

An Assessment of Informal Sector's Business Registration Patterns: Nature and Size among Micro, Small and Medium Enterprises in Lusaka



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ABSTRACT: The informal economy is an integral part of a larger economic landscape. Micro Small and Medium Enterprises (MSMEs) informality is attributed to government regulation, a lack of finance, and a lack of access to land, so they do not see the need to formalize. The primary goal of the study was to assess the informal sector's business registration patterns: nature and size among MSMEs in Lusaka. The study's objectives were: to describe the size and nature of businesses in the informal sector not registered with PACRA, to assess the efficacy of the policy framework designed by the Ministry of Small and Medium Enterprises to stir the growth of entrepreneurship in Zambia and to determine the business registration patterns and reason (s) why some of those MSME's have registered their businesses. A descriptive study was conducted with a sample size of 153. The sampling techniques used were purposive and snowball methods. A structured questionnaire was used to collect data and the questionnaire return rate was 82%. The study findings were that out of the 125 respondents, 58% were registered with PACRA and only 42% were not. The high number of MSMEs' reflect the size of informality. Most businesses that were not registered mainly operated in non-specialized wholesale and retail trade. The study findings also revealed that the Ministry of Medium and Small-Scale Enterprise Development had not completed the process of finalizing policy frameworks aimed at strengthening the growth of entrepreneurship in Zambia. The other study findings were that most MSME's registered their businesses mainly because it was a legal requirement. This was attributed to increased public awareness as a result of the passage of the Business Regulatory Act No. 3 of 2014. Lastly, the study was also able to identify a significant trend in the registration pattern of MSME's in Lusaka. There has been an increase in the number of registrations in the transport sector, while the wholesale and retail trade, agriculture, fishing and construction continue to top the trends. MSME registration helps to access business support services, meeting legal requirements, and promoting business growth. The MCTI should use the findings of this study to map formally registered businesses, track their growth, and enroll them in business accelerator programs.

KEYWORDS: Informal Sector, Business Registration Patterns, Micro, Small and Medium Enterprises, Lusaka.

1. INTRODUCTION

Keith Hart is credited with coining the term "informal sector," which he first used in the early 1970s (Ypeij, 2000). Hart distinguished between formal and informal income opportunities based on wage-earning/salaried jobs and self-employment, respectively. Hart took a positive view of the informal sector, assuming that the emergence of the informal sector is due to a surplus of labor in urban areas (Hart, 1973). The increase in urban workers was attributed to urban migration, population growth, and the proliferation of a modern capital-intensive industry incapable of meeting the growing demand for jobs (Ypeij, 2000). As a result, the solution for unemployed urban workers to increase their incomes and survival was seen as playing the role of the Small-Scale Entrepreneur by engaging in income-generating activities outside of salaried jobs (Hart, 1973). As a result, the informal economy was regarded as having the potential for growth that could be stimulated by improving the environment in which small-scale activities took place.

Over the last two decades, an observable trend has seen an increasing number of firms in the informal sector regularize their positions with the respective company registrar. Aside from different SME categorizations in different contexts, another significant limitation in small and medium-sized company research is the use of only formal SME statistics. Particularly in developing countries, the informal (unregistered) small and medium-sized business sector frequently outnumbers the formal (registered) one. According to International Finance Corporation (IFC) reports, informal SMEs in India outnumber formal SMEs by 17 times. This

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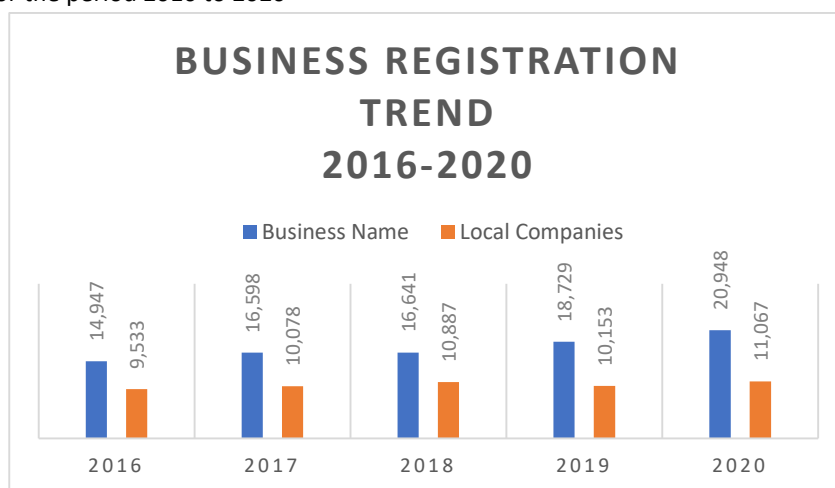
issue is not limited to developing economies; it is also visible in advanced economies. According to UK business statistics, there were an estimated 2,740,000 unregistered businesses in 2013, accounting for 56.0 percent of all private sector businesses (UK Department for Business Innovation and Skills, Statistical Release, 2013).

