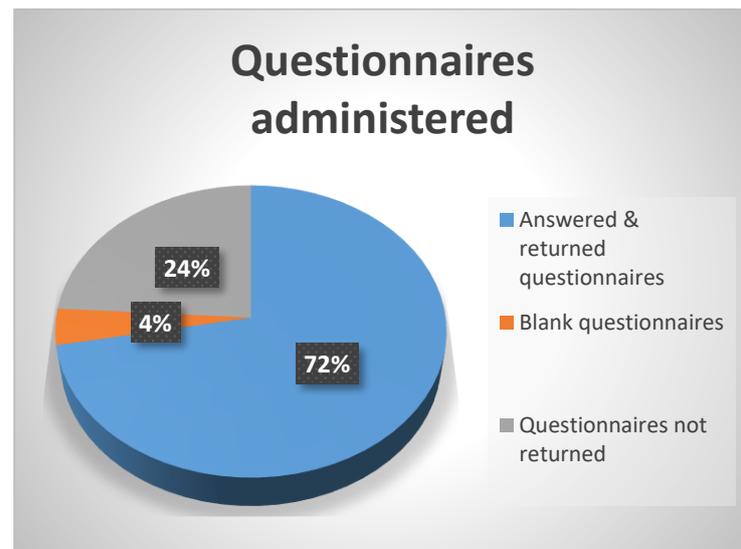


Figure 4.1.1.1 Response rate

4.1.2 Interviews conducted

A total of ten (**10**) oral interviews were to be conducted to compliment the administered questionnaires. Of the **10** interviews which were to be conducted, only **9** were successfully conducted due to some respondents not willing to be interviewed and others not according the

needed time to conduct a successful interview as well as others showing hostility towards the exercise. The 9 interviews which were successfully conducted represent a total percentage of 90% of those that were supposed to be interviewed. The 1 interview which was not conducted represent a percentage total of 10% while generally the response rate was at 90% as indicated in table 3.

Table 2: Personal interviews

ACTIVITY	NUMBER	PERCENTAGE (%)
Interviewed	9	90%
Not interviewed	1	10%
Total	10	100%



Figure 4.1.2.1 Personal Interviews

This research study further showed and revealed that 30 out of the total number of 45 respondents were owners of the business enterprises representing a percentage total of 67% of the sample size. The remaining 15 of the respondents were not owners of the businesses as they were either employees or they were managing

enterprises on behalf of the owners thereby representing a total percentage of 33%. The breakdown is shown on table 4 below.

Table 3: SME Owners

Owner/ non owner	NUMBER	PERCENTAGE (%)
Owner	30	67%
Non-Owners	15	33%
Total	45	100%

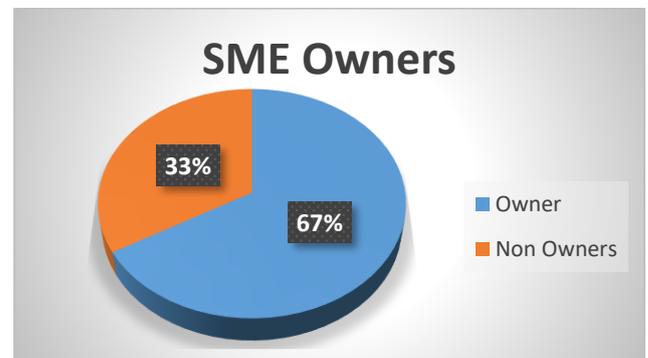


Figure 4.1.3.1 Ownership of Business

In response to the question “how long have you been in business?” the research study revealed that most SME entrepreneurs have been in business in the period ranging from 5 years and above. Most of the businesses in the aforementioned range are run by owners who do not have any training in entrepreneurship either formally or informally. The breakdown of the categories is shown in the table 5.

Table 4: Number of years in business

NUMBER OF YEARS IN BUSINES	NUMBER OF RESPONDENTS	PERCENTAGE

S		
1 year - 3 years.	14	31%
3 years - 5 years	6	13%
Above 5 years	25	56%
TOTAL	45	100%

