



Bank of Zambia

2022 MICRO SMALL AND MEDIUM ENTERPRISE FINANCE SURVEY REPORT



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FOREWORD



The Government has prioritised the Micro, Small and Medium Enterprise (MSME) sector as a key driver of economic development due to its significant contribution to job creation. As a result, the 8th National Development Plan (2022 – 2026) has outlined the strategic focus areas that are to be pursued in the period and the key role that MSMEs will play in economic transformation. The importance of the MSME sector has further been emphasised by the establishment of the Ministry of Small and Medium Enterprise Development whose mandate is to promote the development of cooperatives, small and medium enterprises to



create jobs and wealth across the country. However, despite their importance, MSMEs in Zambia face several challenges, including access to finance.

To assess the uptake of financial products and services by MSMEs, the Bank of Zambia, in collaboration with the Zambia Statistics Agency, the Ministry of Finance and National Planning, and the Ministry of Small and Medium Enterprise Development, conducted a MSME Finance Survey from 1 to 30 June 2022. The Survey included establishing the socio-economic characteristics and financial needs of MSMEs by assessing their size and scope; describing the levels and landscape of access to financial products and services; and identifying the main challenges of access to finance and providing information which will contribute to the development of a national strategy on MSME financing.

It is our expectation that this Report will be a valuable resource for policy makers, financial service providers, and MSMEs themselves. The Report includes high level recommendations to improve access to affordable finance for MSMEs, such as, provision of customer centric products and financing options, enhanced financial literacy, and supportive Government policies and services.

A coordinated approach by the Government, with other key stakeholders (local and international), including financial service providers, is required to support the growth of MSMEs in the country, through the provision of financial literacy, appropriate and affordable financial products, business infrastructure as well as markets to help them realise their full potential as drivers of economic growth and job creation.



Dr. Denny Kalyalya
Governor
Bank of Zambia



Mr. Felix Nkulukusa
Secretary to the Treasury
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The Micro, Small and Medium Enterprise (MSME) Finance Survey report is a product of extensive collaborative efforts from various stakeholders. Special recognition goes to the Bank of Zambia for its unwavering financial, technical and material support. I would also like to thank the Ministry of Finance and National Planning, Ministry of Small and Medium Enterprise Development, Zambia Statistics Agency and the Deutsche Sparkassenstiftung für Internationale Kooperation (DSIK) for their extensive personal and professional commitment during data collection, analysis and drafting of the report.

We also wish to acknowledge the financial support granted by the German Development Cooperation and the Rural Finance Expansion Programme (RuFEP).

This report provides information that will contribute to the development of strategies, regulatory frameworks and products aimed at promoting and enhancing access to finance for MSMEs. This will support achieving the aspirations of the Vision 2030 of becoming a prosperous middle-income country through the growth of the MSME Sector as well as achievement of Sustainable Development Goals (SDGs) such as SDG 5 on gender equality and SDG 8 on decent work and economic growth.

It is the expectation of all the stakeholders that this report will form the basis for unlocking impediments for the growth and success of MSMEs in Zambia.

A handwritten signature in blue ink, appearing to be 'J.J. Musepa', written over a light blue horizontal line.

Mr. Mulenga J.J. Musepa
Interim Statistician General
Zambia Statistics Agency

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ACRONYMS AND ABBREVIATIONS

BioFA	Bio-diversity Finance Accelerator
BoZ	Bank of Zambia
CBFI	Community Based Financial Institution
CAPI	Computer-Assisted Personal Interviewing
COVID	Corona Virus Disease
CPH	Census of Population and Housing
CSA	Census Supervisory Areas
DSIK	Deutsche Sparkassenstiftung für Internationale Kooperation
EAs	Enumeration Area
FSP	Financial Service Provider
ISIC	International Standard for Industry Classification
MoFNP	Ministry of Finance and National Planning
MoSMED	Ministry of Small and Medium Enterprise Development
MSME	Micro, Small and Medium Enterprise
NFIS	National Financial Inclusion Strategy
NFSDP	National Finance Sector Development Policy
NGO	Non-Governmental Organisation
PACRA	Patents and Companies Registration Agency
RuFEP	Rural Finance Expansion Programme
TWG	Technical Working Group
WEAC	Women Entrepreneurs Access Centre
ZAMACE	Zambia Agricultural and Commodities Exchange
ZamStats	Zambia Statistics Agency
ZCGS	Zambia Credit Guarantee Scheme
ZMW	Zambian Kwacha
ZRA	Zambia Revenue Authority

DEFINITIONS

Business	An enterprise categorized as either micro, small or medium in size in the context of this survey.
Business owner	Individual of age 15 years or older who indicated as owning one or more micro, small or medium enterprises.
Enumeration area	A geographical area assigned to an enumerator for the purpose of conducting a census or survey. It comprises a collection of households grouped within defined geographical area.
Formal MSME	A business registered with the Patents and Companies Registration Agency.
Household	A group of persons who normally live and eat together; these people may or may not be related by blood but make common provision for food or other essentials for living and they have only one person whom they all regard as head of the household.
Informal MSME	A legal enterprise operating with either no registration such as a Community Based Financial Institution (CBFI) or registered under another regulatory framework other than the Companies Act.
Medium enterprise	Enterprises generating annual turnover above K5,000,000 and up to K10,000,000 or have employees above 50 up to 100 employees.
Micro enterprise	Enterprises generating annual turnover up to K800,000 or have up to 10 employees.
Own account worker	A business owner that is self-employed and has not engaged any employees to work for them.
Small enterprise	Enterprises generating annual turnover above K800,000 and up to K5,000,000 or have employees above 10 up to 50 employees.
Startup capital	Money or non-monetary assets needed to start a new business or sustain it until it makes a profit.

EXECUTIVE SUMMARY

Micro, Small and Medium Enterprises (MSMEs) are vital economic agents that contribute to poverty reduction and the improved economic wellbeing of individuals as well as households through employment and wealth creation. However, the biggest challenge identified by MSMEs in Zambia is lack of access to affordable credit. In that regard, the Government has developed deliberate policies and national strategic initiatives aimed at increasing the contribution of MSMEs to economic growth and sustainable development. The 8th National Development Plan (2022 – 2026) focuses on the development of MSMEs, among other priority areas, with a bias towards access to finance and promoting financial inclusion. The financial sector regulators, Bank of Zambia (BoZ), Pensions and Insurance Authority (PIA) and Securities and Exchange Commission (SEC) contribute to the growth of the MSME Sector by creating an enabling environment that encourages Financial Service Providers (FSPs) to develop innovative and tailored products which meet the financing, investment and insurance needs of MSMEs. Such products include credit guarantee schemes, alternative investment market on the Lusaka Securities Exchange (LuSE), microcredit and microinsurance products.

The objectives of the MSME Finance Survey were to:

- Assess the size and scope of MSMEs in Zambia;
- Describe the levels and landscape of access to financial products and services by MSMEs;
- Identify the main challenges of access to finance for MSMEs; and
- Provide information which will contribute to the development of a national strategy on MSME Finance.

The MSME Finance Survey was conducted during the period 1st to 30th June 2022 at household level for individuals of age 15 years or older, who owned either a micro, small or medium business. The thresholds for determining business size were adjusted to suit near market classifications used by Financial Service Providers (FSPs) to categorise enterprises as follows:

- Micro enterprises - Generate annual turnover up to K800,000 or have up to 10 employees;
- Small enterprises - Generate annual turnover above K800,000 and up to K5,000,000 or have employees above 10 up to 50 employees; and
- Medium enterprises - Generating annual turnover above K5,000,000 and up to K10,000,000 or have employees above 50 up to 100 employees.

The Survey results showed that 97 percent of startup capital for MSMEs came from own funds as well as family and friends. Only 3 percent of startup capital was obtained from commercial banks, microfinance institutions, Government, NGOs and community based financial institutions such as savings groups.

With regard to business ownership, 27.3 percent (1.4 million) of adults owned either a micro, small or medium enterprise out of an adult population of 5.3 million in the sampled households. Further, out of the total number of MSMEs, 98.8 percent were micro, 1 percent were small and 0.2 percent were medium sized with the highest percentage of MSMEs at national level engaged in the agriculture, forestry and fishing industry (62.7 percent).

The Survey results also indicated that 95.6 percent of MSMEs operated in the informal sector while 4.4 percent were in the formal sector. This was attributed to business owners' perception that their businesses did not warrant registration with the Patents and Companies Registration Agency (PACRA) on account of size and a lack of awareness regarding regulation.

Business ownership by demographic characteristics showed that 61.9 percent of MSME owners resided in urban areas compared to 38.1 percent in rural areas. Further, the percentage of female owned MSMEs (60.9 percent) was higher than male owned MSMEs (39.1 percent).

The main barriers to accessing credit were high interest rates, lack of collateral and low-income levels. In addition, the Survey showed that there was low awareness amongst MSME owners of the available financial infrastructure and products targeted at their businesses such as warehouse receipting, credit guarantee scheme, moveable collateral registry system, sustainable (social or green) bonds or loans, venture capital, overdraft facility, insurance, and development finance. Given the challenges faced by MSMEs in accessing credit, and formalisation of businesses, there is need for a coordinated approach by the Government, registration authorities, agencies or institutions and sector stakeholders to develop policies, strategies and interventions that would lead to higher levels of financial literacy and access to appropriate and affordable finance by MSMEs.

Recommendations:

Implementation of the following recommendations would contribute to addressing the identified barriers impeding access to finance for MSMEs:

1. Development of the MSME finance strategy;
2. Review of legislation and tax regimes to ensure harmony at policy and regulatory framework level for promoting growth in the MSME sector;
3. Coordination of public and private sector players to intensify efforts of providing access to appropriate finance for startup capital;
4. Enhanced public awareness on the available MSME finance products/services through collaborative efforts with stakeholders;
5. Establishment of a one stop centre for formalisation of MSMEs with reduced documentation requirements;
6. Increased awareness programmes by Government agencies on the importance of formalised business enterprises and the processes for registration;
7. Structured financial literacy programs on business skills, enterprise development and tax issues; and
8. Establishment of technical centres to equip entrepreneurs with skills to enhance productive capacity.



1.0 COUNTRY CONTEXT

The Republic of Zambia is land linked, sharing borders with eight countries¹ and located in Southern Africa. The country has an area extending 752,612 square kilometres and is divided into 10 provinces and 116 districts. Of the ten provinces, two are predominantly urban namely Copperbelt and Lusaka. The capital city Lusaka, is located in the south-central part of the country (Appendix 2). Key economic and socio indicators are tabulated as follows:

TABLE 1 KEY ECONOMIC AND SOCIO INDICATORS

Population and Health Indicators	
Zambia (No.)	19,610,769
Male (No.)	9,603,056
Female (No.)	10,007,713
Life expectancy at birth - 2022	56.2 years
Socio-Economic Indicators	
GDP growth - 2022 (%)	4.7
GDP per Capita - 2022 (ZMW)	7,696.1
Inflation - 2022 (%)	11.2
Exchange rate - 2022 (ZMW/USD)	16.90
Human Development Index (2021)	0.565
Employment to population ratio - 2021 (%)	63.2
Unemployment rate - 2021 (%)	12.5
Poverty rate - 2015 (%)	54.4
Literacy and Financial Health Indicators	
Financial literacy - FinScope 2020 (%)	23.6
Financial Health - FinScope 2020 (%)	13.6

¹Democratic Republic of the Congo and the United Republic of Tanzania, to the north and north-east, Malawi and Mozambique, to the east and south-east, Zimbabwe and Botswana, to the south, and Namibia and Angola, to the west.

2.0 MSME CONTEXT

According to the National Financial Sector Development Policy (2017), 85 percent of MSMEs were unbanked and predominantly in rural areas, compared to 15 percent in urban areas. Informal finance, such as village banking, was therefore more prominently utilised by MSMEs in the rural areas. Access to finance was limited due to inadequate bank lending products, informality and crowding out by lending to Government. Therefore, private credit to GDP was around 19 percent with most commercial banks focused on corporate clients.

The Zambia Revenue Authority (ZRA) report (2019) shows that Zambia had 110,508 taxpaying MSMEs and a growth in the number of formal enterprises of about 27 percent from 2012. Of these enterprises, 47 percent were in wholesale and retail trade, including repair of motor vehicles and motorcycles, 5 percent in the construction sector, 4 percent in the agriculture, forestry and fishing sector, 2 percent in the manufacturing sector, 1.6 percent in the professional, scientific and technical activities and 1.1 percent in financial and insurance activities. Service provision continues to dominate business activities of MSMEs on account of lower entry costs and resource requirements, while other sectors require a significant capital outlay and specialised skill set. Further, the Enterprise Survey report of 2019 by the World Bank indicates that most businesses in Zambia were small, in the retail and services sector and located in the provincial capital, Lusaka. The report also shows that only 6 percent of small and 9 percent of medium businesses had a bank loan.

According to the BoZ Credit Market Monitoring Report (CMMP) data for 2022, the total number of loans disbursed were 5.2 million and total value amounted to K48.1 billion. In terms of volumes, loans disbursements to MSMEs were higher than disbursements to large businesses. However, large businesses accounted for 34.4 percent of the total value of loan disbursements, while MSMEs accounted for only 12.6 percent (Table 2).

TABLE 2 CREDIT MARKET MONITORING PROGRAMME DATA ON LOAN DISBURSEMENTS 2022 (PERCENT)

Type of borrower	Number of Loan Applications	Number of Loan Disbursements	Disbursements in Kwacha
Agriculture- Large	0.00	0.01	6.94
Agriculture- Small and Emergent	0.02	0.08	0.26
Business- Large	0.01	0.04	34.39
Business- MSME	2.35	5.43	12.57
Government	0.00	0.00	9.95
Households and Individuals	97.61	94.44	35.70
Other end users	0.00	0.00	0.19

The most prominent barrier to growth of MSMEs in Zambia is the limited access to finance on account of structural constraints such as high collateral requirements, high levels of informality and inadequate tailor-made credit products. Other barriers include, the low levels of financial literacy, inadequate management and record keeping skills, as well as lack of information among MSMEs on where to source finance. There has also been a lack of awareness about alternative sources of funding such as, venture capital, private equity, crowd funding and capital markets.

The Government and financial sector regulators have developed the following legal frameworks, national programmes and policies for enhancing access to finance by MSMEs in Zambia:

- Citizen Economic Empowerment Fund under the Citizen Economic Empowerment Commission since 2006;
- Movable Property Registry System (MPRS) under the Movable Property (Security Interest) Act No 3 of 2016;
- Implementation of the warehouse receipt system under the Zambia Agricultural and Commodities Exchange (ZAMACE) since 2015;
- National development plans, policies and strategies such as the 8th National Development Plan 2022 – 2026, National Finance Sector Development Policy (NFSDP, 2017) and The National Financial Inclusion Strategy (NFIS, 2017 - 2022) for well-developed competitive and inclusive finance system;
- De-risking tool or risk sharing mechanism under the Zambia Credit Guarantee Scheme (ZCGS);
- Alternative markets for MSMEs under the Lusaka Securities Exchange;
- The establishment of the Ministry of Small and Medium Enterprise Development in 2021 to promote the growth and development of MSMEs and Cooperatives; and
- Establishment of the Ministry of Green Economy and Environment in 2021 to promote climate change and access to green finance products for MSMEs.

However, despite these initiatives the availability of affordable credit to MSMEs from formal FSPs remains limited to 12.6 percent of total credit according to the 2022 CMMP Report.

3.0 SURVEY BACKGROUND AND METHODOLOGY

The MSME Finance Survey was conducted by the Zambia Statistics Agency (ZamStats) and the Bank of Zambia (BoZ) from 1st to 30th June 2022.