In Zambia, the private sector contributes an estimated 80% of all jobs in the country (Nuwagaba, 2015). It is clear that enterprises operating in the private sector under different industrial streamlines have contributed greatly to the employment levels in the Zambia. Even informal MSME's with only 2 or 3 jobs available for full functioning play a huge role in contributing towards economic growth and development especially when one considers the number of such SMEs being in the thousands, multiplying the number of jobs created overall.

Zambia Development Agency is in charge of monitoring the activities of SMEs in the country and developing them; it is in charge of programs such as establishing strategic partnerships with various SME development organizations and building their capacity in order to improve their operational proficiency (IFAD, 2013). There appears to be a lack of clarity regarding SMEs operations in the country, and without adequate documentation on their activities, it would be difficult to clearly portray their contribution to the country's economic development. The Patents and Companies Registration Agency (PACRA) is a statutory body whose reports to the Ministry of Commerce, Trade, and Industry. PACRA was established under the Patents and Companies Registration Agency Act No. 15 of 2010 with the primary mandate of providing services for business registration and intellectual property protection. The Agency grants Intellectual Property Rights and acts as a legal repository for Business Registration and Intellectual Property data (PACRA, 2010).

In 2021, the Zambian government established the Ministry of Small and Medium Scale Enterprise Development with the sole purpose of stimulating the growth of MSME's in Zambia. It also helps to mitigate some of the unique challenges that these informal players face by developing policies and interventions that assist these entities in transitioning to the formal sector and contributing to the country's GDP.

- MSMEs generate the majority of employment opportunities and income in Zambia, particularly after the implementation of Structural Adjustment Programmes (SAPs), which resulted in an increase in urban informality (MCTI, 2009). This is because SAPs altered the social and economic environment and increased informality as a result of policies such as privatization of government parastatals and retrenchments, which resulted in so many people becoming destitute as a result of job losses. As a result, SMEs have continued to grow and, in some cases, continue to operate in harsh environments with ambiguous policy frameworks. Mbuta reported that when it comes to the types of businesses that small businesses are involved in, they primarily fall under the production of consumer goods (Mbuta, 2007). As a result, small businesses in Zambia are primarily engaged in trading (49%) followed by simple manufacturing and services (41% and 10%, respectively) (MCTI, 2009). The various characteristics, types, and activities that exist in Zambia's informal economy qualify the Informalisation approach's argument that the informal economy is highly differentiated and thus heterogeneous. The purpose of this paper is to assess the informal sector's business registration patterns, its nature and size taking into account the challenges and opportunities that MSME's face based on the formality or informality status. It also looks into the various government interventions aimed at promoting MSME's regulation and business registration campaigns. The focus is to assess whether the formal or informal MSME has an effect on the overall performance of their business. Figure 1.1 below highlights the business registration trends observed at PACRA for the period 2016 to 2020



Source: PACRA (2021)

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1.1. Problem Statement

One of Zambia's main economic challenges is an ever-growing informal sector (Shah, 2012). This sector is typically characterized by its ease of entry, low levels of skills, labour intensive technology, and small firm size. It has grown to assume a prominent role in most African economies, including Zambia. Recent studies (Shah, 2012; Mumba, 2017) have shown that the informal sector in Zambia employs a large share of the adult working population, and has grown rapidly in recent years. The informal sector in Zambia raises a number of intriguing questions, indicating a gap in knowledge about both its size and the characteristics of firms operating within it. However, very little is known about the actual size and nature of businesses in Zambia's informal sector today, particularly those that are and are not registered with PACRA. Furthermore, it is unknown why some informal players choose to register while others continue to operate informally.

There are three distinct perspectives on the nature of this industry. The first point of view (De Soto, 2000) contends that unofficial firms are actually or potentially very productive, but are hampered by government regulations, a lack of finance, and a lack of access to land, so they do not see the need to formalize. According to opposing views, the informal sector consists of firms that are fundamentally different from those in the formal sector because it is made up of less educated people who do not see the value in formally registering their businesses (Ntungo, 2009). Another point of view is that these businesses are afraid of government regulation and do not want to pay taxes and related levies for being formally recognized (Nuwagaba, 2015). These points of view necessitate further research into why a large number of MSMEs remain unregistered. This could be answered by examining the motivations of players who choose to register. As a result, this study will assess the business registration patterns, nature and size among MSME's as well as the reasons for formal business registration by MSME's by gathering first-hand information from MSME's operating in the informal sector. This study aims to contribute to the body of knowledge by analyzing the actual registration patterns, the efficacy of the policy framework to stir entrepreneurship growth in Lusaka Zambia and the reason (s) why some of the MSME decide to formalize.

1.2. Study Objectives

- To describe the size and nature of businesses in the informal sector not registered with PACRA.
- To assess the efficacy of the policy framework designed by the Ministry of Small and Medium Enterprises to stir the growth of entrepreneurship in Zambia.
- To determine the business registration patterns and reason (s) why some of those MSME's have registered their businesses.