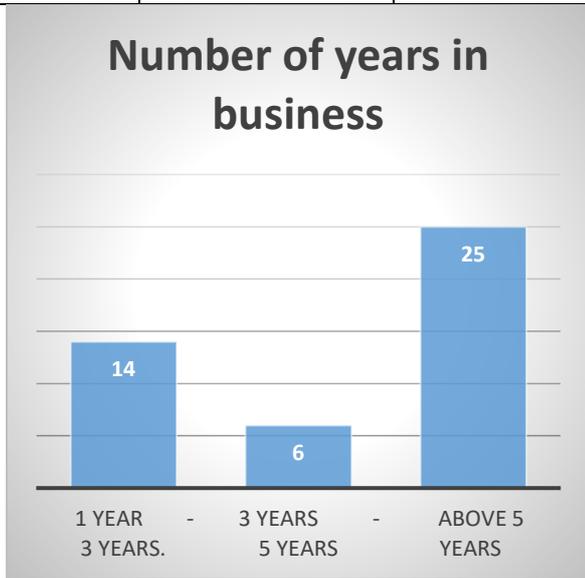


Figure 4.1.4.1 Years in Business

4.2 Types of businesses

Furthermore, this research study also included the types of business which entrepreneurs in SMEs are involved in. The research indicated that **38** businesses were engaged in trading representing a percentage total of **85%**. A total number of **1** business was engaged in service provision which represented a percentage of **2%** of the number of respondents. In addition to this, only **2** were involved in manufacturing representing a percentage of **4%** of the total respondents. Finally, **4** were engaged in agriculture representing a total percentage of **9%** of the total respondents. The breakdown is shown on the pie chart as follows;

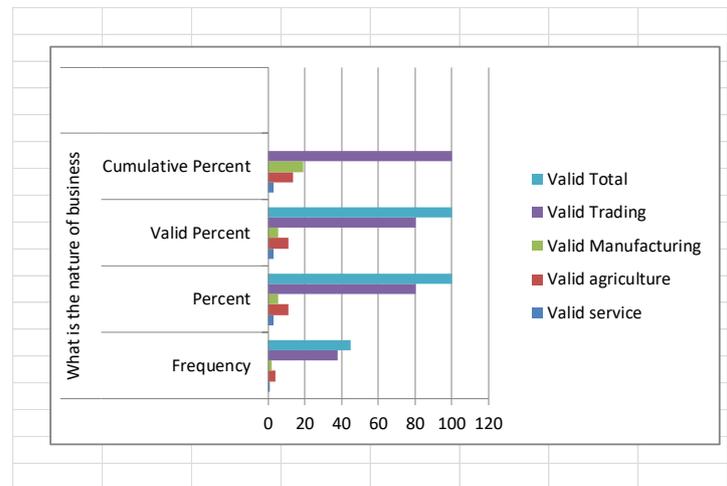


Figure 4.2.1.1 Types of businesses

It can be concluded on the basis of this obtained data that trading as well as agriculture sectors are predominant among the businesses of the District. This may be as a result of start-up requirements, in these types of businesses, which are not as complex as compared to other forms of businesses such as manufacturing and service which have more start up requirements such as financial capital as well as skilled labour.

4.3 TRAINING IN ENTREPRENEURSHIP

This research study indicated that most of those that conduct business in the District of Chadiza did not have any training in entrepreneurship which is a negative development to the running of business enterprises. A total of **76%** of the respondents indicated that they had neither formal nor informal training in entrepreneurship.

Some out of the **76%** that do not have any training in entrepreneurship, indicated that they inherited businesses from their parents. The remaining **24%** indicated that they had some training in entrepreneurship of which a small number of them obtained such training through formal learning. Others out of the **24%** indicated that they had obtained training through informal ways such as learning from their parents.

For businesses to be run smoothly there is need that those in business receive proper training to conduct their businesses professionally. Some of the challenges which businesses encounter can only be overcome if people conducting businesses are trained in entrepreneurship and equipped with the necessary skills.

Poor planning, failures to market goods and services of their business and also businesses failing to grow are some of the challenges that can be overcome and reduced if only entrepreneurs are trained on how to manage their enterprises.

This negative trend of lack of training in entrepreneurship by most business owners shows that there is little or no deliberate effort by the government and business associations being the major stakeholders to train business owners. Table 6 shows the breakdown of those trained in entrepreneurship and those without training.

Table 5: Training in Entrepreneurship

Question	Answer	Number	Percentage (%)
Do you have any training in entrepreneurship?	No	34	76%
Do you have any training in entrepreneurship?	Yes	11	24%
Total		45	100%

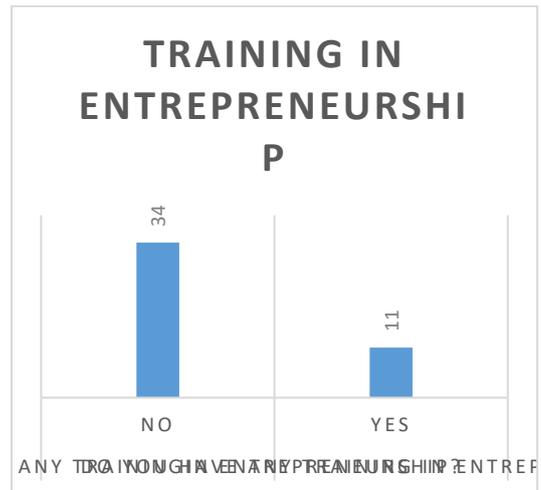


Figure 4.3.1.1 Entrepreneurship Training

4.4 Government Assistance to SMEs

The research study indicated and revealed that out of the **45** respondents; only **3** received some form of government assistance. This represented a percentage total of **7%** of the total respondents. Of the **3** that received assistance from the government, no one received assistance in terms of loans. The **3** received assistance in terms of expertise support representing a total percentage of **7%**. However, only **1** indicated to have ever received support in terms of favour in tax as well as regulation. Some of the assistance that can be received by business owners from the government and business associations include loans, expertise support and favour in tax regulation. The remaining **42** of the entrepreneurs representing a total percentage of **93%** have never received any form of assistance from the government in form of loans, favour in tax regulation as well as expertise support. The breakdown is as follows;