At the time of the Survey, the MSME Development Policy (2008) was undergoing revision due to limitations on the definition of MSMEs in Zambia, among others. Consequently, the thresholds for determining business size were adjusted to suit near market classifications used by Financial Service Providers (FSPs) to categorise enterprises as either micro, small or medium. For the purposes of this Survey, MSMEs were classified as indicated in Table 3.

TABLE 3 CLASSIFICATION BY BUSINESS SIZE

Enterprise	Annual Turnover	No. of Employees
Micro	K1 - K800,000	0 - 10
Small	> K800,000 ≤ K5,000,000	> 10 ≤ 50
Medium	> K5,000,000 ≤ K10,000,000	> 50 ≤ 100

3.1 Survey Objectives

The primary objective of the Survey was to assess the financial access landscape for micro, small and medium businesses in Zambia.

The specific objectives were as follows:

- i. To assess the size and scope of MSMEs in the country;
- ii. To describe the levels and landscape of access to financial products and services by MSMEs;
- iii. To identify MSMEs main challenges in accessing finance; and
- iv. To provide data which will inform the development of a national policy on MSME Finance.

3.2 Sample Design and Implementation

The 2010 Census of Population and Housing provided the sampling frame for selecting a nationally representative sample of areas for conducting the 2022 MSME Finance Survey. It was the latest census frame available at the time the Survey was being conducted. The 2010 Census frame provided data on the households and population at province, district, constituency, region, ward, Census Supervisory Areas (CSA) and Enumeration Area (EA). Zambia has ten provinces. Each province is subdivided into districts; each district into constituencies; and each constituency into wards. In addition to these administrative units, during the 2010 Census, each ward was divided into convenient areas called CSAs, and in turn each CSA was divided into EAs.

The MSME Finance Survey followed a stratified two-stage sample design. In the first stage, 200 clusters were selected with probability proportional to the size of the EA within the strata (rural/urban). A complete listing of households in each selected EA was conducted and formed the sampling frame for the second stage. The classification of households during the listing was based on the following criteria:

- Question on whether any member of the household owned any kind of business; and
- Question on whether the business had one or more employees.

The sample allocation was representative at the national and rural/urban levels only (Table 4).

TABLE 4 SAMPLE ALLOCATION BY RURAL/URBAN

	Number of EAs	Expected number of Households
Rural	84	1,260
Urban	116	1,740
Zambia	200	3,000

Survey weights were applied to adjust for the effects of sampling design such as over-or under-sampling and correct non-response bias. This was done to produce valid estimates for MSME's in Zambia and inferences from the data. The results from the sample are representative at the national level by rural/urban segmentation only.

3.3 Questionnaires

Three types of questionnaires were used in the 2022 MSME Finance Survey namely:

- Listing Questionnaire;
- Household Questionnaire; and
- Individual Questionnaire.

The Listing Questionnaire was administered to all households in the selected EA. It collected data on the ownership of any kind of business or farming activity to generate income by a household member and if the activity had employed one or more people. The data from the Listing Questionnaire was used to determine the households eligible for interviews.

The Household Questionnaire listed all the usual household members. Basic information was collected on each person listed, including age, sex and relationship to the head of the household. The data on household members, 15 years or older, who owned a business was used to identify eligible persons for individual interviews.

The Individual Questionnaire was used to collect information from all business owners. The business owners were asked questions on the following topics:

- Background information;
- Awareness of financial products;
- Business details;
- Employment;
- Start-up capital and record keeping;
- Business performance;
- Access to credit;
- Savings and investment;
- Income and expenditure;
- Business assets;
- Access to market;
- Business challenges;
- COVID-19 and climate change;
- Capacity building; and
- Business closure.

The Listing, Household and Individual Questionnaires were programmed into tablet computers to facilitate Computer-Assisted Personal Interviewing (CAPI) for data collection purposes. Manuals were also developed.

3.4 Pretest and training

The Technical Working Group (TWG) from ZamStats and BoZ pretested the electronic MSME Survey questionnaires over an 8-day period from 6th - 13th April 2022 in Lusaka District. The Master Trainers workshop was conducted from 2nd to 8th May 2022 and comprised members from BoZ, ZamStats, Ministry of Finance and National Planning (MoFNP) and Ministry of Small and Medium Enterprise Development (MoSMED). The master trainers conducted training for data collectors on how to administer the questionnaire using CAPI from 16th to 27th May 2022 and comprised 20 supervisors and 67 interviewers. Practice fieldwork was conducted from 28th - 30th May 2022 where each interviewer had to complete at least one household interview per day.

3.5 Fieldwork and Response Rate

Data collection was conducted from 1st to 30th June 2022 by 20 teams. Each team consisted of one supervisor and four to five interviewers. Fieldwork data monitoring was an integral part of the MSME Survey. The Master Trainers were in the field throughout the enumeration period to monitor, review the teams' work and resolve any issues that arose. During data collection, interviewers sent data to the server via internet using tablets and later exported to excel for further analysis.

Table 5 shows response rates for the MSME Finance Survey. Of the 3,574 households in the sample, 3,532 were successfully interviewed, yielding a response rate of 98.8 percent.

TABLE 5 RESPONSE RATE FOR INTERVIEWED HOUSEHOLD

Result	Residence		Total Number of Household
	Urban	Rural	
Number of households selected	1,697	1,877	3,574
Number of households interviewed	1,667	1,865	3,532
Household response rate	98.2	99.4	98.8

4.0 DEMOGRAPHIC AND SOCIO-ECONOMIC CHARACTERISTICS

This chapter presents information on demographic and socio-economic characteristics of business owners such as sex, age, marital status, rural/urban segmentation, education and wealth index.

4.1 Households who Owned a Business

The Survey showed that 1,384,075 households reported that at least one member of the household owned a business. Out of these 60.9 percent were females while 39.1 percent were males. Further, 60.8 percent of households who owned a business resided in urban areas compared to 39.2 percent of those in rural areas.

4.2 Wealth Quintiles for Business Owners

The wealth index is a measure of a household or an individual's social and economic position in relation to others in a community or society. The wealth index is calculated using Principal Component Analysis (PCA) of household assets, housing characteristics, and access to amenities data. Wealth quintiles are derived from the index which rank business owners from the first to fifth wealth quintiles representing the poorest to wealthiest households, respectively.

According to the Survey the highest percentage of business owners were from the wealthy households in the fourth (26.4 percent) and fifth (25.4 percent) quintiles. Further, segmentation by region shows that the highest percentage of business owners in urban areas were from wealthy households in the fourth (36.8 percent) and fifth (38.3 percent) quintiles while those in rural areas were from poor households in the first (34.7 percent) and second (30.6 percent) quintiles (**Table 6**).

TABLE 6 DISTRIBUTION OF BUSINESS OWNERS BY WEALTH QUINTILES (PERCENT)

Wealth Quintiles	Business owners	Rural	Urban
First	14.2	34.7	1.6
Second	15.2	30.6	5.8
Third	18.7	20.8	17.5
Fourth	26.4	9.6	36.8
Fifth	25.4	4.4	38.3

4.3 Background Characteristics of Business Owners

The Survey showed that 27.3 percent (1,437,479) of the total adult population (5,258,367) in the households owned a business. **Table 7** shows that business ownership was highest amongst:

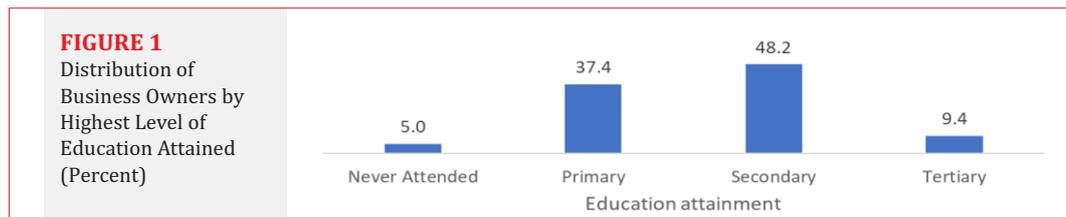
- Urban based adults;
- Females;
- Adults of age 30-34; and
- Married adults.

²The wealth quintiles are scaled as follows: the first quintile represents the poorest households; second quintile represents the poor households; third quintile households in the middle class; fourth quintile the wealthy households and fifth quintile the wealthiest households.

TABLE 7 BACKGROUND CHARACTERISTICS OF BUSINESS OWNERS

Percent distribution of business owners by selected background characteristics, [2022]		
Background characteristic	Number	Percent
Residence		
Rural	547,093	38.1
Urban	890,386	61.9
Sex		
Male	561,526	39.1
Female	875,953	60.9
Age		
15-19	21,673	1.5
20-24	88,604	6.2
25-29	183,840	12.8
30-34	242,444	16.9
35-39	215,193	15
40-44	196,346	13.7
45-49	174,576	12.1
50 - 54	120,891	8.4
55 - 59	70,865	4.9
60 - 64	57,069	4
65 +	65,978	4.6
Marital status		
Never married	179,825	12.5
Married	931,262	64.8
Living together	122,070	8.5
Divorced/separated	38,159	2.7
Widowed	166,163	11.6

Figure 1 shows the percentage distribution of business owners by the highest level of education attained. Most business owners had completed secondary (48.2 percent) level of education. However, less than ten percent had completed tertiary education.



4.4 Business Owners with Tertiary Education

Table 8 shows the distribution of business owners with tertiary education. The highest percentage of business owners (43.1 percent) had a diploma, followed by those with a certificate (29.9 percent). Only 2.8 percent of business owners had a bachelor's degree.

TABLE 8 FIELD OF STUDY FOR THE HIGHEST QUALIFICATION ATTAINED

Percent distribution of business owners with Tertiary Education by qualification obtained and field of Study, [2022]		
Qualification Obtained	Number	Percentage
None	3,274	2.4
Certificate	40,456	29.9
Diploma	58,294	43.1
Degree	29,545	21.8
Master's degree	3,782	2.8
Total	135,352	100.0

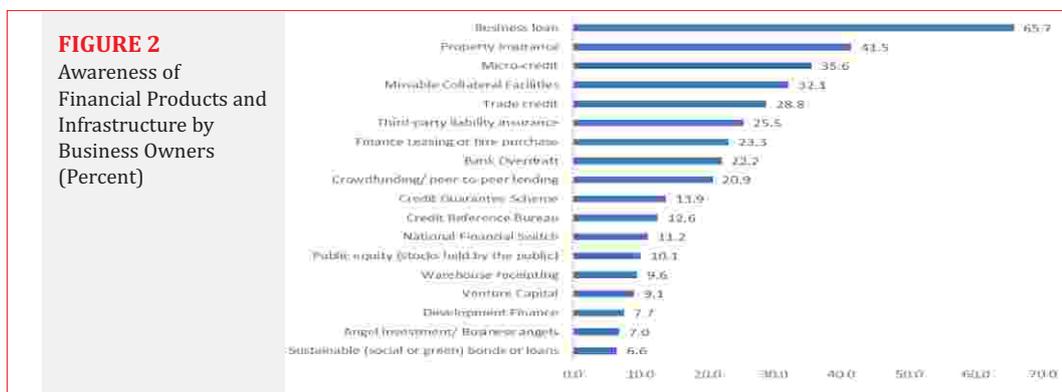


5.0 AWARENESS OF FINANCIAL PRODUCTS AND FINANCIAL INFRASTRUCTURE

The level of awareness of financial products that are available can lead to higher access and informed usage of a range of financial products and services.

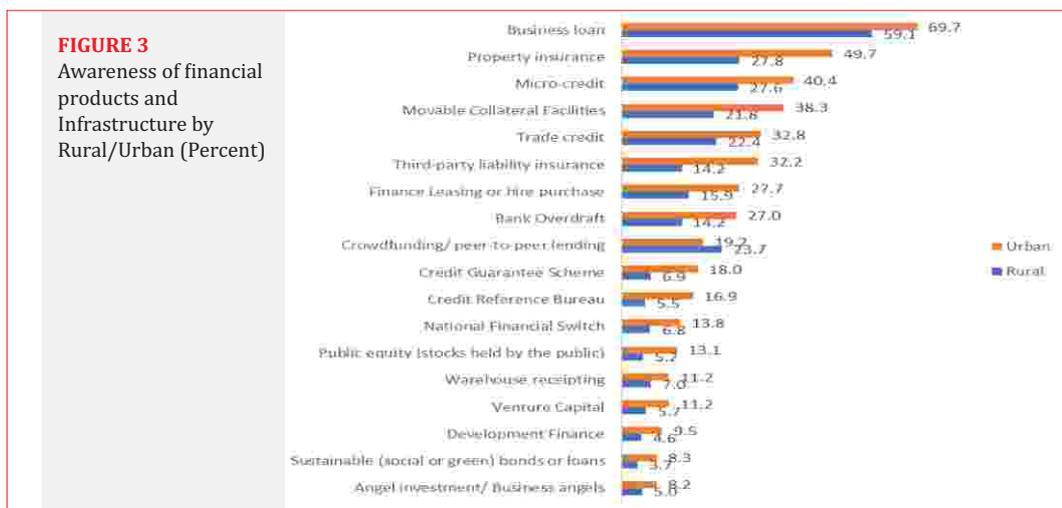
Figure 2 shows that most business owners were aware of the following financial products and infrastructure:

- Business loan (65.7 percent);
- Property insurance (41.5 percent); and
- Micro credit (35.6 percent)



5.1 Awareness of Financial Products and Infrastructure by Rural/Urban

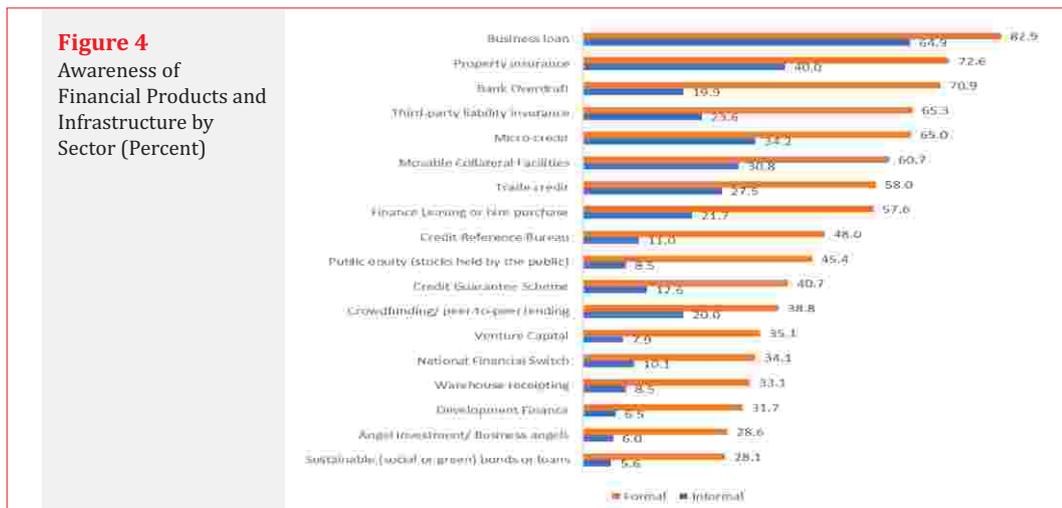
The Survey results showed that the levels of awareness of financial products and infrastructure were generally higher amongst business owners in urban areas than in rural areas. Further a business loan was the most well-known financial product in both rural and urban areas, while the Sustainable (social or green) bond or loan was the least known product (Figure 3).



5.2 Awareness of Financial Products and Infrastructure by Sector

Figure 4 shows that the awareness levels of financial products and infrastructure among business owners was generally higher in the formal than the informal sector. Regarding the formal sector, awareness of business loans (82.9 percent) was the highest, followed by property insurance (72.6 percent), bank overdraft (70.9 percent), and third-party liability insurance (65.3 percent).