2. LITERATURE REVIEW

2.1. Related Literature

2.1.1. Size and Nature of Businesses in the Informal Sector

Informality is a concept applied to refer to the extent by which an enterprise and/or a job is devoid of specific attributes that determine the level of formality. Some of most widely used attributes to determine formality of enterprises are location, legal registration and number of workers in an enterprise. Formality of a job, on the other hand, is often determined by whether the job has a contract, an entitlement to annual paid/sick leave or an entitlement to a social security coverage through registration with social security scheme.

Given the various approaches to informality, it is possible to argue that different conceptualizations of urban informality do exist in practice. According to Sindzingre (2006), informality can be defined by the types of activities, employment, and firm size. As such, informality is defined as unregulated labor-intensive activities involving self-employed entrepreneurs running SMEs. According to the argument, informal activities occur outside of state regulations and may include various types and degrees of illegality. Some of the types of illegality identified include tax evasion and noncompliance with labor regulations (Sindzingre, 2006). The informal economy exists in many forms and in all countries in the world. It includes small manufacturing enterprises and small-scale traders and service providers, legal and illegal activities, and a wide array of artisans. The areas of activity also vary extensively, ranging from construction, vehicle repair and transport, arts and crafts to food and agriculture. Informality is driven largely by factors linked to the economic context, the legal, regulatory and policy frameworks and to some micro level factors such as low levels of education, discrimination, poverty and, lack of access to economic resources, to property, to financial and other business services and to markets. The main characteristics of the informal economy include: resilience and persistent growth, lower growth and productivity, dominance of self-employment in informal enterprises (i.e. small and/or unregistered) and wage-employment in informal jobs (i.e. without secure contracts, worker benefits or social protection) and the strong presence of women.

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Meanwhile, Harris-white argued that in understanding informality, what matters are the boundaries where state regulation begins and ends, rather than the intrinsic characteristics of activities, which determine the degree of informality (Harriss-White, 2010). As a result, Harris-white distinguishes two types of informality: the first consists of firms that are minimally or completely unregistered and fall below a specific country's taxation threshold or labor regulation, which he refers to as Small-Scale Informality (SSI). This type of informality, according to him, makes use of low levels of capital, skills, and technology. Harris-white goes on to argue that this type of informality is highly differentiated, consisting of self-employed and wage workers, some of whom act entrepreneurially and save money, while others eke out a living in difficult circumstances. The second type of informality identified by Harris-White occurs in and around registered firms but is not subject to formal regulation (Harriss-White, 2010). Firms that disregard formal laws are involved in this.

In Zambia, the informal economy employs a large share of the adult working population in Zambia and this proportion has grown rapidly in recent years. The OECD and ILO (2018) estimate that Zambia's informal economy employs 87.5% of the country's total workforce and a staggering 91% of women. In urban areas about 65% of all workers are employed in the informal economy. In rural areas, the informal economy employs up to 97% of workers. Furthermore, while the informal economy in Zambia takes a big share of the overall economy it contributes the smallest share to GDP. In 2010, it accounted for merely 33% of GDP while accounting for 84% of the labour force. The small enterprise sector in Zambia is largely comprised of enterprises engaged in the production of goods and services, the primary goal of which is to generate employment and income for the individuals involved (MCTI, 2007). Furthermore, these micro-enterprises are distributed across traditional economic sectors that rely on low-tech; social networks, and their focus is on local and less prosperous segments of the market (MCTI, 2007). This is due to the fact that establishing an entity in traditional economic sectors such as pottery is easier than in modern activities (e.g., welding) because modern activities require more complex competencies (Klepp, et. al, 2004). As a result, the majority of informal operators are engaged in survival activities as such, formality is deemed to be unnecessary.

A separate survey of large firms with more than 50 employees was included in the Zambia Business Survey 2008. 99% of these businesses reported being tax-registered. Even within the MSME universe and the urban microenterprise sector, we see that the average firm size of informal firms is nearly half that of formal firms. Formal firms are nearly four times larger than informal firms in terms of sales, indicating that size is clearly a driving factor for formalisation. Despite some claims to the contrary, and despite the high visibility of a few large informal in Zambia's urban marketplaces, our data show that informality is primarily a problem of small firms. Formalization is a necessary step for firms to survive and grow out of the micro size class. Firm age does not differ significantly across groups, indicating that this is not a short-run disequilibrium phenomenon in which new young firms are more likely to begin as unregistered operations (Shah, 2012). Table 2.1 indicates the findings of the size and characteristics of the formal and informal size of firms in Zambia.