Table 6: Government Assistance

Type of Government assistance	Number	Percentage (%)
Loans	0	0%
Expertise Support	2	5%
Favour in tax and regulation	1	2%
Not received any government assistance	42	93%
Total	45	100%

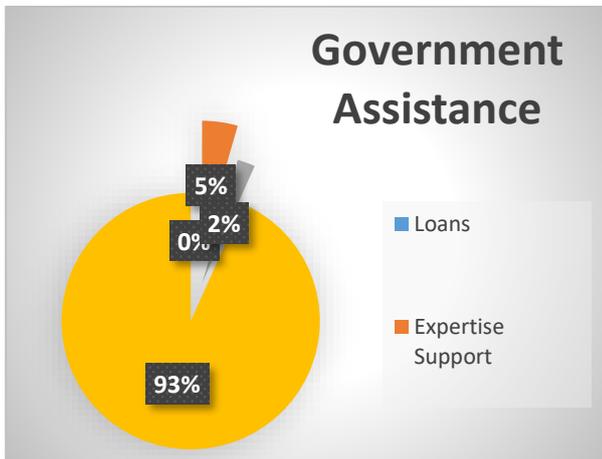


Figure 4.4.1.1 Government Assistance

Government assistance to Small and Medium Enterprises is important if businesses are to grow and contribute to economic growth. The government being the major stakeholder in economic growth should ensure that the private sector especially SMEs are given the much needed assistance to enable them survive. Business owners require expertise support to enable them have capacity to successfully run enterprises.

Without support in this area, has resulted into many business failures and this negatively impacts on the country's economy. In addition to this, businesses require loans especially in their start-up and expansion stages. Those with the

know-how to run businesses, fail to take off with their business plans as a result of having no start-up capital.

Furthermore, some business enterprises could do well if the government had a deliberate policy to give new businesses favour in terms of tax as well as regulation. The results as indicated in Table 7 show that there is generally little support to SMEs in the District by the government.

4.5 Contribution to the Zambian Economy in terms of Tax

This research study revealed that all the 45 respondents in the District contributed to the Zambian economy in terms of paying tax to the government through the Zambia Revenue Authority (ZRA). This represented a total of percentage of 100% in terms of tax contributions. This showed a positive trend by the business organizations towards contributing to the national economy in terms of tax contributions. The breakdown in terms of tax is given in table 8.

Table 7: Contribution in terms of Tax

Tax contribution	Number	Percentage (%)
Always	38	84%
Sometimes	7	16%
Not at all	0	0%
Total	45	100%

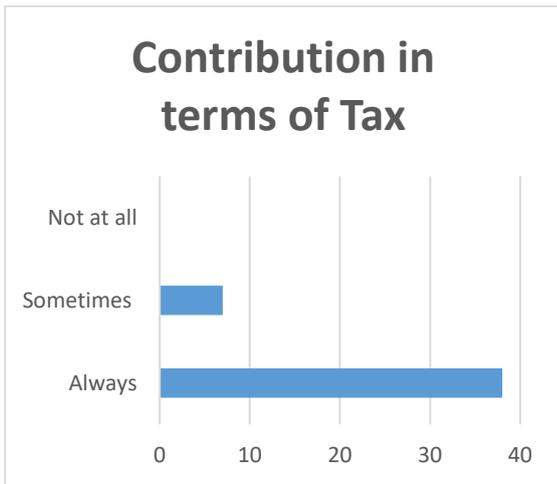


Figure 4.5.1.1 Contribution to taxation

4.6 Contribution to the Zambian Economy in terms of Employment

In terms of contribution to the Zambian economy through employment, this research study revealed that most enterprises contribute to the economy through employment from moderate to much depending on whether an enterprise is small or medium respectively. The contributions made by the various businesses might seem small when viewed individually but collectively, their contribution is significant and greatly contributes to poverty reduction as well as reducing the levels of unemployment. Because of this contribution to the economy in terms of providing employment, it is important that this sector is provided with the much needed support so as to see them continue to positively contribute to the economy.

4.7 Membership to the Eastern Chamber of Commerce and Trade

This research study revealed that out of the 45 respondents, only 1 was member of the Eastern Chamber of Commerce and Trade. This represented a total of percentage of 2% of the respondents. The remaining 44 representing a total percentage of 98% are not members of the

Eastern Chamber of Commerce and Trade. The breakdown is given in the table below.