For the informal sector, the level of awareness was highest for business loans (64.9 percent), followed by property insurance (40 percent), micro-credit (34.2 percent) and moveable collateral facility (30.8 percent).



6.0 BUSINESS CHARACTERISTICS OF MSMES

This chapter presents survey findings on the average number and size of businesses, main type of economic activity, business registration, age of business and type of ownership.

6.1 Size of Business

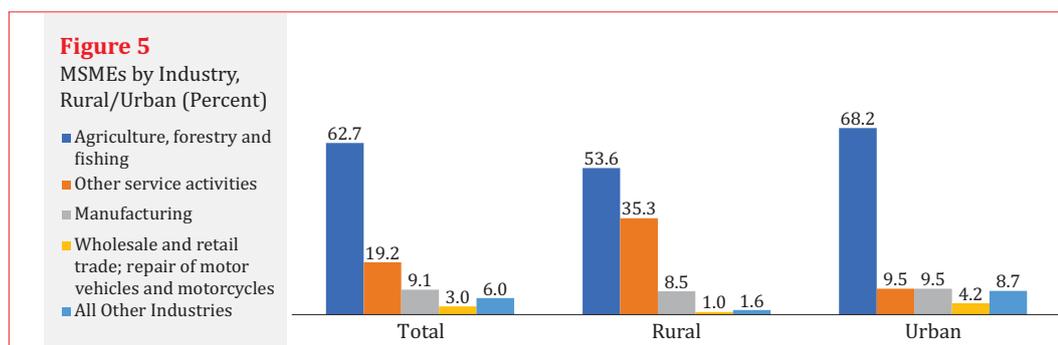
According to Survey results there were 1, 553, 892 MSMEs in Zambia. Of the total MSMEs 98.8 percent were micro, 1.0 percent were small and 0.2 percent were medium sized (Table 9).

TABLE 9 SIZE OF BUSINESS

	No.	Percent
Micro	1,535,894	98.8
Small	16,180	1.0
Medium	1,818	0.2
Total MSMEs	1,553,892	100

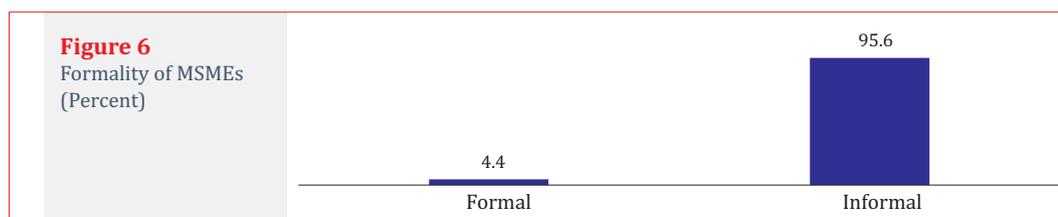
6.2 MSMEs by Industry

The Survey showed that the highest percentage of MSMEs at national level were engaged in agriculture, forestry and fishing (62.7 percent). This was followed by other service activities at 19.2 percent and manufacturing at 9.1 percent, respectively (Figure 5).

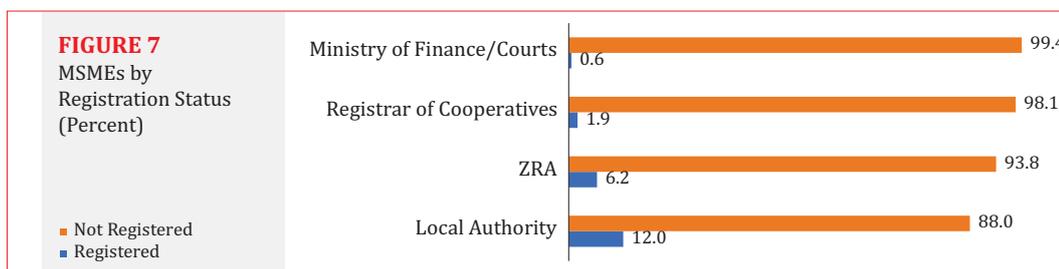


6.3 MSMEs by Registration

Formal MSMEs comprised those registered with the Patents and Companies Registration Agency (PACRA) while those not registered with PACRA were informal. Only 4.4 percent of MSMEs were in the formal sector while 95.6 percent were in the informal sector (Figure 6).



Regarding registration with other entities, 12 percent were registered with the local authority and 6.2 percent with Zambia Revenue Authority (ZRA). Less than 2 percent of MSMEs were registered with Ministry of Finance and National Planning and Registrar of Societies (**Figure 7**).



6.4 Reasons for Non-Registration

Table 10 shows that the main reasons businesses were not registered with any of the registration authorities or tax authority by the owners were:

- Perception that the business was too small; and
- Lack of awareness regarding the regulations.

TABLE 10 REASONS NOT REGISTERED WITH AUTHORITIES (PERCENT)

Type of registration	Institution	Business too small	Do not know about regulations	Saw no benefit	Complicated/difficult procedure	Cost too high	Do not want authorities to know business performance
Formal registration	PACRA	43	29.5	9.9	4.3	2.7	0.7
Informal registration	ZRA	43	29.7	9.9	4.3	2.8	0.7
	Local authorities	43.1	29.6	9.9	4.3	2.5	0.7
	Registrar of cooperatives	43	29.5	9.9	4.3	2.7	0.7
	MoFNP/ Courts	43	29.5	9.9	4.3	2.7	0.7

6.5 Type of Ownership

Figure 8 shows that 78.3 percent of MSMEs were sole proprietors while 21.6 percent were partnerships which comprised either family members (90.1 percent) or unrelated partners (9.9 percent).



6.6 Age of the Business

Figure 9 shows that more than half of MSMEs (53.3 percent) were in operation for less than 5 years while 19.3 percent had operated for 5 – 9 years. The least number of MSMEs operated for 15 – 19 years at 4.2 percent.

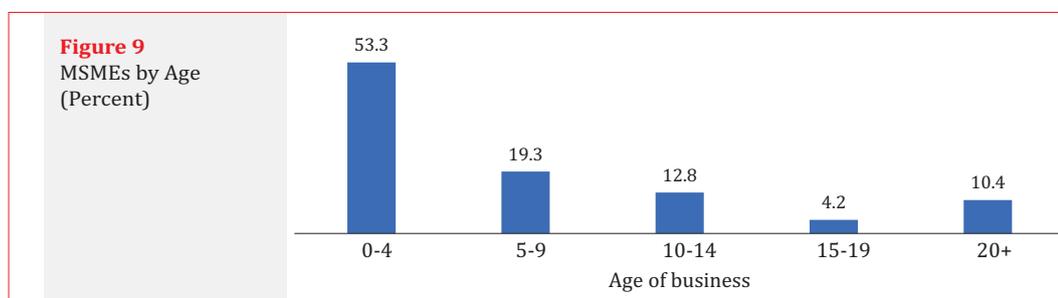
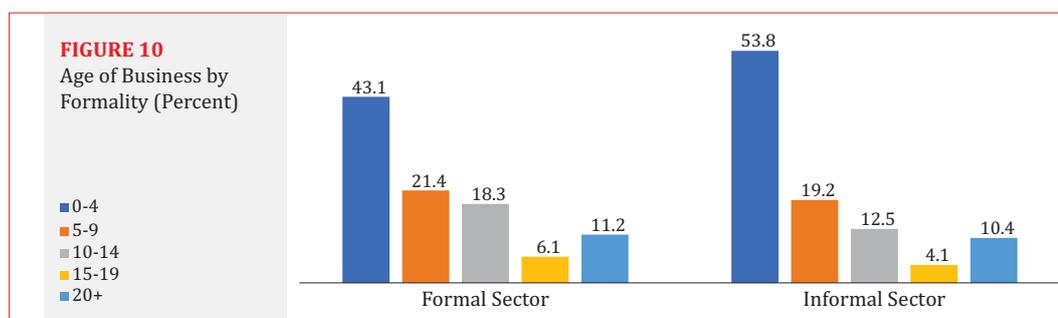


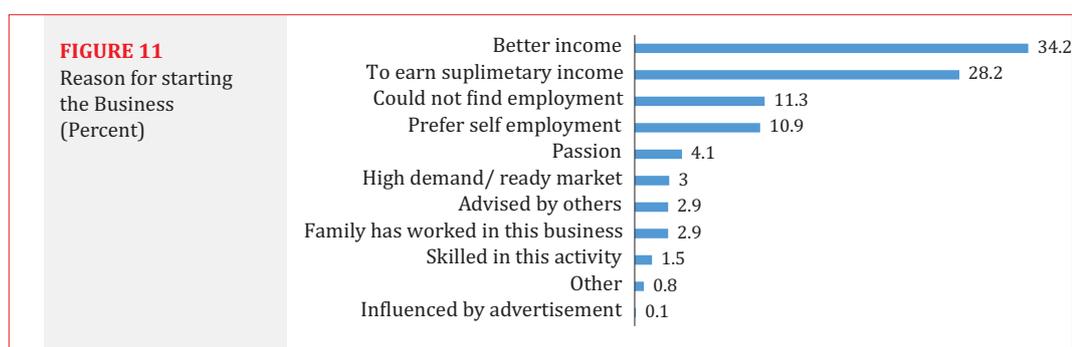
Figure 10 shows that a higher percentage of MSMEs in the informal sector (53.8 percent) had been in operation for less than five years than the formal sector (43.1 percent).



6.7 Reasons for Starting the Business

Figure 11 shows that the main reasons for starting the business were:

- The need to earn a better income; and
- The need to have supplementary income.

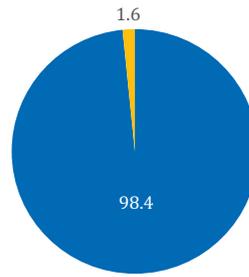


6.8 Day-to-day Management of the Business

Figure 12 shows that businesses whose owners engaged in the day-to-day management accounted for 98.4 percent.

FIGURE 12
Management of
Business (Percent)

■ Owners involved in
day-to-day management
■ Owners not involved in
day-to-day management

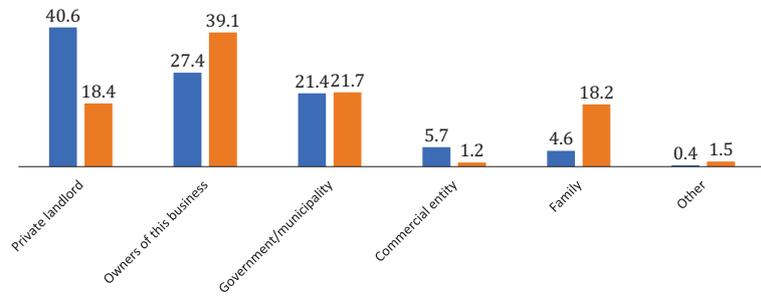


6.9 Ownership of Business Premises

Figure 13 shows that the highest percentage of business owners in the informal sector (39.1 percent) owned the premises in which they operated. Conversely, most businesses in the formal sector (40.6 percent) were renting from “private landlords” followed by those renting from the government/municipalities (21.4 percent).

FIGURE 13
Ownership of
Business Premises
(Percent)

■ Formal Sector
■ Informal Sector



7.0 EMPLOYMENT

This section presents information on the characteristics of the employed population in the MSME sector. The employed population comprises all persons of working age who were either in paid or self-employment.

7.1 Status of Employment by Rural/Urban

The MSME sector employed 1,925,601 persons. Figure 14 shows that own account workers were the majority at national and rural/urban level.



7.2 Employment in MSME Sector by Formality of Business

The highest percentage of people in both rural (96.3 percent) and urban (84.7 percent) areas were employed in the informal sector (Figure 15).

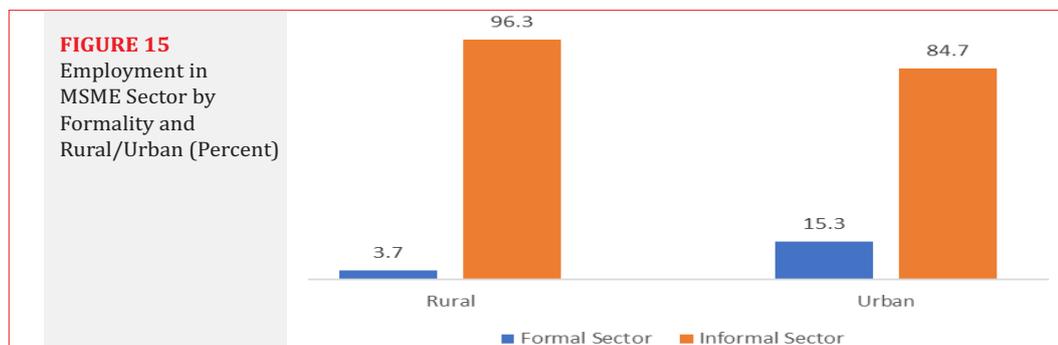
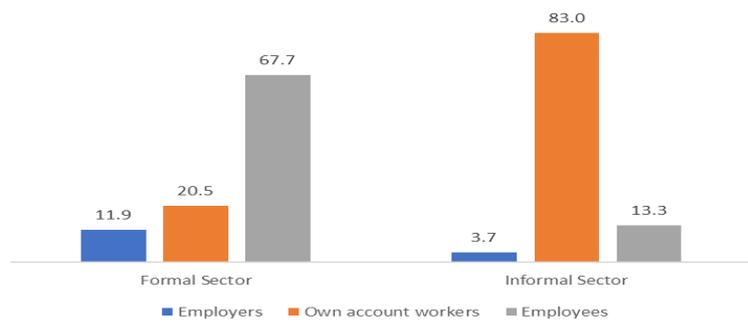


Figure 16 shows that the informal sector had the highest percentage of own account workers compared to the formal sector. Further, the formal sector had the highest percentage of employees (67.7 percent) compared to the informal sector (13.3 percent).

FIGURE 16
Status in Employment
by Formality
(Percent)

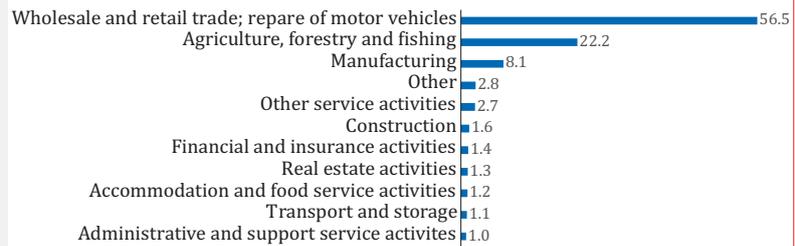


7.3 Employment by Industry

The classification of the employed population by industry is important in the analysis of the labour market of any given country. The broad structure of the International Standard for Industry Classification (ISIC) revision 4 was used to classify the employed population by industry.

The wholesale and retail trade industry accounted for the largest share of employment at 56.5 percent followed by the agriculture, forestry, and fishing industry at 22.2 percent. The rest of the industries each accounted for less than nine percent of employment (Figure 17).

FIGURE 17
Employment by
Industry (Percent)



7.4 Seasonal Demand for Employment

Seasonal demand for employment occurs when the business needs to hire more workers on a short-term basis to meet growing labour requirements due to periods of peak business demand.