Table 1: Size and Age Characteristics of Formal and Informal Firms

	MSME Universe				Urban Microenterprises	
	Agriculture		Non-Agriculture		Non-Agriculture	
	Informal	Formal	Informal	Formal	Informal	Formal
Total Workers	4.4	6.9	2.9	4.7	2.5	4.3
Median Monthly Sales (kwachas)	325,000	1,400,000	350,000	2,000,000	2,400,000	7,500,000
Firm Age	10.8	10.3	6.5	6.9	7.6	7.5

Source: Zambia Business Survey, 2008 and World Bank Enterprise Survey (2007)

2.1.2. Policy Framework for Growth of Entrepreneurship in Zambia

Small and medium-sized enterprises (SMEs) have been at the forefront of accelerating economic growth in a number of countries and economic blocs over time. For example, the majority of SMEs in Southern African countries employ at least 50 people, depending on their size, and this helps to relieve states of a sizable portion of the employment burden (Tshuma and Jari, 2013). In South Africa, SMEs operate in every city and provide employment for people; approximately 4 million jobs are created through this sector, which in some cases may be considered the informal sector, with the formal sector providing only 7 percent (Thamas, 1989). This massive number of jobs and output contributes significantly to each country's GDP and can only be accounted for through formal registration.

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A favourable business environment is essential for SMEs to thrive, but you will find that some of the advanced African economies do not make it easy for SMEs to operate because the business environment is hostile, such as high taxes, inflation, and unstable exchange rates, all of which impact profits, as has happened significantly in South Africa and other African countries (World bank, 2006; Olawale and Garwe, 2010). Furthermore, most African economies are poor and corrupt, making the operation of SMEs very difficult. As a result, they become noncompliant and try to avoid regulatory requirements, which is why, according to the World Bank (2005), 70% of SMEs confirm that corruption hinders so much of their operations, compared to 60% of larger organizations. Policy for MSME Development. In 2008, the GOZ established a policy for the development of micro, small, and medium enterprises. 50 Examine National Policy Developments in Targeted Countries Concerning the Formalization of the Informal Economy. The Policy aims to: (i) contribute to the country's GDP and overall job creation; (ii) facilitate growth in value-addition using local raw materials; (iii) strengthen forward and backward linkages between MSMEs and large enterprises; (iv) improve the productivity of the MSME sector; and (v) stimulate broad-based economic growth. It focuses on a number of areas in order to achieve the aforementioned goals. They are as follows: entrepreneurship capacity development, MSMEs' innovation and technological capacity, access to finance, markets, business development services (BDS), business infrastructure, and so on. National Industrial Policy No. 2 The GRZ developed the National Industrial Policy (NIP) in 2018, with the overall goal of "transforming Zambia from a producer and exporter of primary products into a net exporter of value-added goods utilising local primary resources with increased citizen participation." One of its specific goals is to "promote the growth of cooperatives and micro, small, and medium-sized enterprises in industrial development."

To accomplish this goal, the GRZ committed under the NIP to: (a) strengthen backward and forward linkages between cooperatives, MSMEs, and large manufacturing firms; (b) promote the use of cooperatives as a business model for start-up enterprises; (c) develop a framework for the formalisation of MSMEs; (d) establish industrial yards based on the location and availability of resource endowments; (e) promote and enhance access to affordable finance; and (f) facilitation.

Grimsholm and Poblete (2010) investigated internal and external factors that hampered SME growth in Thailand in another international perspective study. The researchers used a qualitative case study of SMEs in Thailand. According to the findings, a number of significant internal and external factors are impeding the growth of Thai SMEs. Informality, access to finance, competition, corruption, trade barriers, and macroeconomic factors were some of the most significant external factors. Poor management skills, a scarcity of skilled labor, flaws in marketing strategies, a lack of investment in research and development (R & D), a lack of new technology, and a lack of awareness about corporate social responsibility were identified as some of the most significant roadblocks

Businesses in the formal sector in Zambia are required to pay taxes for worker benefits, which are redistributed to workers by the government (updated information needed here) (updated information needed here) Prior research (Levy, 2010; Bennett, 2008) has shown that social programmes lead to informality by taxing formal sector workers and subsidising informal sector and non-salaried workers, who receive the benefits of these programmes but do not contribute to these costs. Several other factors, including the higher productivity of workers employed in formal sector firms, may contribute to higher wage costs. We do not address all of these issues here, but rather the magnitude of the labour cost difference between these firms. Labor cost differences are greatest for urban formal versus informal microenterprises. In comparison to the universe of MSMEs, both groups pay significantly higher wages. The averages for the MSME universe are much lower, indicating lower earnings and living costs in other parts of Zambia (Shah, 2012).

Formalization incurs a number of additional costs. The cost of formalisation is a major factor in the decision to become formal. A firm with a certain level of revenue may choose informality in a country with higher tax rates and much higher compliance costs than in a country with lower compliance costs. If the benefits of formal registration are not realised due to poor delivery of financial or infrastructure services, it may choose to remain informal. It may also remain informal if compliance costs are low, i.e., if inspectors are equally likely to seek bribes regardless of whether a company is formal or informal.