Table 8: Members of the Eastern Chamber of Commerce and Trade

MEMBERS	NUMBER	PERCENTAGE
Yes	1	2%
No	44	98%
TOTAL	45	100%



Figure 4.6.1.1 Membership to ECCT

4.8 Discussions / Data Analysis

In view of the data that has been presented in this chapter, an analysis is hereunder conducted so as to draw inferences from the collected data. It was noted from the data collected that 67% of the respondents of the questionnaires were indeed owners of the businesses and actively involved in the operations of enterprises. 33% were non owners but were managing business enterprises on behalf of the owners. According to the Ministry of commerce Trade and Industry of Zambia (MCTI), small and medium enterprises (SMEs) are classified as any private enterprise (owned by or formed in association with a citizen of Zambia) which is legally incorporated and complies with the following conditions;

1. The manager is the owner or a partner.
2. The enterprise maintains accounts in keeping with prescribed principles.
3. An enterprise whose total investment excluding land and buildings does not exceed 50 million Zambian Kwacha, in case of manufacturing and processing enterprise and 10 million Zambian Kwacha in case of a trading and service enterprise; an annual turnover that does not exceed 80 million Zambian Kwacha and employing up to 30 people.

It was therefore evident from the collected data that all of the respondents fall into the category of Small and Medium Enterprises in conformity with the ministry of commerce definition as most of the owners of the businesses were also managers of the enterprises and further complied with other requirements of an SME.

Those businesses that are managed by non-owners represented a total percentage of **33%**. Even though this percentage represented businesses managed by non-owners, they however complied with the remaining requirements of the ministry of commerce definition for them to qualify into the category of Small and Medium Enterprises (SMEs).

Furthermore, the research study also included data as to how long respondents were in business. It was noted that **31%** of the respondents were in business from periods of 1 to 3 years. In addition to this, **13%** were in business between 3 years and 5 years. **56%** were in business between periods of 5 years to 10 years. There are very few businesses trading for more than 10 years. According to Mwiya (2007), **24%** of businesses fail in the first 2 years, **51%** fail in the next 4 years and **63%** fail in the next 10 years.

The information on the ground shows that very few businesses trade for profit above 10 years indicating that most SMEs just breakeven to survive beyond that period owing to the different challenges they encounter, some as revealed by

this study, in the course of operations. Such a trend is a negative development to this sector.

It is expected that business enterprises continue to operate for many years so as to continue reducing unemployment in the economy and contributing to poverty reduction in the District as well as enhancing the country's economic growth.

There is generally also, in the internal environments of businesses among various challenges, lack of good business practices which manifest in cash mishandling, bad customer relations, inadequate planning and poor record keeping among others.

The external environment as well has its own share of challenges that impede the growth of enterprises which among others include heavy taxation as well as lack of expertise support as revealed by the research study.

It is also evident from the study that many entrepreneurs do not have knowledge in entrepreneurship and that most enterprises have or are managed by owners who entered into business ill prepared hence contributing to some of the causes of business failure.

In addition to this, it was also noted that **85%** of the respondents were engaged in trading while the service sector comprised of only **2%** of the respondents. Furthermore, manufacturing only had **4%** while agriculture had **9%** of the respondents.

The MCTI (2003) survey reported that only **64%** of the total national SMEs were engaged in manufacturing. It can be deduced from the collected and presented data that the District percentage of **4%** of SMEs in manufacturing sector is far below the national average of **64%**.

Therefore, manufacturing SMEs in the District have a negligible contribution to economic activities of the District. This was generally attributed to the many start-up requirements that are required to set up a manufacturing concern as compared to the other forms of enterprises.

However, those involved in trading as well as the service sector dominate the SME sector of the District. This is mainly due to few start-up requirements involved in setting up such enterprises inter alia less capital as well as technical expertise as compared to manufacturing concerns.

With the establishment of the Citizen Economic Empowerment Commission (CEEC), many entrepreneurs are hence expected to access the needed capital so as to also venture into manufacturing. The District has many raw materials that come from its agriculture sector which can therefore be a ready input to manufacturing concerns.

It is imperative that the manufacturing sector of the District also grows to levels significant enough to contribute to the District as well as national economy when the various challenges stagnating the growth of SMEs can be well addressed.

It was also noted that **24%** of the respondents had training in entrepreneurship while the remaining **76%** had neither formal nor informal training in entrepreneurship. According to Mwiya (2007), it is estimated that **90%** of businesses fail because of incompetent managers.

In view of this, it can be concluded that **24%** of the respondents were ill prepared to run enterprises thereby contributing to some of the causes of business failures. Mazumdar and Mazaheri (2003) found that only **13.4%** of micro entrepreneurs in Zambia have at least completed vocational training.

The lack of knowledge in entrepreneurship is a great hindrance to business growth and success. The lack of training in entrepreneurship further translates into challenges such as poor financial controls, poor marketing skills, poor customer relations as well as poor management decisions. Lack of training and knowledge in business is certainly among the many causes of businesses failing to operate and mature beyond 10 years.