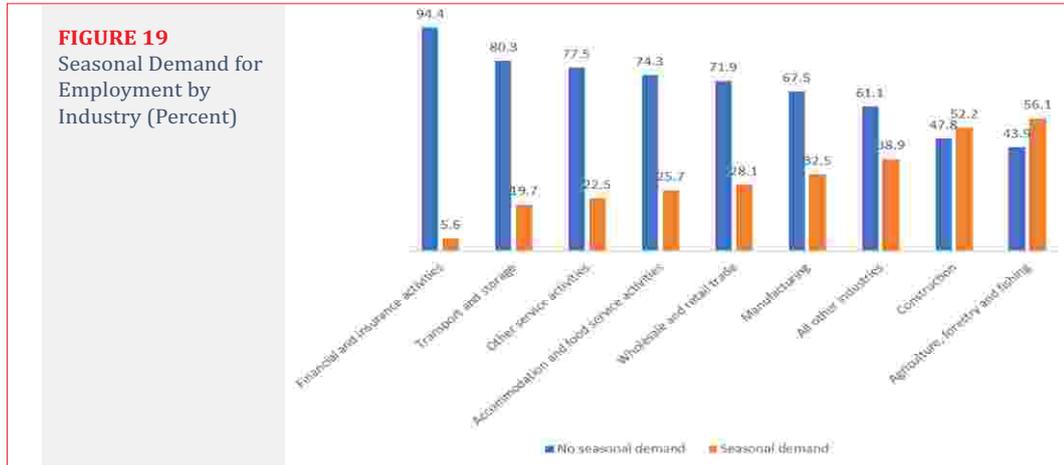
At national level, 64.3 percent of business owners reported that they did not have seasonal demand for employment compared to 35.7 percent with seasonal demand. Similarly, 69.3 percent in the formal sector and 62.3 percent in the informal sector reported that they did not have seasonal demand for employment (Figure 18).

FIGURE 18
Seasonal Demand for
Employment by
Formality of Business
(Percent)



Figure 19 shows that the industries with the highest percentage of MSMEs with seasonal demand for employment were:

- Agriculture, forestry and fishing;
- Construction; and
- Manufacturing.

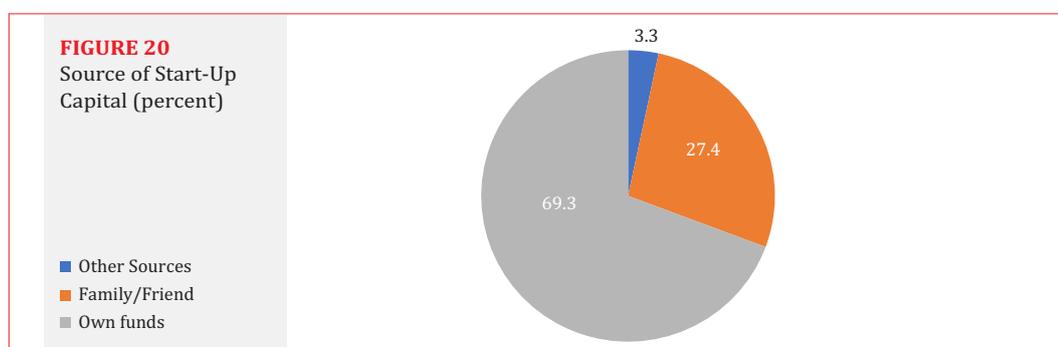


8.0 STARTUP CAPITAL

This section presents the findings of the Survey on start-up capital for MSMEs in money or non-monetary assets needed to start a new business or sustain it until it can turn a profit. Monetary capital refers to cash or highly liquid assets that can readily be converted to cash, while non-monetary capital refers to assets that cannot be converted into cash in the short term such as property, plant and equipment

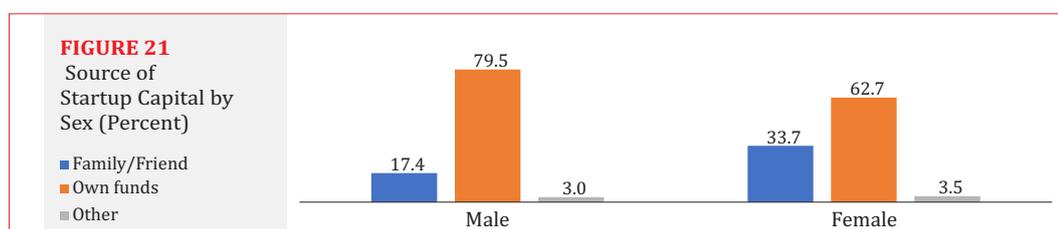
8.1 Source of Startup Capital

Figure 20 shows that 69.3 percent of business owners reported that their source of startup capital was from own funds while 27.4 percent sourced it from family and friends. Other sources (3.3 percent) comprised, commercial banks, microfinance institutions, moneylenders, Government, NGOs/ Charity funds, cooperatives and out grower schemes.



8.2 Source of Startup Capital by Sex

Figure 21 shows that the main source of startup capital for both male (79.5 percent) and female (62.7 percent) owned MSMEs was own funds. The percentage of female owned MSMEs that sourced their startup capital from family and friends (33.7 percent) was almost double the number of male owned MSMEs (17.4 percent). Further, there were more female than male owned MSMEs that obtained startup capital from other sources such as banks, microfinance institutions, cooperatives, government, NGOs and community based financial institutions (Chilimba and village banks).

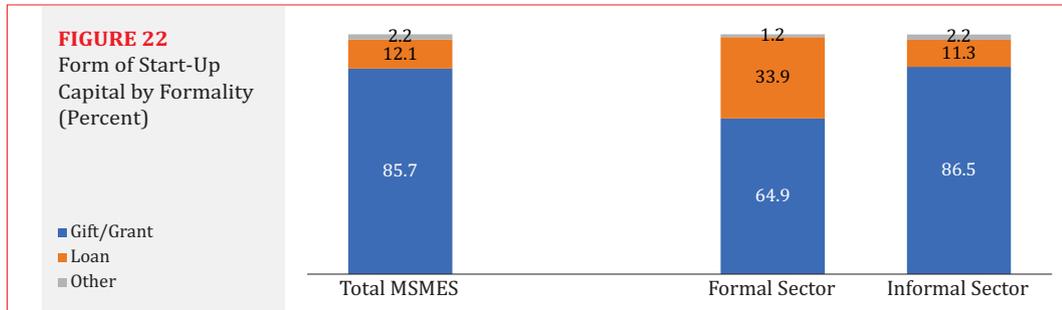


8.3 Form of Start-Up Capital

This section highlights the forms of startup capital for MSMEs that did not use own funds to start their business.

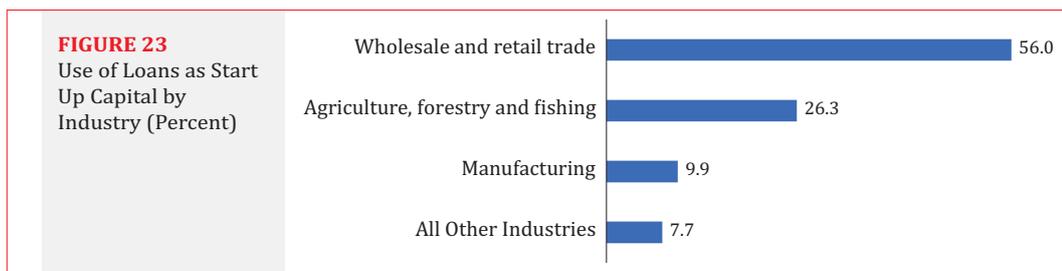
8.3.1 Startup Capital by Formality

Figure 22 shows that 85.7 percent of MSMEs' start-up capital was in form of gifts and grants. Similarly, most business owners in the formal and informal sector relied on gifts and grants for startup capital.



8.3.2 MSMEs that Accessed Loans from FSP for Start-up Capital by Industry

The wholesale and retail trade industry accounted for 56 percent of MSMEs that accessed loans from FSPs for startup capital (Figure 23).



8.4 Type of Startup Capital

The Survey shows that MSMEs whose main source of start-up capital was in monetary form stood at 79.8 percent. Further, most business owners in the formal and informal sector used startup capital which was in monetary form (Figure 24).



8.5 Average Start-Up Capital

Table 11 shows that the average startup capital for MSMEs which commenced operations between 2017 and 2022 ranged from K2,436 to K12,455. The lowest average startup capital for MSMEs in both the formal and informal sector was in the year 2020, while the highest was in the year 2017.

TABLE 11 AVERAGE STARTUP CAPITAL BY FORMALITY (ZWK)

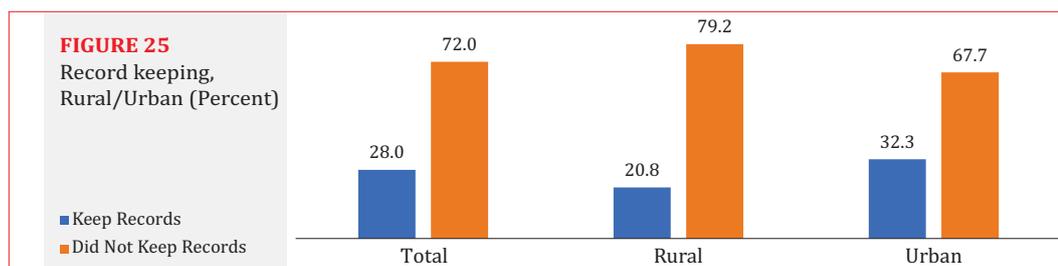
	2017**	2018	2019	2020	2021	2022**
Average	12,455	5,100	3,993	2,436	3,065	5,391
Formal Sector	110,385	20,270	29,861	10,741	17,241	68,549
Informal Sector	9,148	3,679	3,066	2,178	2,667	3,121

**Outliers affected the average startup capital for the year 2017 and 2022

9.0 RECORD KEEPING

This chapter presents information on the methods of record keeping and persons responsible for management as well as auditing of financial records. Record keeping is important for monitoring the business performance and establishing a history of credit assessment.

Figure 25 shows that 28 percent of MSMEs reported that they kept financial records and most of these were in urban areas.



According to Figure 26, most MSMEs reported the following reasons for not keeping financial records:

- Knew everything off their heads; and
- Did not see the need.

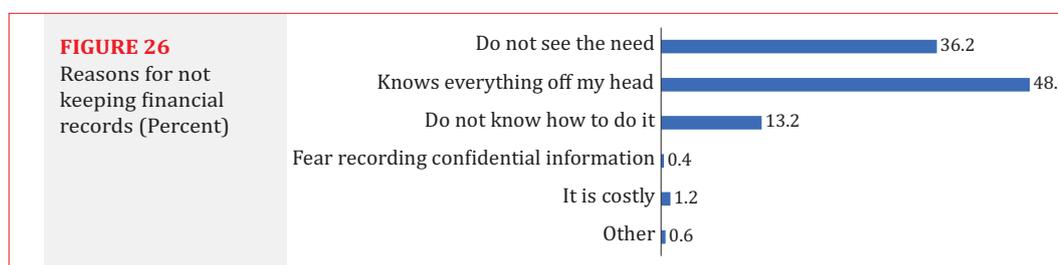
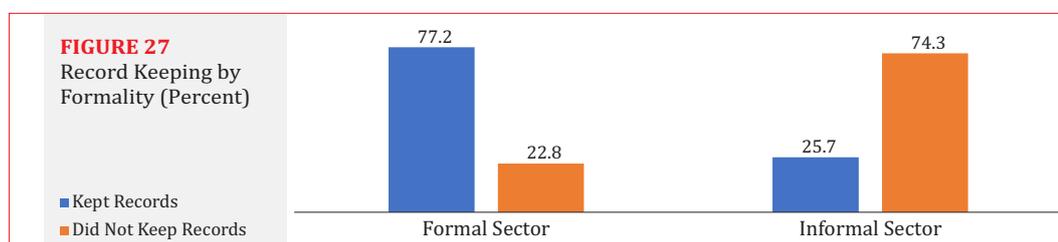


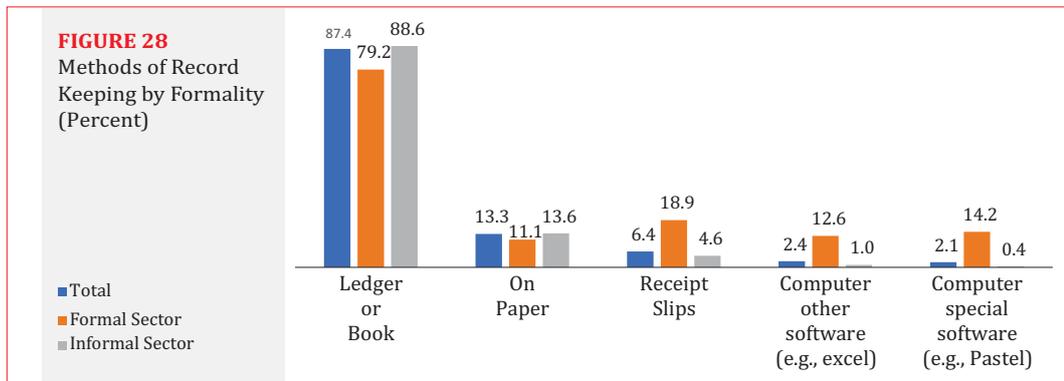
Figure 27 shows that the percentage of MSMEs that kept financial records was higher in the formal (77.2 percent) than the informal sector (25.7 percent).



9.1 Methods of Record Keeping

The majority of the MSMEs that kept financial records did so using handwritten ledgers or books at 87.4 percent, followed by those who recorded on paper at 13.3 percent. Only 2.4 percent reported that they used computer specialized accounting software.

Most MSMEs in the informal (88.6 percent) and formal (79.2 percent) sector used handwritten ledgers or books for record keeping (Figure 28).



9.2 Management of Financial Records

Figure 29 shows that 91 percent of MSMEs managed their own financial records while only 2.4 percent of MSMEs used an accountant or bookkeeper. Further, management of financial records was mostly done by business owners in both the formal (71.9 percent) and informal (93.7 percent) sectors.

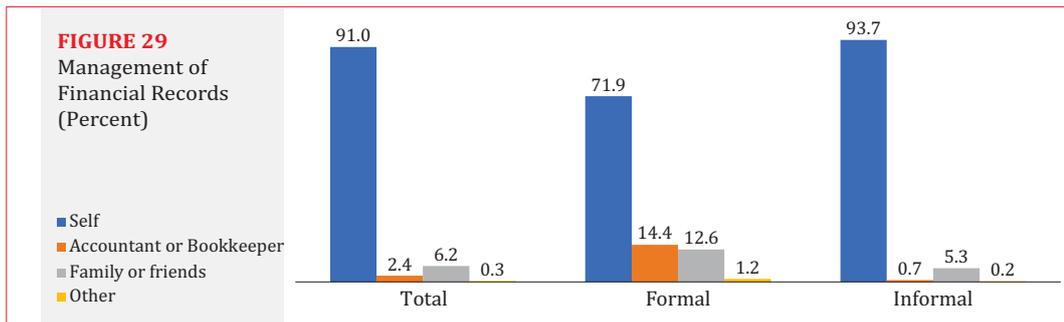
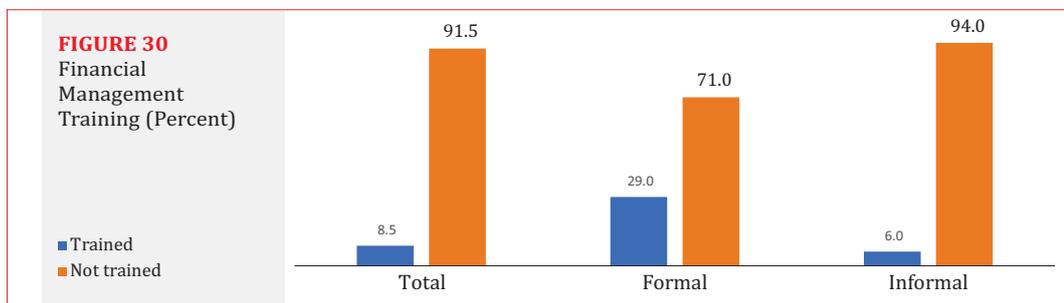
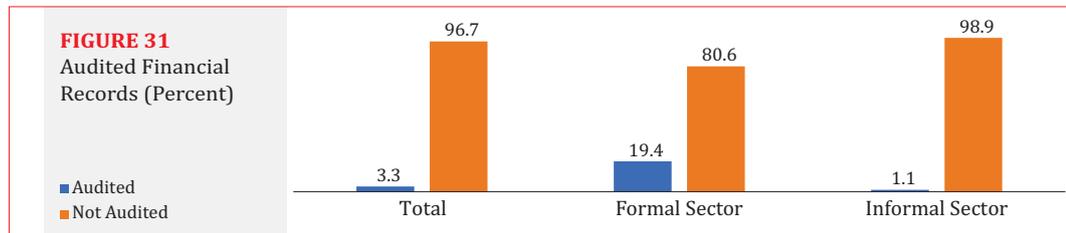


Figure 30 shows that the highest percentage of individuals who managed financial records for MSMEs were untrained in financial management at national level as well as in the formal and informal sector.