Mmieh and Mordi (2017) conducted research on the factors that influence the growth of SMEs in Ghana. It was a case study in which the unit of analysis was entrepreneurs (or owner/managers of SMEs). In-depth interviews with entrepreneurs (or owner/managers) of SMEs and some Key Informants in Ghana who were familiar with SMEs in Ghana both academically and through exposure to Ghanaian socioeconomic life were used to collect data. A total of 75 owner managers from the three major sectors of the economy, namely agriculture, manufacturing, and services, were sampled. The findings revealed that education level, poor energy supply, access to external finance, competition, inflation, and government policies all have an impact on the informality of SMEs in Ghana. If the growth of SMEs in Ghana is to be consistent, the researcher made several recommendations, including a review of lending and borrowing regulations, favorable fiscal policies, measures to combat unhealthy competition, the

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provision of adequate training centers to equip entrepreneurs, and land acquisition regulations so as to attract more informal MSME's to register their businesses.

2.1.3. Reasons Why MSMEs Register their Business.

According to Foley and Green (1989), despite the large number of SMEs and their diverse range of activities, they all have one thing in common: they are all striving for success in some way. Business success can be defined in a variety of ways. The most widely accepted definition of success is financial growth with high profits. Other definitions of success, however, are equally applicable, and many businesses set alternative goals. Some people find fulfilment and success by creating new products. According to Harvard Business School (1998), the leading indicators of business success cannot be found solely in financial data. Quality, customer satisfaction, innovation, and market share are all metrics that often better reflect a company's economic condition and growth prospects than reported earnings.

Micro and small businesses require education and skills. However, a lack of fundamental business management and entrepreneurship skills is a major impediment to the growth and development of the SME sector (Sessional paper No 2 of 2005). Integration of entrepreneurial training into the country's education system, exposure of potential SME entrepreneurs to modern business management skills, and the creation of an environment that allows SMEs to emerge and thrive have all been significant challenges. According to research, the majority of people in Zambia who run micro and small businesses lack adequate education and skills. According to one study, those with more education and training are more likely to succeed in the SME sector (Shah, 2012). As a result, in order for small businesses to thrive in Zambia, people must be well informed about skills and management. With the proliferation of commercial colleges offering various computer applications, SMEs in ICT appear to be doing well. Furthermore, studies show that the majority of those running SMEs in this sector have at least a college degree (Mwila and Ngoyi, 2019).

Chowdhury and Alam (2017) investigated factors affecting Small and Medium Enterprises' access to finance in Bangladesh (SMEs). To investigate the reasons for their informality, data was collected from a sample of 86 SMEs from various types of businesses. Convenience sampling was used as a descriptive research method because the number of SMEs in the study area was so large that it was impossible to include all of them in such a short period of time. The findings of the study revealed that a number of factors contributed to their decision to remain unregistered, including lengthy registration processes, a long list of requirements, and a lack of understanding of the benefits of registration, with the main benefit being access to finance. However, MSMEs will still be unable to obtain credit due to a lack of collateral, so there was no need to register. The current study was relevant and similar to a review of factors affecting SMEs' access to growth and finance in Bangladesh. A number of factors affecting MSME business regularization were identified in the review.

Govori (2013) conducted a qualitative study in Kosovo on the factors affecting the growth and development of SMEs, using Kosovo as a case study. The goal of the research was to find factors that influenced the growth and development of SMEs in Kosovo, with a focus on the importance of regularizing business registration processes and how they influenced SMEs' growth and development. In Kosovo, a number of SMEs were polled. External factors such as access to finance, competition, corruption, and government policies all had an impact on why entrepreneurs would want to register their businesses in Kosovo, according to the study's findings. In terms of growth and access to finance in Kosovo, it was discovered that many SMEs registered their businesses in order to obtain funding from government agencies. This was observed in almost all new businesses that had trouble obtaining external financing to help them grow.

Sitharam and Hoque (2019) investigated the factors influencing the informality of small and medium-sized businesses in KwaZulu-Natal, South Africa (SA). The goal was to identify the internal and external factors that contribute to the informality of SMEs in KwaZulu-Natal, South Africa. This was a cross-sectional study conducted online with an anonymous questionnaire among 74 SMEs owners/managers who were members of the Durban Chamber of Commerce. The study's findings revealed that most SME's chose to remain un-registered to avoid regulation and avoid competition from technological advanced SME's with huge operating capital.

Deressa conducted another study on SMEs' access to bank financing in Zambia (2014). The goals were to determine the demand for and supply of financial services to the SME sector, as well as the possibility of broadening and deepening existing links between the banking community and SMEs. In-person interviews and a structured questionnaire were used in the research. The data for the study came from two samples. An SME sample of 200 SMEs, of which 187 were interviewed in Lusaka and Kabwe, and 18 questionnaires were distributed to commercial banks or financial institutions. The findings were unusual in that the majority of SMEs operators had little understanding of the fundamental principles of commercial bank lending and borrowing practices. This was significant for SMEs because accessing funds depended on registration, understanding basic principles of commercial bank

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lending and borrowing practices, or even seeing the need to register their businesses. It was also surprising to discover that even commercial banks had little experience with the SME sector and lacked the knowledge to evaluate the associated credit. As a result of these types of relationships, financial services for SMEs in Zambia were not being adequately addressed.