Lack of training, as identified as one of the serious constraints to growth of business enterprises in the District, there is a greater need that entrepreneurs are helped on the contemporary best practices that can help them operate enterprises effectively. According to Zimmerer and Scarborough (2008), many entrepreneurs have the inability to have the entrepreneurial transition from start-up to growth. They further state that because of lack of training in entrepreneurship, growth usually pushes entrepreneurs into areas they are not capable to handle. It is evident that lack of knowledge and training in entrepreneurship is a serious constraint which certainly impedes the growth of the SME sector. It is in view of this that capacity building in the area of knowledge needs urgent attention from various stakeholders particularly business associations and the government.

Government assistance to small and medium enterprises is vital for the survival and growth of SMEs in the country. The research study indicated that only **7%** of the respondents received some form of government assistance. Of the **7%**, representing **3** of the respondents, none received assistance in form of loans. The **3** respondents, that received some form government assistance, had assistance in form of expertise support.

On the other hand, **93%** of the respondents had never received any form of assistance from the government. This shows that the SME sector of the District has generally not received much of the needed support or has indeed received lukewarm support from the government.

Lack of assistance from the government to this sector negatively impacts on the growth of Small and Medium Enterprises. In the Millennium Development Goals (MDGs), the government targeted to reduce poverty levels to half by the year **2015** and also targets to make Zambia a middle-income country by **2030**. These goals and

targets cannot be achieved without the active involvement of the SMEs sector.

Therefore, the government should scale up efforts to revive the SME sector in order to achieve the aforementioned targets through provision of various incentives aimed at supporting SMEs in the District as well as strictly implementing the policies which foster growth in SMEs.

In terms of contribution to the economy in form of tax, all the respondents indicated **100%** remittance meaning that their contribution to the economy in terms of tax was consistent. Though this may not be feasible in practical reality, it was difficult to probe on this matter as many respondents were hostile towards follow-up questions with regards to tax remittance.

It can however be noted that many respondents significantly contribute to the District as well as national economy in terms of tax contribution as acknowledged by the Minister of Commerce Trade and Industry minister Felix Mutati then who was on MUVI TV business news (2009) alluded to the fact that SMEs contribute about **70% of GDP**. It can therefore be deduced from the collected and presented data that many SMEs significantly contribute the country's gross domestic product (**GDP**) of the nation. It is hence imperative that all the stakeholders in this sector scale-up efforts to improve this sector of the District in order to reap the maximum benefits from it. This positive contribution to the Zambia economy in terms of tax should be supported and encouraged by the government as well as other major stakeholders.

The research study further revealed that **2%** of the respondents were members of the Eastern Chamber of Commerce, Trade and Industry. The remaining **98%** indicated they were not members of the Eastern Chamber of Commerce and Trade. Some of those who are not members of the Eastern Chamber of Commerce and Trade further

expressed ignorance about its existence. It is evident; therefore, that many entrepreneurs of the District are not aware of the importance of joining the chamber of commerce. On the other hand, it was also evident that there is little publicity by the Chamber of Commerce and Trade as to its purpose and the benefits entrepreneurs can accrue by becoming members. It can therefore be also concluded that the lack of training and knowledge in entrepreneurship indicated by many entrepreneurs is as a result of many of them not being members of the Eastern Chamber of Commerce trade and Industry in the District. It is important, therefore, that entrepreneurs join the chamber of commerce and be helped with the necessary skills and technical expertise and other necessary support to successfully run their enterprises thereby reducing business failure.

5.1 CONCLUSION

To bring to the fore the state and contributions of Small and Medium Enterprises in Chadiza District was the purpose of the study. Among the challenges which enterprises face include lack of capital, lack of adequate knowledge in business as well as lack of government support in terms of favour in tax and regulation.

In addition to, it is evident from the collected data that, lack of business associations in the District have deprived SMEs in the provision of the much-needed expertise support, technical support and other market information to help run enterprises.

SMEs can only contribute significantly to the economy and many more can grow if only their various challenges are well addressed and their contributions acknowledged by the concerned stakeholders such as the government and business associations as well as the Chamber of commerce and trade.

The contributions which SMEs make to Chadiza District as well as the Zambian economy include poverty reduction, source of income to the owners, provision of employment to both the owners and employees of the enterprises.

We can therefore conclude from this research study that SMEs contribute to reduction of unemployment in the country as well as significantly contributing to economic development.

Not only that Small and Medium Enterprises contributes to government revenue through tax contributions to the Zambia Revenue Authority (**ZRA**). Generally, small and medium enterprises significantly contribute to the Gross Domestic Product (**GDP**) of the country.

It can further be adduced that setting up a business and seeing it grow is not an easy undertaking as seen from the various challenges that Small and Medium Enterprises encounter in the course of operations. There is generally stiff competition to start-ups from established businesses and as such new businesses fail to contain such competition and are eventually driven out of business.

Secondly, the competition to local businesses by foreign owned enterprises becomes somewhat uneven as the government seems to favour giving incentives to foreign businesses in its quest to make Zambia a good investment destination. Zambian enterprises are instead subjected to heavy taxation even in their initial stages of operation and generally very few incentives are given to them.