9.3 Audited Financial Records

Figure 31 shows that only 3.3 percent of MSMEs reported that their financial records were audited annually. Analysis by sector of business shows that 19.4 percent of MSMEs in the formal sector reported that their financial records were audited and only 1.1 percent of MSMEs in the informal sector reported that their financial records were audited.

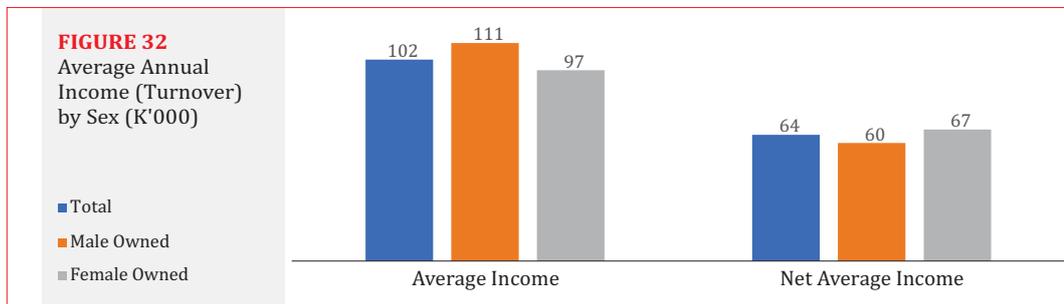


10.0 BUSINESS PERFORMANCE

Business performance relates to the ability of the business to archive organisational objectives in the short and long term to sustain itself and continue as a going concern. These objectives include the ability to generate income, manage expenditure and build capacity in the business.

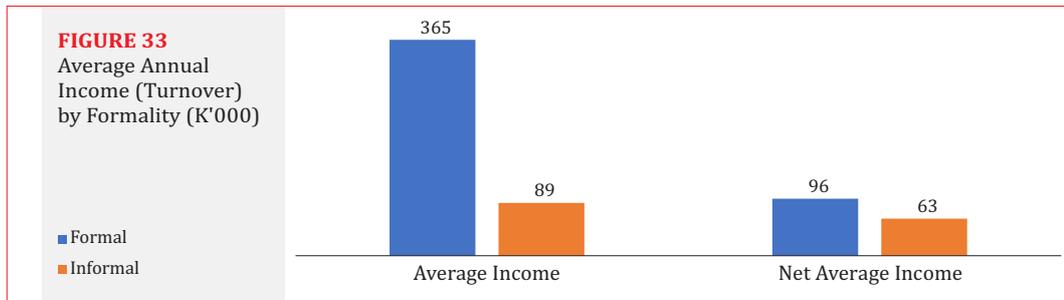
10.1 Average Annual Income (Turnover) by Sex

Figure 32 shows that the annual average gross and net incomes for MSMEs were K102,000.00 and K64,000.00, respectively. Male owned businesses had a higher annual average gross income than female owned businesses. In contrast, female owned business had a higher annual average net income than that of males.



10.2 Average Annual Income (Turnover) by Formality

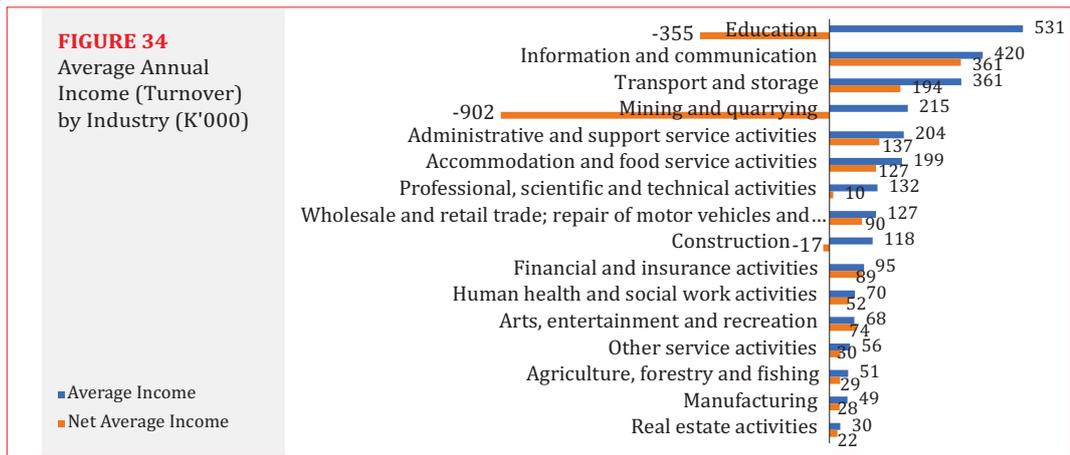
MSMEs in the formal sector had a higher annual average and net income than those in the informal sector (Figure 33).



10.3 Average Annual Income (Turnover) by Industry

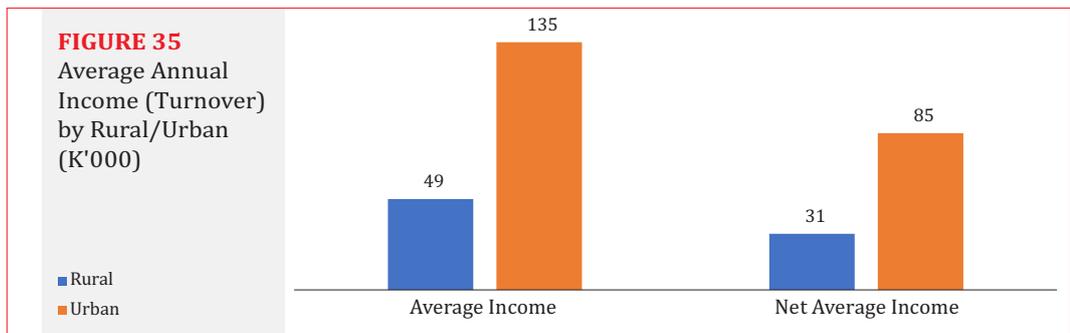
The Survey showed that MSMEs in the education industry had the highest average annual income at K531,000.00 followed by those in information and communication.

However, the information and communication industry had the highest net average annual income at K361,000 while mining and quarrying had the least net average annual income at negative K902,000.00 (Figure 34).



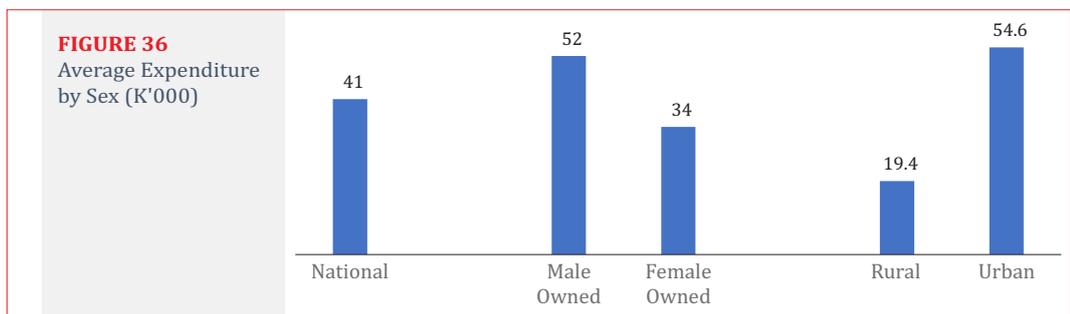
10.4 Average Annual Income (Turnover) by Rural/Urban

MSMEs in urban areas had a higher annual average and net income than those in rural areas (Figure 35).



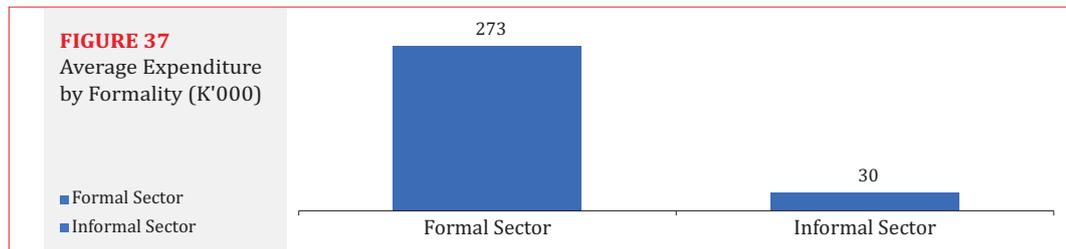
10.5 Average Expenditure by Sex

Figure 36 shows that at national level, the average expenditure for MSMEs was K41,000.00. Male owned businesses and those located in urban areas reported a higher expenditure than female owned businesses and those in rural areas.



10.6 Average Expenditure by Formality

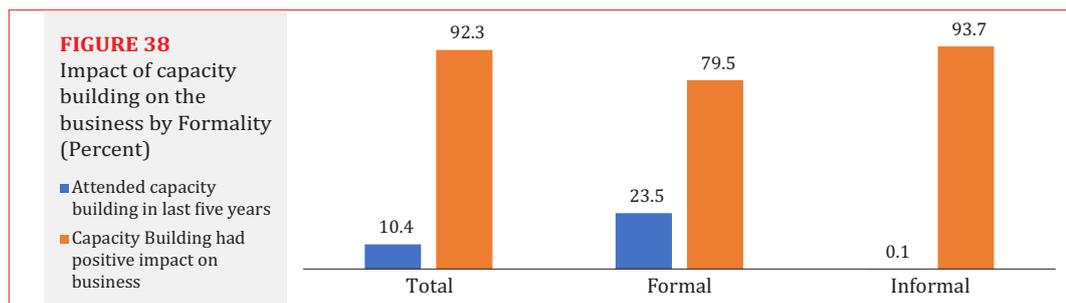
MSMEs in the formal sector had higher expenditure than those in the informal sector (Figure 37).



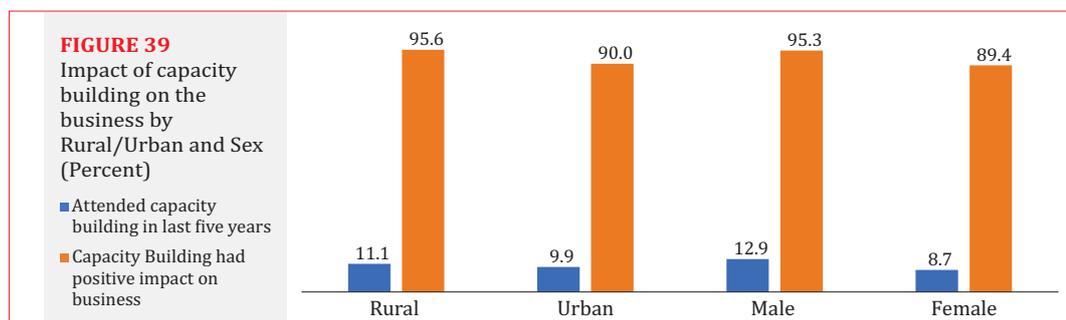
10.7 Impact of Capacity Building /Training on Businesses

Figure 38 shows that 10.4 percent of business owners attended capacity building programmes. Further, there were more business owners that attended capacity building programmes in the formal sector (23.5 percent) than the informal sector (0.1 percent).

Above 90 percent of business owners in the informal sector indicated that capacity building had a positive impact on their business.



The Survey showed that there were more business owners in rural areas and amongst males that attended capacity building programmes than female business owners and those who resided in urban areas. Over 85 percent of the business owners indicated that capacity building had a positive impact on their business (Figure 39).



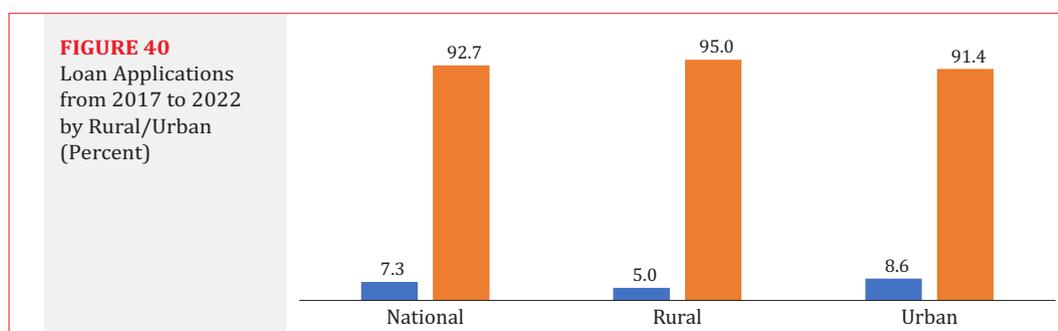
11.0 ACCESS TO CREDIT

According to the World Bank, MSMEs are the most significant contributors to employment and generate most jobs in developing economies. However, they face greater financing obstacles than larger firms, enjoy less access to external finance, and face higher transaction costs and risk premiums.

Access to credit is important for MSMEs because it allows them to innovate, improve efficiency, expand to new markets, and contribute to job creation. This section presents survey findings on access to credit for the period 2017 to 2022.

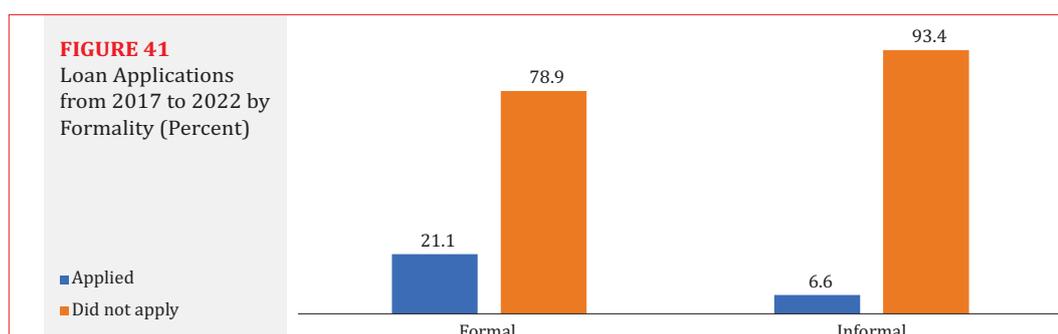
11.1 Loan Applications by Rural-Urban

Figure 40 shows that 7.3 percent of MSMEs applied for a loan from formal and informal FSPs at least once during the period 2017 to 2022 and these were higher in urban areas (8.6 percent) than rural areas (5 percent). However, 92.7 percent of MSMEs did not apply for loans.