2.2. Gaps in the Literature

Chowdhury and Alam's (2017) study on factors affecting SMEs' access to growth and finance in Bangladesh was relevant and very similar to the current study. The review provided information and identified the significance of SME registration as a factor influencing access to finance. The review aided the researcher in conducting a similar study. The reviewed literature revealed some gaps. Convenience sampling of 86 SMEs was not appropriate for the research due to the variety of industries represented, as many respondents could have come from the same industry. This could have influenced the study's findings. It might have been better to stratify by industry to produce better results. This research cannot be generalized to Zambia, where different social and economic parameters exist. This creates a gap for the current research in Zambia, particularly at Lusaka's Mtendere Market, where the study will be conducted.

Govori (2013) conducted research on the factors influencing the growth and development of SMEs using Kosovo as a case study. The study's goal was to identify factors that influenced the registration, growth, and development of SMEs in Kosovo, with a focus on external factors and bank loans and how they affected SMEs' growth and development. In Kosovo, various SMEs were polled. External factors such as access to finance, competition, corruption, and government policies all had an impact on the development of SMEs in Kosovo, according to the study's findings. In terms of registration, growth, and access to finance in Kosovo, it was discovered that many SMEs started and registered SMEs in order to access finance using their own or the equity of their owners. The findings from the above-mentioned Kosovo literature are more relevant to this current study because they all looked at factors influencing the growth of SMEs, with access to finance being one of them. This reviewed literature is pertinent in that it emphasized how external factors such as access to finance, competition, corruption, and government policies had a negative impact on the growth and development of SMEs in Kosovo. Govori's study, however, could not be generalized to Mtendere Market in a different environment. Because the Mtendere market in Lusaka and the Kosovo market differ in terms of socioeconomic development, factors influencing the registration and growth of SMEs in accessing finance must be investigated.

Grimsholm and Poblete (2010) investigated internal and external factors that hampered SME informality and growth in Thailand in another international perspective study. A qualitative case study of Thai SMEs was used. For the study, three companies were chosen. Semi-structured qualitative interviews with managers of SMEs in Bangkok, as well as representatives from various institutions cooperating with SMEs in Thailand, were used to collect primary data. The sample was drawn using a non-probability method. The empirical investigation's findings were analyzed using the theoretical framework as a guide. According to the findings, there are a number of significant factors impeding Thai SMEs' growth, both internally and externally. The importance of Grimsholm and Poblete (2010) to the current study cannot be overstated, as they investigated how access to finance affected the growth of SMEs in Thailand. The three companies chosen were registered because the vast majority of businesses in Thailand were only owner registered and classified as sole proprietors, and they did not pay corporate tax or VAT, despite the fact that they were legal. The three companies had to ask their families for financial assistance in order to get their businesses off to a good start. The situation in Zambia could be different because they do not follow the same classification pattern. As a result, the approach to research could differ in both countries.

2.3. Theoretical Framework

2.3.1. The Legalist Theory

The legalist theory was popularized by Feigie (1981) and de Soto (1989, 2000). According to Kirshner (2009), the legalist theory is the result of exorbitant, inefficient, cumbersome, and costly government rules and regulations, which make it difficult to comply and cause micro-entrepreneurs to go informal. To avoid the burden of high taxes and stringent regulations in the informal sector, legalist enterprises participate in the formal economy. According to McClain, Alexander, and Jones (2008), when confronted with informal activities occurring in economic domains subject to regulation, nations can take one of three approaches: ignoring its existence, attempting to control it, or legalizing it. Economic regulation is encouraged in order to ensure that the market regulates its economy and to limit the growth of the informal sector. The theory focuses on government policies because it is widely accepted that they have a direct impact on the growth and expansion of the underground economy. It is critical to emphasize the importance of the government addressing its laws, rules, and regulations toward informal business activity so that this sector can grow and contribute significantly to overall economic growth. This theory is used in this dissertation to determine whether the reason for some MSME's operating informally is a result of government regulation and policies.

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2.3.2. The Structuralist Theory

In the late 1970s and early 1980s, Portes et al. (as cited in Portes, Castels, & Benton, 1989) popularized structuralist theory. According to structuralist theory, the informal sector should be viewed as a component of the global economic system that reduces input and labor costs while indirectly increasing the competitiveness of large corporations (Chen, 2006). In contrast to the dualist theory, the theory recognizes the coexistence of the formal and informal sectors. It explains the connections, interconnectedness, and interdependence that ensure the informal sector is a necessary component of the global economy once more. As a result, this theory will be applied in this paper to gain a better understanding of some MSME's reluctance to formalize their businesses, despite the fact that they are an important part of the economy that contributes in their own way without necessarily being formally recognized.