The heavy taxation puts a lot of pressure on profits of new businesses and inhibits growth for such businesses and this hence renders local enterprise uncompetitive. As a result of this, some businesses are likely to engage in the practice of adjusting financial statements of their

businesses in a bid to remit less to the tax collectors as they perceive government as just reaping from them without them receiving any form of support in return.

The formation of the citizen economic empowerment commission (**CEEC**) to render financial aid to business was a positive move by government in the right direction. However, people are subjected to a lot of bureaucratic procedures before finances can be accessed. Very few have accessed such funds and most of the funds allocated to the commission return to the treasury unutilized.

The commission should first endeavour to build capacity in would be borrowers of funds so that they become aware of the requirements needed to access finances. Furthermore, Lack of expertise support has rendered most business practices poor for Zambian businesses as compared to those owned by foreigners and to a greater extent make local businesses uncompetitive.

It is clear that supporting enterprises and acknowledging their various contributions in the country is key to achieving economic growth. Zambia can greatly benefit from enterprises if only SMEs can be accorded the needed support from concerned stakeholders.

5.2 RECOMMENDATIONS

Following the data analysis and research findings in light of the state and contribution of Small and Medium enterprises (**SMEs**) in Chadiza District, the following recommendations should be taken into account to enhance the growth and sustainability of SMEs in the District and thereby contribute to economic development of the nation. Recommendations are hereunder given;

5.2.1 Capacity building in Entrepreneurs

Induction should be done to new entrepreneurs as they enter into business undertakings. In addition, training in entrepreneurship and skills transfer should be continuously rendered to SME entrepreneurs during the years of operation. This can be done through business associations and indeed the Eastern Chamber of Commerce and Trade.

It was observed during the course of the research that most of those who are in business and running enterprises do not have any training in entrepreneurship. Only a total number of **11** out of the **45** respondents indicated that they had training in entrepreneurship representing a total percentage of **24%**. The remaining **76%** of the respondents indicated that they neither had formal nor informal training in entrepreneurship.

This shows that more than half or indeed the majority of enterprises in the District are owned and operated by those that do not have the necessary skills in business or capacity in terms of basic knowledge to do so. Lack of knowledge in running enterprises is evidently among the many reasons that contribute to business failure in the District.

It was also evident that many businesses have failed to grow and operate effectively beyond 10 years among reasons being lack of training and knowledge in business.

Therefore, it is important that if SMEs are to grow and significantly contribute to the economy, those who wish to enter into business endeavour to learn the basic skills of how to operate business enterprises.

It is also worthy recognizing that some entrepreneurs allude to the fact that they acquired experience by learning from how their parents and close acquaintances operate businesses.

Much as this is important, experience alone is not enough to successfully operate a business undertaking and should hence be built on learnt theories.

When this is done, we will see improved ways of conducting business as well as reduced rate of business failures. It should therefore be on the agenda and objectives of business associations to endeavour to build the necessary capacity in association members if maximum benefits are to be gained from SMEs.

Furthermore, it can be important and also helpful if amongst themselves, entrepreneurs who have both vast knowledge and experience can through meetings such as seminars, impart the necessary knowledge and skills to those who are without. This can also be an effective way of sharing knowledge and building capacity in entrepreneurs instead of entirely relying upon the government and the Chamber of Commerce to do so.

5.2.2 Revision and Implementation of Policies on SMEs

Though there are policies in place on Small and Medium enterprises (SMEs), these policies need to be reviewed so that they become consistent with the realities about the Small and Medium enterprises (SMEs) sector in Zambia. The policies should be comprehensive enough to give direction to efforts and plans aimed at supporting the SME sector.

The Zambia Development Agency (ZDA) Act of **2006**, which was the current statute covering the promotion and facilitation of investments in Zambia, needed to be revised as the incentives provided are far beyond the reach of most SMEs. Under this Act, incentives were granted only to those enterprises with qualifying Assets of **US\$500, 000** or kwacha equivalent of **K2, 450, 000, 000.00** and above. It is evident, therefore, that this requirement is far beyond the reach of SMEs. In fact, every business in the category of

Small and Medium Enterprise (SME) cannot attain this threshold.

According to the Ministry of Commerce Trade and Industry (MCTI), an SME is defined as one that has total investment excluding land and building which does not exceed 50 million (ZMK). Therefore, it can be concluded that under the ZDA Act, Small and Medium Enterprises do not qualify to be given any incentives to improve and successfully operate and grow their businesses.

It is also clear that being in the category of a Small and Medium Enterprise, no business can attain the required threshold to qualify for incentives. It was evident from, the result of the foregoing, that the majority of SMEs in Chadiza District are not given the necessary incentives to enhance their growth. It is imperative that incentives are extended to SMEs as it is from such enterprises that larger firms spring out from. It has been established earlier that SMEs significantly contribute to the reduction of poverty and unemployment in Chadiza District and hence for them to continue to do so, they should be provided with necessary incentives targeted at encouraging the growth of entrepreneurial spirit in the District.