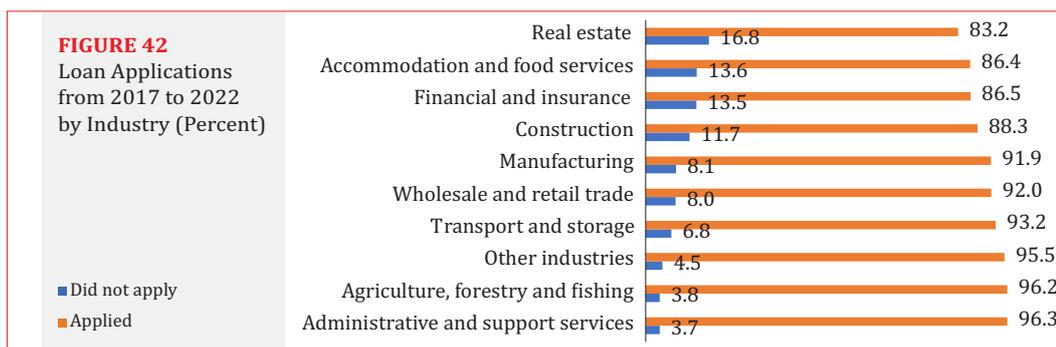
11.2 Loan Applications by Formality

Figure 41 shows that 21.1 percent of MSMEs in the formal sector applied for a loan at least once during the period 2017 to 2022 compared with 6.6 percent of those in the informal sector.



11.3 Loan Applications from 2017 to 2022 by Industry

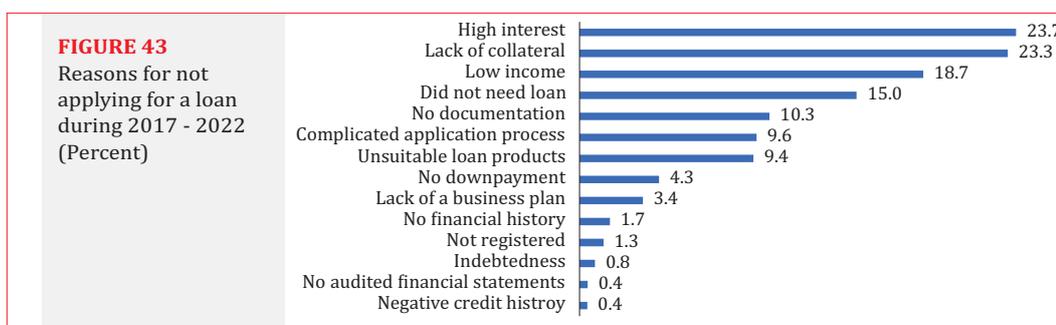
Figure 42 shows that MSMEs in the real estate industry had the highest percentage (16.8 percent) of loan applications followed by those in the accommodation and food services industry (13.6 percent) and financial sector (13.5 percent).



11.4 Reasons for not Applying for a Loan during the Period 2017 to 2022

Figure 43 shows that the main reasons why businesses did not apply for a loan were:

- High interest rates;
- Lack of collateral; and
- Low income.



11.5 Success Rate for Loan Applications

Table 12 shows that the average success rate for loan applications was 79.9 percent in the period 2017 to 2022. This success rate was highest amongst:

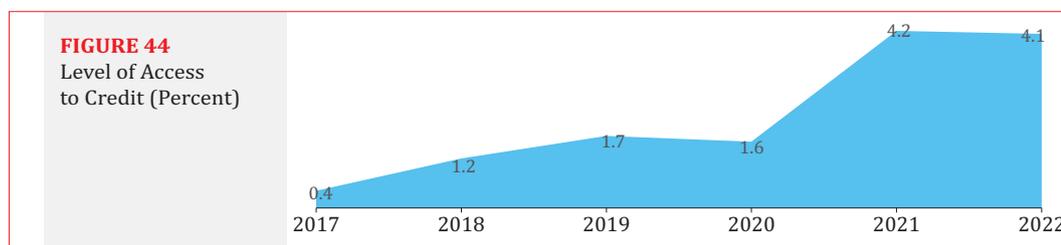
- Urban based MSMEs; and
- Those operating in the formal sector.

TABLE 12 LOAN APPLICATION SUCCESS RATE DURING THE PERIOD 2017 TO 2022 (PERCENT)

	2017- 2022	2017	2018	2019	2020	2021	2022
All MSMEs	79.9	91.7	69.7	74.4	72.3	81.8	83.7
Region							
Rural	75.2	73.7	45.1	54.1	65.3	89.3	77.4
Urban	81.3	94.2	76.2	81.0	74.4	79.8	85.6
Formality							
Formal Sector	80.9	79.4	71.1	84.6	80.8	82.8	80.9
Informal Sector	79.8	94.0	69.5	73.1	63.2	81.8	84.1

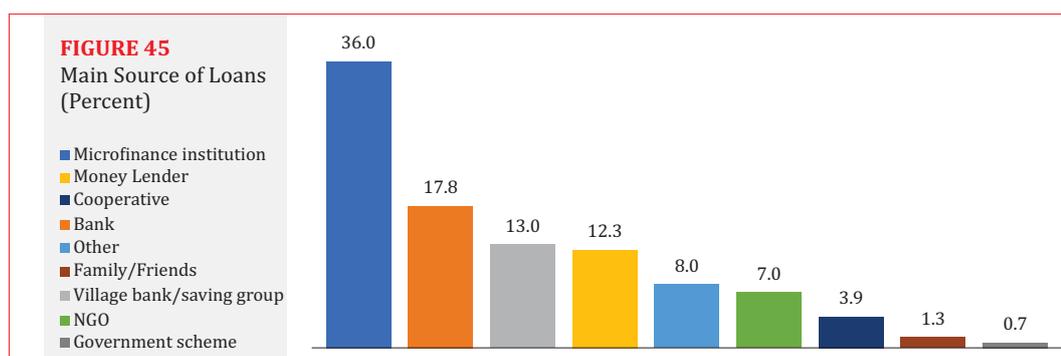
11.6 Level of Access to Credit

Access to credit amongst MSMEs during the period 2017 – 2022 was low, averaging 2.2 percent. The highest level of access (4.2 percent) was reported in 2021 while the lowest was in 2017 (Figure 44).



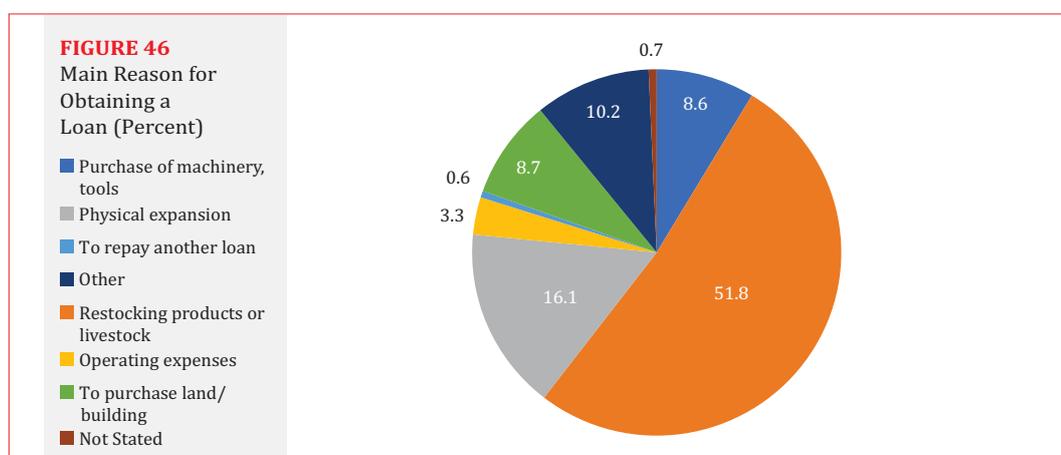
11.7 Main Source of Loans

The Survey showed that the main source of loans for MSMEs was from microfinance institutions (36 percent) followed by commercial banks (17.8 percent). Less than one percent of MSMEs accessed loans from Government schemes (Figure 45).



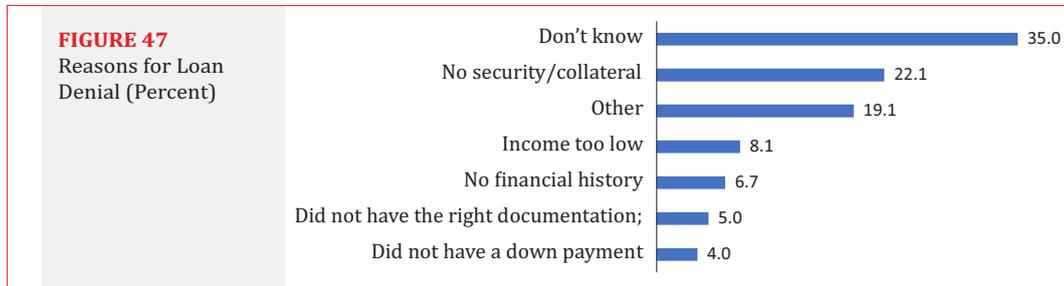
11.8 Reason for Obtaining a Loan

Results show that most MSMEs (51.8 percent) obtained loans for the purpose of restocking their products or livestock (Figure 46).



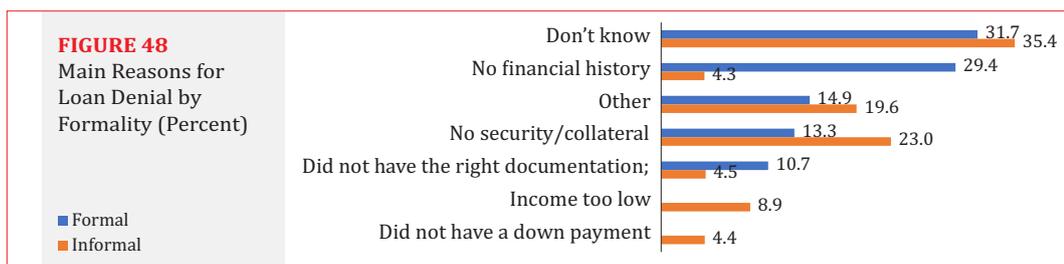
11.9 Reasons for Loan Denial

Figure 47 shows that 35 percent of MSMEs did not know the reason their business loans were denied while 22.1 percent reported that they did not have collateral.



11.10 Reasons for Loan Denial by Formality

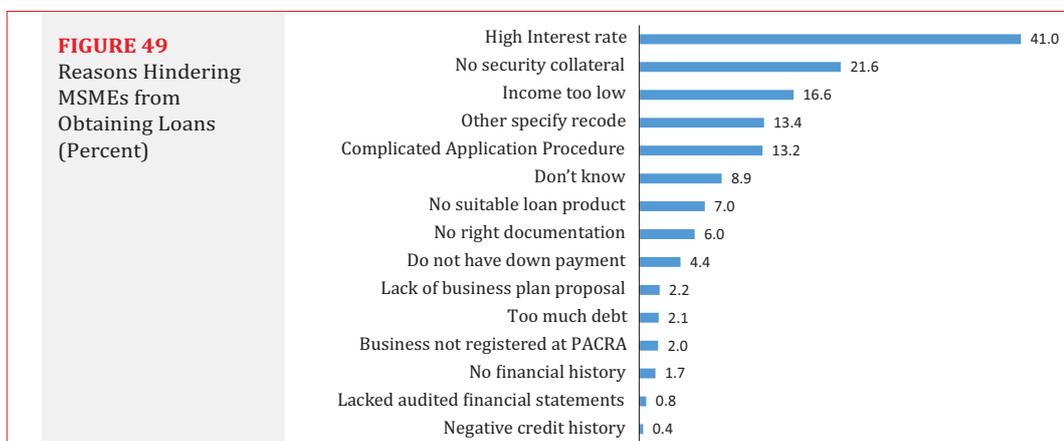
Figure 48 shows that 29.4 percent of business owners in the formal sector indicated that lack of financial records was the main reason their loan application was denied, while 23 percent of those in the informal sector indicated lack of security/collateral. However, 31.7 percent of business owners in the formal sector and 35.4 percent of those in the informal sector did not know why their loan application was denied.



11.11 Reasons Hindering MSMEs from Obtaining Loans

Figure 49 shows that the main reasons hindering most MSMEs from obtaining loans were:

- High interest rates;
- Lack of collateral; and
- Low income or turnover.



11.12 Time Taken for Loan Disbursement

The Survey showed that most MSMEs received their loan disbursement within 2 weeks of loan application (Figure 50)



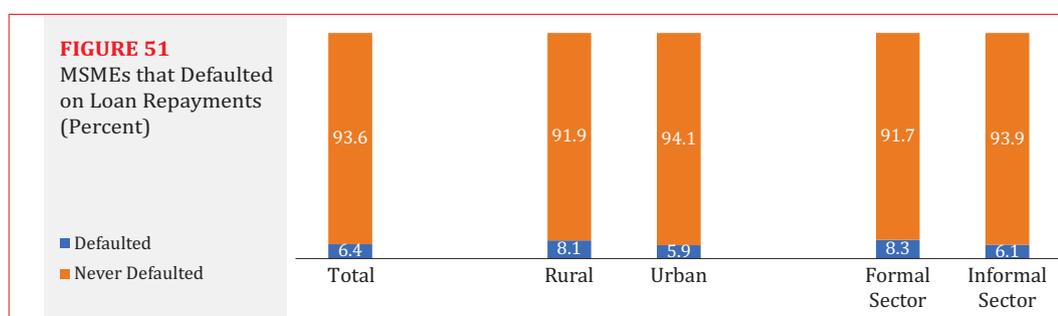
Further, the Survey showed that the average number of days for Community Based Financial Institutions (CBFIs) and family/friends to disburse a loan were 6 and 8, respectively. Government schemes and cooperatives took the longest average number of days to disburse a loan at 27 and 35 days, respectively (Table 13).

TABLE 13 AVERAGE NUMBER OF DAYS TO DISBURSE A LOAN FROM DATE OF APPLICATION

Type of Provider	Total	Rural	Urban
All FSPs	15	15	14
Village bank/Savings group	6	5	6
Family/Friends	8	1	14
Microfinance institution	13	8	14
NGO	17	18	16
Bank	17	25	17
Money Lender	18	21	16
Government scheme	27	30	26
Cooperative	35	38	31

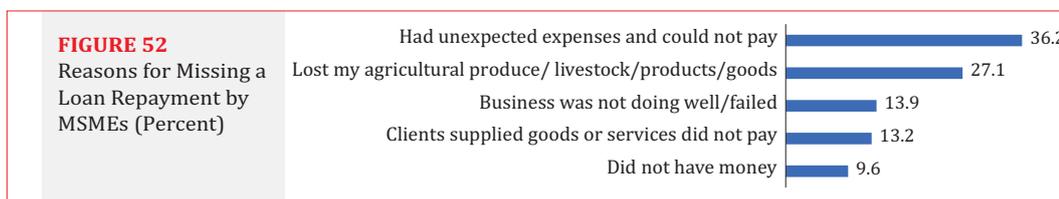
11.13 Default on Loan Repayment

Figure 51 shows that in the period 2017 – 2022, 6.4 percent of MSMEs had defaulted on a loan repayment while 93.6 had never defaulted. The percentage of MSMEs that had defaulted on a loan repayment in rural areas (8.1 percent) was higher than in urban areas (5.9 percent). Further, there were more MSMEs that defaulted in the formal sector than the informal sector.



11.14 Reason for Missing Loan Repayment

The Survey showed that the main reasons for missing loan repayments by most MSMEs were incurring unexpected expenses and loss of agricultural produce or products (Figure 52).



11.15 Other Types of Financing

Regarding other types of financing, Table 14 shows that 16.1 percent of MSMEs obtained financing in the form of gifts/grants. However, over 80 percent of MSMEs did not access any of the listed financing options.