3. METHODOLOGY

Research designs are differently and largely dependent on how different researchers approach their studies from the beginning of the study. Sibwela (2017) described research design as a structural framework within which the study is to be implemented. This will be a qualitative and quantitative study. According to the International Growth Centre, Lusaka has an estimated 30, 000 formally registered MSME (IGC, 2012;2020). This study used these statistics as the population from which the sampling frame for the study will be drawn. The study sites were Mtendere, Chelstone and Kaunda Square markets with 1,040 MSMEs. A sample size for MSME's that is representative enough and able to achieve saturation for this study was arrived at through Nassiuma's (2000), formula:

$$n = Nc^2 / (c^2 + (N-1) e^2)$$

(Where; n=sample size; N=population size; C=Coefficient of variation which is $\leq 30\%$; e=margin of error which is fixed between 2-5%). The study sample will calculate at 25% coefficient of variation and 5% margin of error.

A variation coefficient of twenty-five percent (25%) was used to ensure that the sample is large enough to justify generalizing the results to Lusaka city. Because research funds are limited, higher variation coefficients were not used to avoid very large samples. Because the study used an ex-post facto survey, the margin of error was set at twenty-five percent (25%) because the independent variables would not be manipulated, necessitating relatively higher margins of error.

$$n = 468 \times 0.3^2 / (0.3^2 + (468-1) .02^2) = 152.17 \approx 153$$

(1040 calculated at 25% coefficient of variation and 5% margin of error = 468)

The study sampled a maximum of 153 respondents. The purposive and snowball techniques were used in selecting respondents while the questionnaires and interview schedules were used as data collection tools.

The quantitative data was double-checked, cleaned, and then coded. Averages for each variable was used to fill in the gaps in the data. After the quantitative data was properly coded, it was entered into the statistical package for social sciences (SPSS) version 21.0 software for analysis. Content analysis was used for qualitative data.

4. DATA PRESENTATION AND ANALYSIS

4.1. Size and Nature of Business

Registration status

The study wanted to establish whether the respondents had not officially registered their businesses, the responses are shown in table 4.5.

Table 4.5 Registration status of respondents with PACRA

Registration Status with PACRA	Frequency(N=125)	Percentage
Registered	73	58%
Not registered	52	42%

Source: Field Data (2021)

The study found that of the 125 respondents, 73 (58%) had officially registered their businesses with PACRA while 52 (42%) had not.

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Table 4.6 Type of registration with PACRA

Type of registration with PACRA	Frequency(N=73)	Percentage
Business Name	58	79%
Local Company	15	21%

Source: Field Data, (2021)

The results of the study also reveal that 58 (79%) registered their businesses as Business names while 15 (21%) registered as Local companies. The high number of MSME's reflects the size of informality in Lusaka Zambia.

Number of workers

The study wanted to establish the number of workers employed by the respondents in their businesses. The results are presented in table 4.7.

Table 4.7 Number of workers employed by respondents

Number of workers employed	Frequency(N=125)	Percentage
Less than 10	123	99%
10-30	2	1%
30-50	0	0%
50-100	0	0%
More than 100	0	0%

Source: Field Data (2021)

The results in table 4.7 indicate that only 2 (1%) of the respondents had employees between 10-30 while the rest 123 (99%) had less than 10 employees working for them.

The study looked at the number and types of full-time employees in the SMEs that were surveyed. The majority of the research revealed that only a small percentage of SMEs employed full-time employees. The majority of employees are small-business owners and family members. The following is why the majority of SMEs employ their families, according to Key Informant 1:

"Because the size of business at the micro or small level is small, many SMEs are in business to access finance in order to support their family members." As a result, their family members are expected to contribute labor to the enterprises. If they don't contribute, it means they don't have anything to live on. SMEs owners refuse to hire full-time employees because it adds another cost to the business, which cannot generate enough profit to pay them."

Business Type

The respondents were asked to identify the type of business they were in and the responses are shown in table 4.9.

Table 4.9 Respondents business type

Business Type	Frequency	Percentage	Business Type	Frequency	Percentage
Trading – Retail (Groceries, Butchery)	26	20.8%	Food & Beverage - Bar	10	8%
Trading - Fresh produce	9	7.2%	Food & Beverage - Restaurant	10	8%
Trading – Hardware & Electronics	10	8%	Transport and Storage	9	7.2%
Trading – Clothes & Cosmetics	14	11.2%	Steel Fabrication	8	6.4%
Trading – Wholesale	9	7.2%	Services -Mobile Money, Third party payments, business centre	20	16%

Source: Field Data (2021)

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Results in table 4.9 indicate that the respondents were from 10 different business types with the majority coming from the Trading and retail business 26 (20.8%), followed by those in Services 20 (16%). Respondents in Trading – Clothes & Cosmetics were in 14 (11.2%) those in Food & Beverage – Bar matched those in Food & Beverage – Restaurant at 10 (8%) respectively. The sectors with low respondents were Trading - Fresh produce, and the upcoming transport and storage with 9 (7.2%) respectively and the lowest was Steel Fabrication with 8 (6.4%) of the respondents.