In the business news (2009), speaking on MUVI TV Felix Mutati, the Minister in charge of Commerce and Trade then acknowledged that about 70% of the Gross Domestic Product (GDP) came from Small and Medium Enterprises (SMEs).

In view of this, it is therefore important that the ZDA Act be reviewed so as to take into account SMEs when considering enterprises for incentives as they are key drivers of economic activity. Failure to do so would mean that it will take time to appreciate SMEs as agents for development, income-generation and employment creation in both urban and rural areas of the economy.

In Zambia's industrial policy, the existence of Small and medium enterprises is recognized. However, there is lack of implementation of this policy so as to make the necessary impact on the SME sector. It is therefore important that policy makers ensure that the policies that are put in place to enhance the development and growth of Small and Medium Enterprises (SMEs) are duly implemented if the country is to significantly benefit from this vital and viable sector of the economy.

Most policies that have been formulated have since only existed on paper and as such enterprises have so far not reaped the intended benefits. There is greater need for policy makers and implementers to work in close contact with one another so that efforts to implement such policies are duly scaled up.

5.2.3 Provision of Capital Requirements

The research study also showed that some individuals have the interest as well as the necessary skills and education to enable them establish, expand and/or grow their enterprises. However, lack of financial capital possesses as a constraint.

Many lamented that it was difficult to obtain funding from the Citizen Economic Empowerment Commission (CEEC) and other financial institutions as the applicant for funds are subjected to a lot of bureaucratic procedures. Others indicated that they were not aware of financing options available to them.

In view of this, it is important that the government revise the operations of CEEC so that as many Zambian entrepreneurs as possible access the funds to finance their undertakings. There is little impact in establishing a commission whose prime responsibility is to help businesses with financing and then many entrepreneurs fail to access funds as many do not

know the procedure and necessary requirements needed to obtain such funds.

The government should also further revise the operations of the commission so that its members can become mobile throughout the country to educate entrepreneurs, would be entrepreneurs and potential borrowers of funds on the requirements needed for them to successfully apply and obtain the loans to finance their business undertakings.

In addition, there are also alternative financing options that may be available to entrepreneurs. However, it was clear that many do not know such available options which include banks as well as micro finance institutions.

Furthermore, many others were not aware of the needed requirements to obtain funds. However, some entrepreneurs who know the alternative financing options have no capacity to access the required funds from such sources.

It is therefore important that entrepreneurs endeavour to negotiate for borrowings from banks and financial institutions on group basis rather than as individual as most financiers are reluctant to lend individuals because of the high risks involved.

It is further important that entrepreneurs constantly seek the advice of business professionals on the requirements with which funds can be accessed from various lenders such as banks, micro banks as well as other financial institutions that are non-banks.

5.2.4 Expertise and Technical Support to SMEs

It was clear from the research that business associations in the District particularly the Eastern Chamber of Commerce and Trade have had little impact. As a result of this, it was also

clear that many businesses do not receive expertise support neither from the government nor business associations.

The government should therefore endeavour to provide expertise support to business enterprises in the District to render the necessary technical and expertise support. The research indicated that about **72%** of the respondents had no knowledge in entrepreneurship with only **28%** having such knowledge and skills.

This shows that many entrepreneurs are in great need of technical support to successfully operate their businesses. The lack of knowledge in entrepreneurship is evidenced by poor business practices such as lack of planning, lack of proper management and financial control skills as well as poor customer relations that characterize most of business enterprises of the District.

The fact that the Eastern Chamber of Commerce and Trade has not done enough to provide such support is evidenced by the majority of entrepreneurs lacking the necessary support and with only few of them being aware of its existence. This therefore continues contributing to the many causes of business failure.

The Eastern Chamber of Commerce and Trade should complement government efforts and provide its members with the necessary technical assistance. This would equip many businesses with good business practices which seem to be absent and lacking in many enterprises.

Most entrepreneurs do not encounter many problems during the start-up phase as evidenced from the many businesses that are in their prime years of operation. However, the growth stage has its own unique share of challenges which mostly find entrepreneurs unprepared hence failing to mature their businesses beyond 10 years of operation.

It is mostly during the stages of growth that most technical assistance should be rendered to business enterprises or entrepreneurs. If the country is to reap maximum benefits from SMEs, the government through the Ministry of Commerce and Trade (MCTI) together with the Eastern Chamber of Commerce and Trade being the major stakeholders in this sector, should endeavour to help entrepreneurs with the necessary support.

When expertise and technical support is rendered to businesses on a consistent basis, the rate of business failures can significantly be reduced.

5.2.5 Incentives to SMEs by the Government

The government should endeavour to give incentives to local businesses just as foreign owned enterprises in terms of tax as well as regulation. Start-ups face and suffer heavy taxation in their initial stages. This has seen many enterprises failing within the first few years of operation while others fail to proceed to subsequent years as tax puts pressure on the profits which are needed for growth.