TABLE 14 OTHER FORMS OF FINANCING ACCESSED BY THE BUSINESS (PERCENT)

Type of Financing	Accessed	Never Accessed
Gift/Grant	16.1	83.9
Crowd funding financing	1.8	98.2
Private equity financing	0.9	99.1
Private investor financing	0.5	99.5
Venture capital financing	0.4	99.6
Capital markets products	0.3	99.7
Other	0.3	99.7

12.0 SAVINGS AND INVESTMENTS

12.1 MSMEs with Bank Accounts

The Survey showed that 6.5 percent of MSMEs had either personal or business bank accounts while 93.5 percent had no bank accounts. Out of those who had bank accounts, 71.5 percent were business accounts while 28.5 percent were personal accounts (Figure 53).

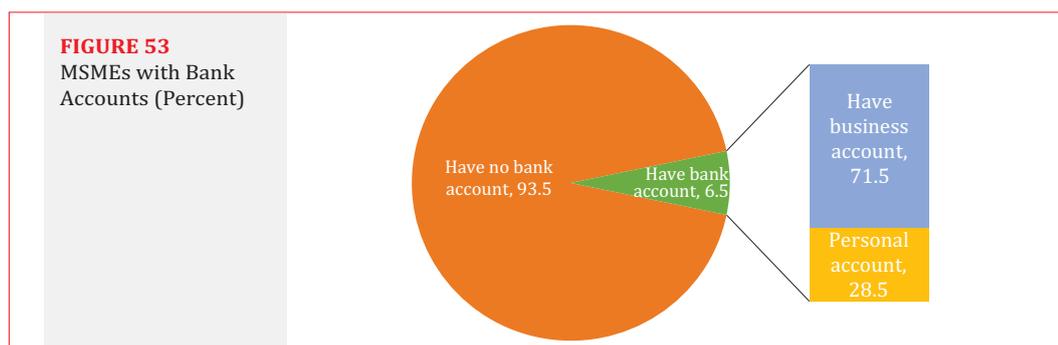


Figure 54 shows that the highest percentage of MSMEs that had business accounts were in urban areas and the formal sector:

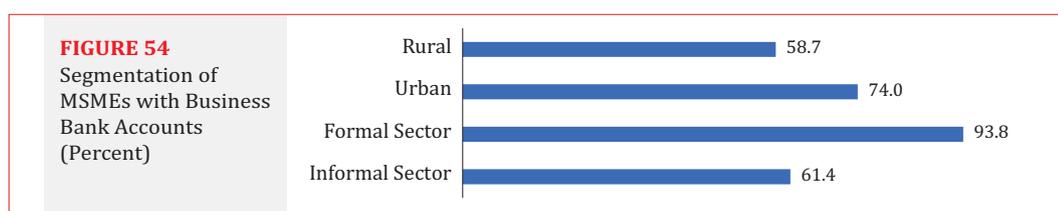
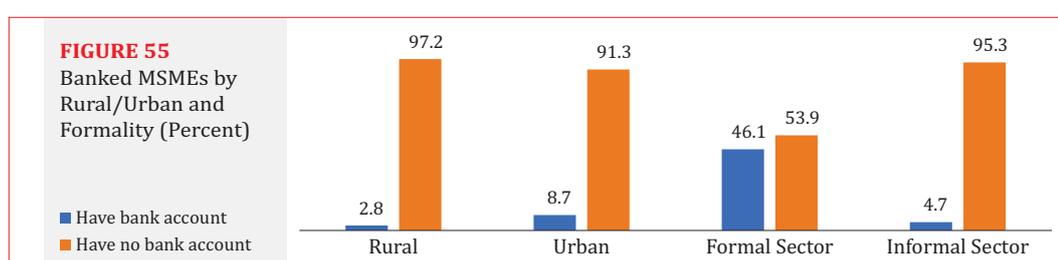


Figure 55 shows that the highest percentage of MSMEs with bank accounts were mostly:

- Urban based; and
- Formal.



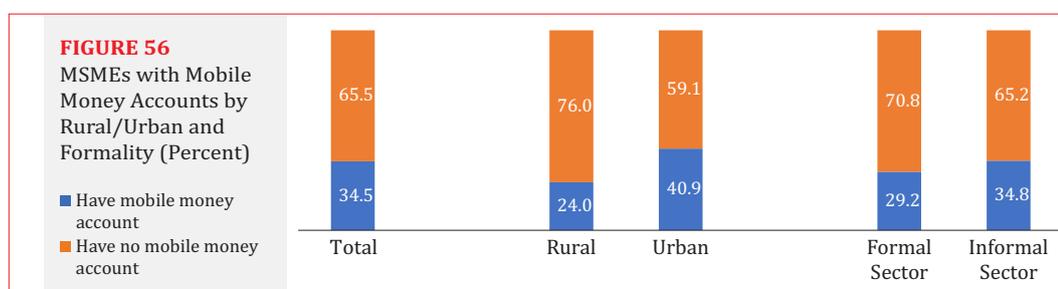
12.2 Access to Other Financial Products and Services

The Survey shows that 34.5 percent of MSMEs had a mobile money account while 65.5 percent had no mobile accounts. Less than two percent of MSMEs had savings, insurance, investments or securities accounts (Table 15).

TABLE 15 MSMEs ACCOUNTS WITH FINANCIAL SERVICE PROVIDERS (PERCENT)

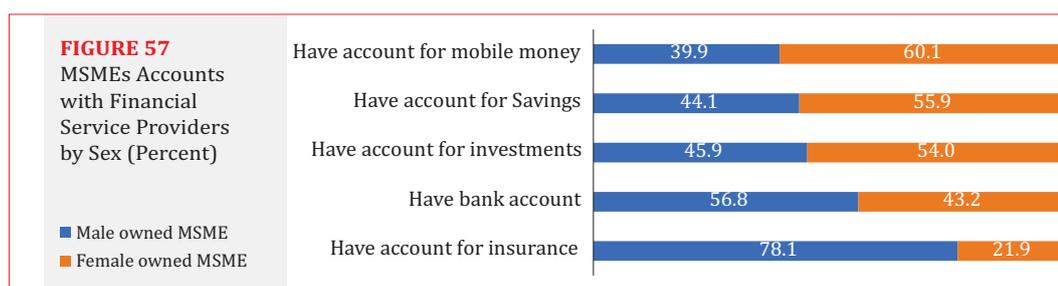
	Have account	Have no account
Mobile money account	34.5	65.5
Savings Account	1.9	98.1
Insurance for your business	0.5	99.5
Business Investment	0.1	99.9
Business Securities	0.1	99.9

Figure 56 shows that of all the MSMEs that had mobile money accounts, 40.9 percent were in urban areas while 24 percent were in rural areas. Further, 34.8 percent of MSMEs were in the informal sector while 29.2 percent were in the formal sector.



12.3 Type Of Financial Products by Sex

Figure 57 shows that a higher percentage of females had mobile money, savings, and investment accounts compared to males. In contrast, more males than females had insurance and commercial bank accounts.

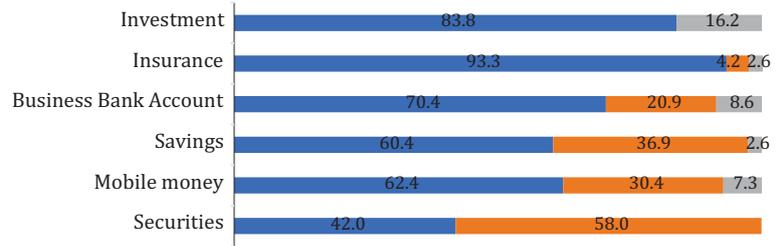


12.4 Understanding of the Complaints Handling Procedure

Figure 58 shows that the understanding of complaints handling procedures was highest for MSMEs with insurance accounts (93.3 percent) followed by those with investment accounts (83.8 percent). The least were MSMEs with securities accounts at 42 percent.

FIGURE 58
Understanding of the complaints handling procedures by product type (Percent)

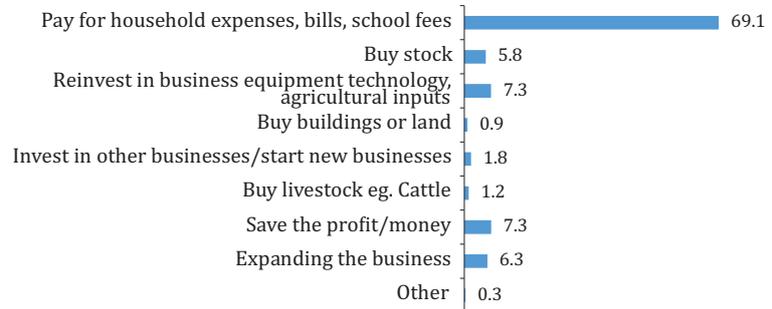
- Understand recourse procedure
- Do not understand recourse procedure
- Not aware of recourse procedure



12.5 Usage of Business Profits

The Survey showed that most MSMEs used business profits to pay for household expenses, bills and school fees (Figure 59).

FIGURE 59
Use of Business Profits by MSME (Percent)

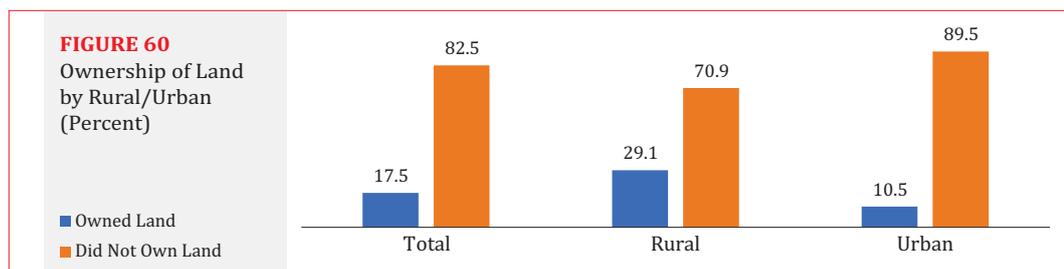


13.0 BUSINESS ASSETS

This section provides ownership information on assets such as land and buildings by rural/urban and formality.

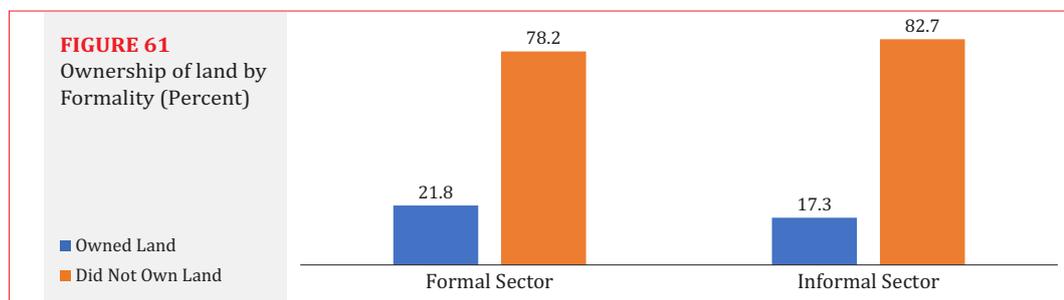
13.1 Ownership of Land

Figure 60 shows that 17.5 percent of MSMEs owned land while 82.5 percent did not own land. Further, land ownership was higher in rural areas compared to urban areas.



13.2 Ownership of land by Formality

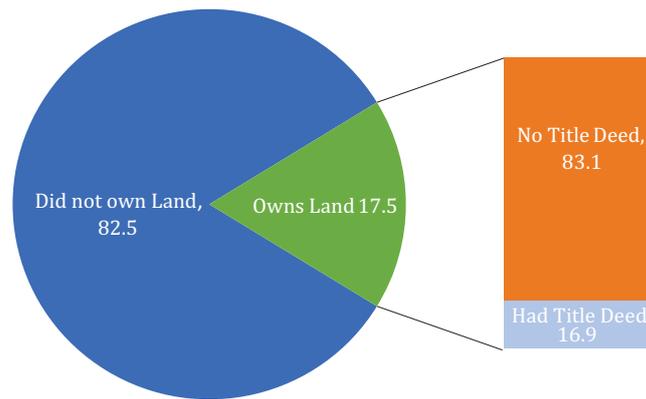
Figure 61 shows that the percentage of MSMEs who owned land in the formal sector (21.8 percent) was higher than those in the informal sector (17.3 percent).



13.3 Ownership of Land by Title Deed

Figure 62 shows that out of the 17.5 percent of MSMEs who owned land, 16.9 percent had title deeds while 83.1 percent did not.

FIGURE 62
Ownership of Land
by Title Deed (Percent)

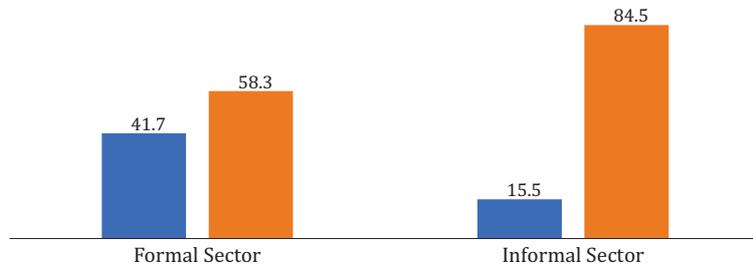


13.4 Ownership of Title Deed by Formality

Figure 63 shows that 41.7 percent of MSMEs in the formal sector who owned land had a title deed compared with 15.5 percent in the informal sector.

FIGURE 63
Ownership of Title
Deed by Formality
(Percent)

■ Has Title Deed
■ No Title Deed

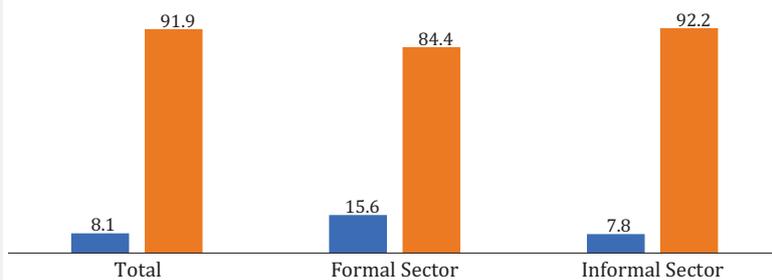


13.5 Ownership of Buildings

Figure 64 shows that 8.1 percent of MSMEs owned a building. There were more MSMEs in the formal sector that owned a building compared with the informal sector.

FIGURE 64
Ownership of a
Building by Formality
(Percent)

■ Owns Building
■ Does not own a building

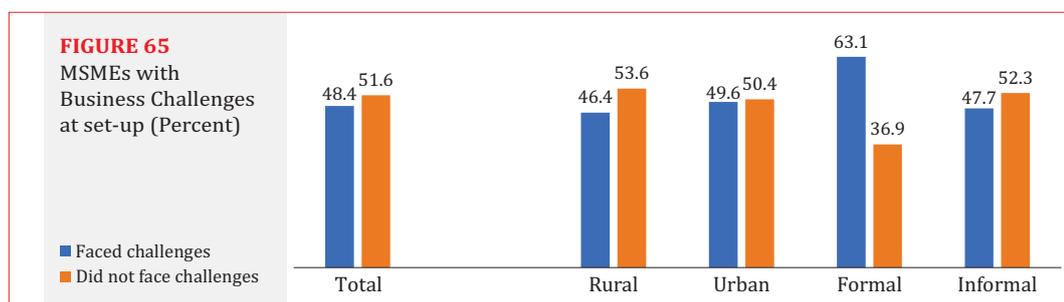


14.0 BUSINESS CHALLENGES

This section presents the challenges faced by MSMEs at set-up and whilst running their businesses.

14.1 MSMEs with Business Challenges on initial set-up

The Survey showed that 48.4 percent of all MSMEs faced business challenges when setting up their businesses. Further, a higher percentage of MSMEs in urban areas and the formal sector faced challenges in setting up businesses compared to those in rural areas and the informal sector (Figure 65).