The government should endeavour to create a level playing field for businesses to enable fair competition between local and foreign owned enterprises. This will in turn make Zambian businesses equally competitive. Furthermore, government should, through the Zambia Revenue Authority, also provide incentives to those SMEs that are consistent with remitting tax so that they can be encouraged to continue doing so thereby reducing or eliminating the negative perception that government simply reaps them off their profits. This can be done in form of exemptions from tax for a certain period if they remain consistent in paying tax for an agreed period.

Furthermore, those that have been consistent in remitting tax should also be awarded and rewarded as a way of showing appreciation and

also as a way of encouraging others to be consistent as well. In addition to this, the government should also endeavour to give incentives to businesses in terms of regulation as well as tax when they employ a certain minimum number of people.

This will further reduce unemployment and poverty levels in the District as well as increasing tax contributions to the government thereby increasing or broadening the tax base as those employed by enterprises will also in turn contribute tax in form of pay as you earn (**PAYE**).

5.2.6 Devolving of PACRA Operations

According to the MCTI survey (2003) about 55% of SMEs are not registered. Most of the unregistered SMEs are in outlying areas of the country including Chadiza District. In view of this, the government should endeavour to decentralize the operations of the Patents and Company Registration Agency (**PACRA**).

Currently PACRA operates only in major cities of the country. This makes many businesses, especially those in outlying areas like Chadiza District; fail to register as evidenced from many businesses having unregistered business names which in turn make it difficult to capture them under national statistics.

Businesses or enterprises not captured in national statistics are difficult to trace from where they are operating from and may further not contribute to the economy in terms of remitting tax thereby not also being captured under the Gross Domestic Product (**GDP**) of the country. This then renders their contributions insignificant.

In view of this, the government should make efforts to have **PACRA** offices available in at least every District to help many businesses to register. When this is done, many entrepreneurs

will come on board and have their unregistered businesses registered as well as new ones will also be registered. This will translate into many businesses contributing to the country's **GDP** and general economic activities of the country.

5.2.7 Business Associations (Publicity)

Associations, particularly the Eastern Chamber of Commerce and Trade, should endeavour to also market themselves so that they become known by entrepreneurs. Furthermore, the purpose for which the association exists should be clearly stated. In addition to this, business associations should, in an effort to encourage entrepreneurs to join, also state and make known to them how they will benefit from such associations.

Therefore, business associations should help entrepreneurs in the ways hereunder mentioned; conducting workshops and training seminars to members so as to build capacity in entrepreneurs on how to operate businesses in these trainings they will be taught various skills.

They should also gather relevant information which should be available to members about market opportunities and/or threats as well as economic trends and economic changes in the economy and how to cope with them.

Not only that they should further help entrepreneurs to market their business organizations, their products and/or services.

Not to be forgotten the provision of soft loans for operation purposes to members from the contributions that they make to the associations.

Finally, consistently give support in terms of expertise and technical support and to make follow ups on the performance of business enterprises.

5.3. Future Research

This research study may have only revealed some of the conditions under which SMEs operate and their contributions in remote areas and Chadiza District in particular. It has also been observed that a lot of research on this subject matter has been mostly done in the urban parts of Zambia.

Therefore, more research need to be conducted in more remote areas so as to bring to the fore the state and contributions of SMEs in those areas and how their various challenges can be overcome in order to enhance the growth of SMEs in the nation so as to significantly contribute to economic development.

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APPENDIX

INTERVIEW GUIDE FOR SMES REPRESENTATIVES

Dear Respondent,

This questionnaire is aimed at gathering primary data concerned the state and contributions of SMEs to the economy in Chadiza and Zambia as a whole. You are kindly requested to fill in the answers depending on the instructions given. The information you provide will be treated with high level of confidentiality and will be used for the purpose of accomplishing an academic purpose only.

1. Name of the company/enterprise

2. Are you the owner of the business?

Yes No

3. How long have you been in this business?

1-3 years

3-5 years

Above 5years

4. Do you have any training in Entrepreneurship?

Yes No

5. What type of business are you involved in? (Please tick)

Service

Agriculture

Manufacturing

Trading

Any other

6. If your answer in question (5) is any other, please specify

.....

7. Do you receive any assistance from the government in terms of?

a) Loans Yes No

b) Expertise support

Yes No

c) Favour in tax and regulation
Yes No

8. In your own opinion, what do you feel the government should do to help your business
.....

9. How would you rate yourself in terms of remitting tax?

a) Best
b) Good
c) Bad

10. Has your business employed any member of the community?

a) Yes
b) No

c) 11. Is there any other contribution you make to the economy, specify
.....
.....

12. Are you a member of the Eastern Chamber of commerce and trade?

Yes No

13. If your answer in question (12) was yes, list the kind of support you receive

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

14. Also list the kind of support that you would like to receive from the eastern Chamber of commerce and trading

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

15. Mention the challenges you face in operating your business

.....
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