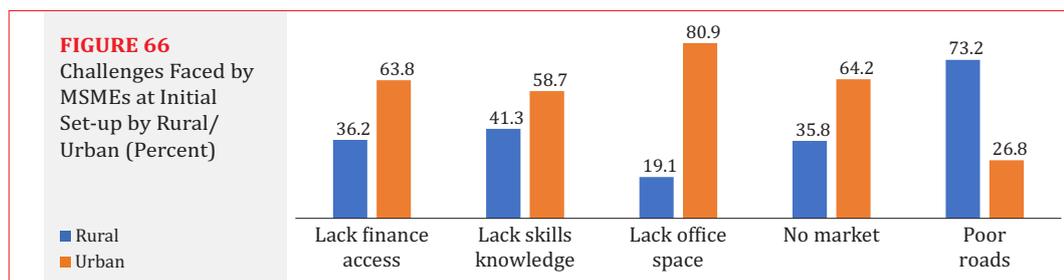


14.2 Business Challenges faced on initial set-up By Rural/ Urban

Figure 66 shows that the main challenges faced on initial set up by MSMEs in urban areas were:

- Lack of office space;
- No market; and
- Lack of access to finance

MSMEs in rural areas reported poor roads, lack of skills and no market as the main challenges on initial set up of their businesses.



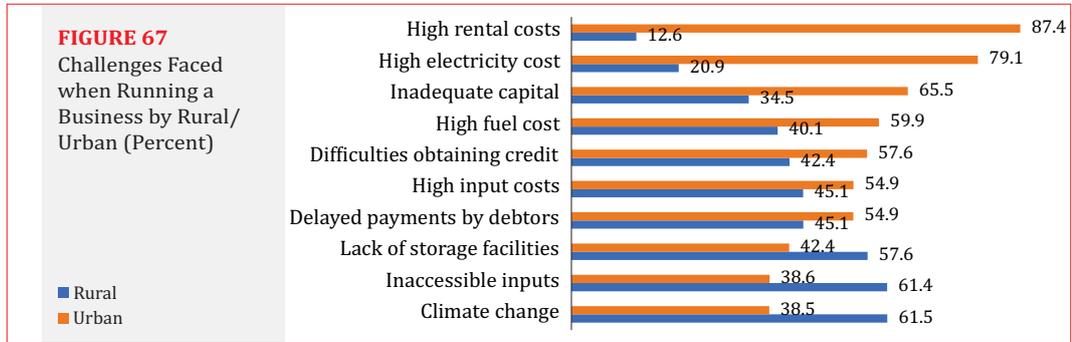
14.3 Challenges faced when running a Business by Rural/ Urban

Figure 67 shows that the main challenges faced by MSMEs in urban areas when running the business were:

- High rental costs;
- High electricity costs; and
- Inadequate capital.

In contrast, the highest percentage of MSMEs in rural areas reported the main challenges faced as:

- Climate change;
- Inaccessible inputs; and
- Lack of storage facilities.

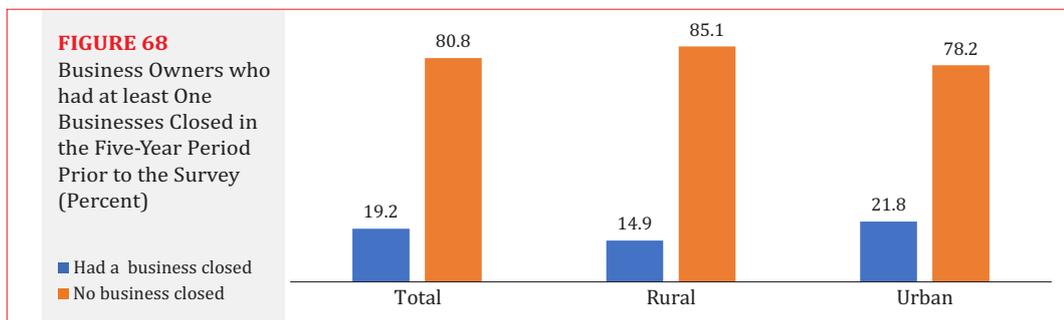


15.0 BUSINESS CLOSURE

This section presents details about business owners who reported closure of at least one business in the five-year period prior to the Survey.

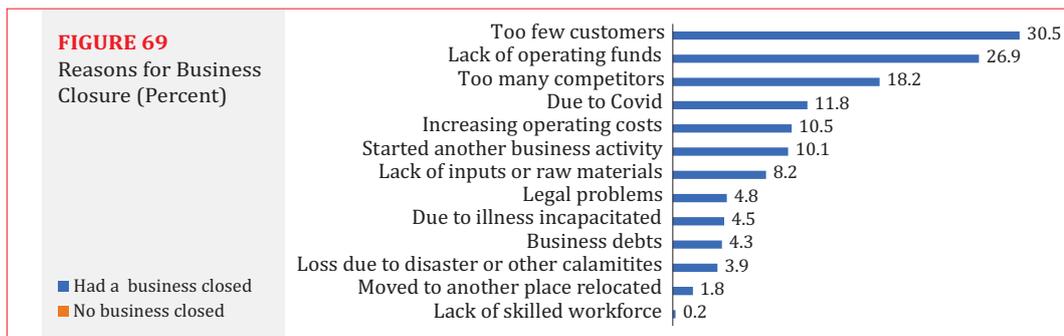
15.1 Business Closure - Last Five Years

Figure 68 shows that 19.2 percent of the business owners indicated that at least one of their businesses closed in the five-year period prior to the Survey while 80.8 percent of business owners did not report any closures. More business owners in urban areas (21.8 percent) had at least one of their businesses closed compared to those in rural areas (14.9 percent).



15.2 Reasons for Business Closure

Business owners who reported that at least one of their businesses closed in the five-year period prior to the survey cited having few customers and lack of operating funds as the main reasons for closure (Figure 69).

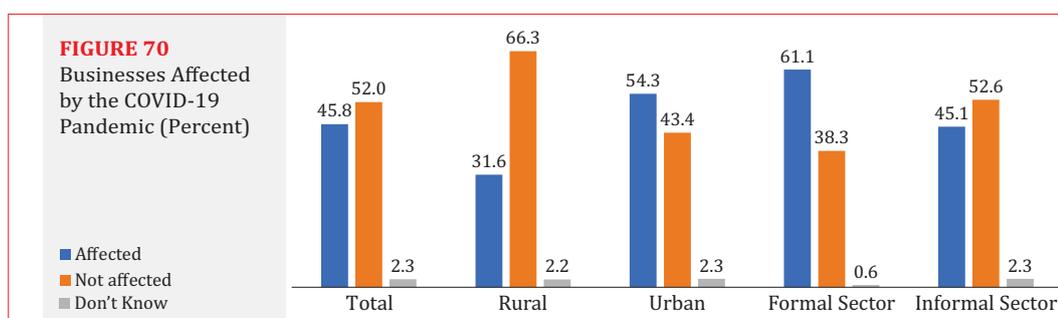


16.0 COVID-19 AND CLIMATE CHANGE

Climate change and the outbreak of the COVID-19 pandemic posed significant challenges for MSMEs in Zambia, impacting their operations, productivity, and long-term sustainability. These challenges included disruption of supply chains and costly adaptation measures. This section reflects the perceptions of business owners on the impacts of climate change and COVID-19 on their businesses.

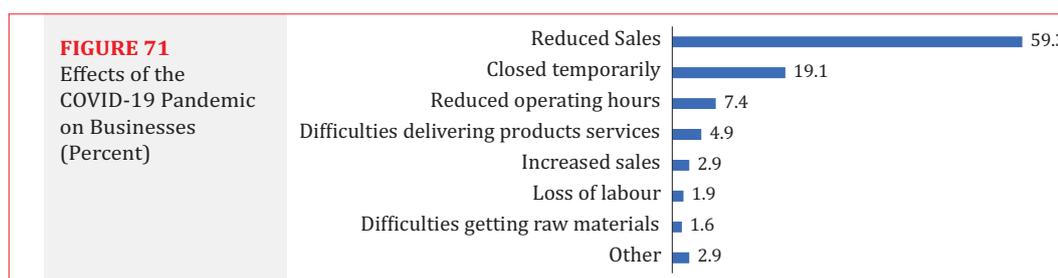
16.1 Businesses affected by the COVID-19 Pandemic

Figure 70 shows that 45.8 percent of MSMEs reported that their businesses were affected by the COVID-19 pandemic while 52 percent were not affected. Analysis by region showed that a higher percentage of MSMEs in urban areas (54.3 percent) than to those in rural areas (31.6 percent) reported that their businesses were affected by the COVID-19 pandemic. Further, 61.1 percent of MSMEs in the formal sector reported their businesses were affected by the COVID-19 pandemic compared with 45.1 percent in the informal sector.



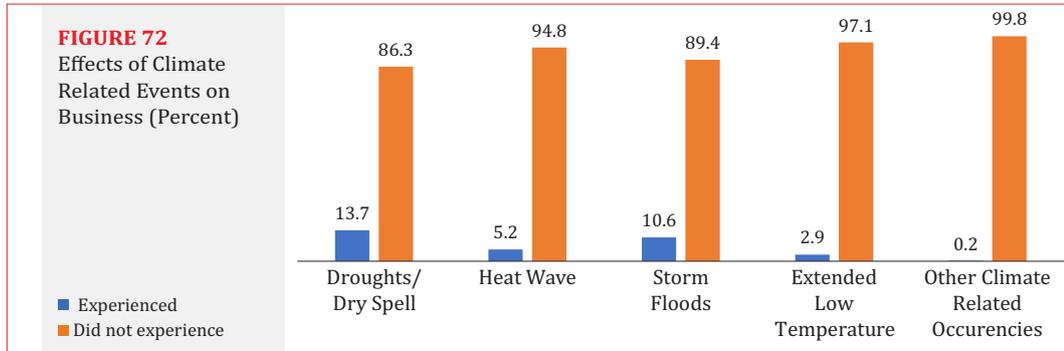
16.2 Effects of the COVID-19 Pandemic on Business

Figure 71 shows that the effects of the COVID-19 Pandemic on MSMEs were largely reduced sales and temporal closures.



16.3 Climate Change Related Events

Figure 72 shows that more than 86 percent of MSMEs reported that they did not experience any of the listed effects related to climate change (Figure 18.1)



17.0 CONCLUSION AND RECOMMENDATIONS

The MSME Survey findings indicated that 27.3 percent of adults (15 years or older) owned at least one micro, small or medium enterprise out of 5.3 million adults in the sampled households. Of these, 98.8 percent of the businesses were micro in size, while small and medium enterprises accounted for 1.2 percent. Further, the survey showed that 1.9 million people were employed in the MSME sector.

Ownership of MSMEs was highest amongst urban based adults (61.9 percent), females (60.9 percent), and the married (64.8 percent). The highest percentage of business owners in urban areas were from households in the fourth and fifth wealth index quintiles representing the wealthiest segments while those in rural areas were from households in the first and second wealth index representing the poorest segments.

The agriculture, forestry and fishing industry had the most businesses at 62.7 percent followed by services (19.2 percent) and manufacturing (9.1 percent). Only 4.4 percent of the MSMEs were formal compared to 95.6 percent operating in the informal sector. In addition, 12 percent of MSMEs were registered with the local authority, 6.2 percent by Zambia Revenue Authority, 1.9 percent by the Registrar of Cooperatives and 0.6 percent by the Ministry of Finance and National Planning. The Survey findings showed that the elevated levels of non-registration were due to lack of awareness regarding regulations and the perception of MSME owners that their businesses were too small to warrant registration.

Further, there were generally low levels of awareness amongst MSME owners about financial infrastructure and products targeted at their businesses such as; warehouse receipting, credit guarantee scheme, moveable collateral registry system, sustainable (social or green) bonds or loans, venture capital, overdraft facility, insurance, and development finance.

In terms of record keeping, only 28 percent of MSMEs kept financial records for their businesses. A higher percentage of these were urban based and in the formal sector compared to those in rural areas and the informal sector.

About 78 percent of MSMEs were sole proprietors while 21.6 percent were partnerships. Most of these used own funds for startup capital (69.3 percent), while 27.4 percent sourced startup capital from family and friends. Only 3 percent of startup capital was sourced from commercial banks, microfinance institutions, Government, NGOs and community based financial institutions such as savings groups.

Further, 7.3 percent of MSMEs applied for a loan from formal and informal FSPs at least once during the period 2017 to 2022. Barriers to accessing credit were high interest rates, lack of collateral and low-income levels.

Regarding bank accounts, only 6.5 percent of MSMEs had a personal or business bank account. Generally, access to other financial products such as savings accounts (1.9 percent), insurance (0.5 percent), investments and securities (0.2 percent) was low.

Implementation of the following recommendations would contribute to addressing the identified barriers impeding access to finance for MSMEs:

1. Development of the MSME finance strategy;
2. Review of legislation and tax regimes to ensure harmony at policy and regulatory framework level for promoting growth in the MSME sector;
3. Coordination of public and private sector players to intensify efforts of providing access to appropriate finance for startup capital;
4. Enhanced public awareness on the available MSME finance products/services through collaborative efforts with stakeholders;
5. Establishment of a one stop centre for formalisation of MSMEs with reduced documentation requirements;
6. Increased awareness programmes by Government agencies on the importance of formalised business enterprises and the processes for registration;
7. Structured financial literacy programmes on business skills, enterprise development and tax issues; and
8. Establishment of technical centres to equip entrepreneurs with skills to enhance productive capacity.

APPENDIX 1: KEY ECONOMIC INDICATORS

Year	2017	2018	2019	2020	2021	2022
Inflation (percent)	6.6	7.5	9.2	15.7	22.0	11.2
GDP Per Capita (LCU)	7,966.9	8,050.4	7,933.6	7,493.2	7,540.8	7,696.1
GDP (Constant LCU '000,000)	134,271	139,689	141,701	137,755	142,677	150,927
GDP Per Capita Growth (Annual Percent)	0.5	1.0	(1.5)	(5.6)	0.6	-
GDP Growth (Annual Percent)	3.5	4.0	1.4	(2.8)	3.6	4.7
Exchange Rate (Against the Dollar)	9.5	10.5	12.9	18.3	20.0	16.9

APPENDIX 2: SURVEY MANAGEMENT TEAM

Name	Role	Institution
Dr. Francis Chipimo	Deputy Governor - Operations	Bank of Zambia
Ms. Freda Tamba	Director – Non-Bank Financial Institutions Supervision	Bank of Zambia
Ms. Brenda Mwanza	Team Manager	Bank of Zambia
Mr. Kennedy Mukuka	Team Lead	Bank of Zambia
Ms. Chola Nakazwe	Team Lead	Zambia Statistics Agency
Mr. Godwin Sichone	Team Member	Bank of Zambia
Dr. Oswald Mungule	Team Member	Bank of Zambia
Mr. Banji Milambo	Team Member	Bank of Zambia
Ms. Thulani Musonda	Team Member	Bank of Zambia
Mr. Collins Muchipu	Team Member	Bank of Zambia
Mr. Wise Banda	Team Member	Bank of Zambia
Mr. Francis Mwinsa	Team Member	Zambia Statistics Agency
Ms. Harriet Namukoko	Team Member	Zambia Statistics Agency
Ms. Etambuyu Lukonga	Team Member	Zambia Statistics Agency
Ms. Bertha Nachinga	Team Member	Zambia Statistics Agency
Ms. Salome Naluyele	Team Member	Zambia Statistics Agency
Mr. Collin Masiye	Team Member	Ministry of Finance and National Planning
Ms. Pamela Chitulangoma	Team Member	Ministry of Small and Medium Enterprise Development