4.2. Policy Framework for SME Growth in Zambia

The study findings revealed that though the Ministry of Medium and Small-Scale Enterprise Development had not yet completed the process of finalizing policy frameworks aimed at string growth of entrepreneurship in Zambia. They did indicate however, that they were working with the existing MSME development policy and the National Industrial Policy formulated by the ministry of commerce trade and industry and ZDA in order to support the MSME sector in Zambia.

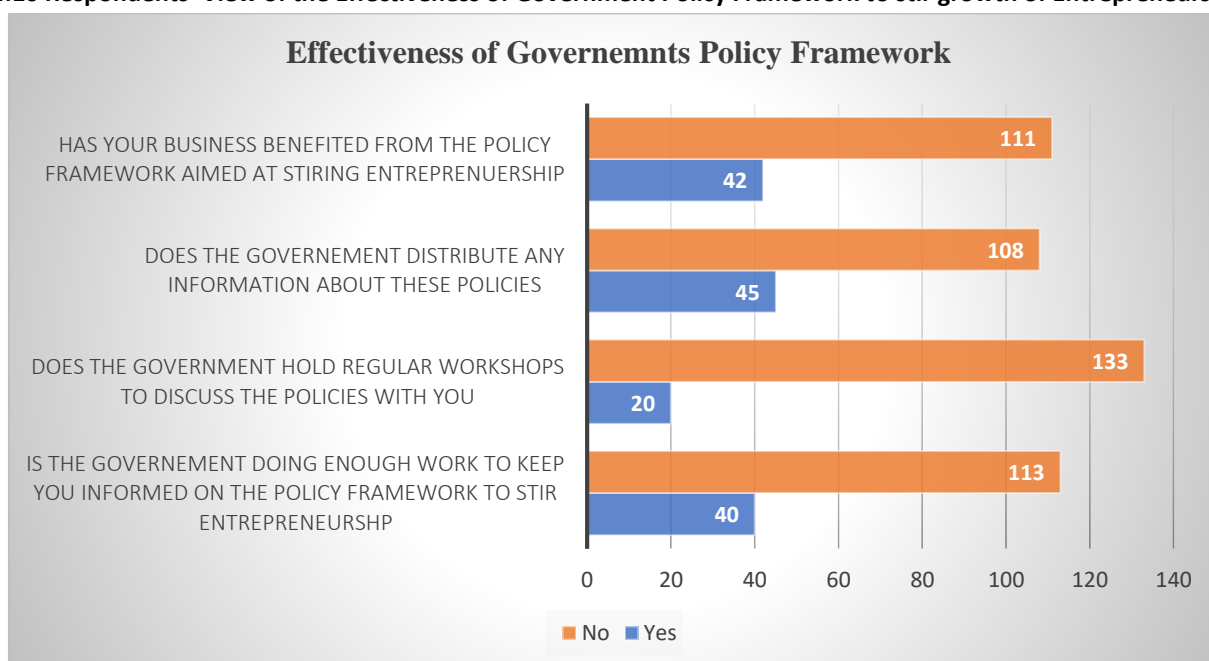
The qualitative data was collected from 10 respondents from the Ministry of enterprise development, Ministry of Commerce and ZDA who are experts in SME policy formulation, implementation and the related monitoring and evaluation of SME programmes in Zambia. The respondents were knowledgeable of government processes of policy formulation, information dissemination and the general implementation processes. The results of the study indicated that the Ministry currently did not have any policy framework but instead worked in collaboration with the Ministry of Commerce Trade and Industry and the Zambia Development Agency.

A key informant from the ZDA K01 had this to say: “The Government introduced several policies and programmes aimed at supporting the growth of entrepreneurs in the country. While many policies are in place, most of them do not separate between the various characteristics of enterprises, as most of the policies seem to be intended for larger enterprises. So many small entrepreneurs fail to fit in some of these policies therefore making it seem as though the government is not doing much to support MSME’s.”

Another key informant from the ministry of commerce Trade and Industry K02 stated that: “The two main policies for the informal economy in Zambia (MSME Development Policy and the National Industrial Policy) aimed at formalization of the informal economy in order to help facilitate growth in value-addition using local raw materials, enhance the growth of forward and backward linkages between MSMEs and large enterprises and improve the productivity of the MSME sector. Its areas of focus are to develop capacity for entrepreneurship, innovation and technological capacity of MSMEs, access to finance, markets, and business development services as well as business infrastructure, etc. Despite these policies being in place very few MSME’s approached the ministry to take advantage of these policies in order to grow their enterprises.”

The respondents were also asked if they were aware of any policy frameworks by the government aimed at stirring their growth as MSME’s.

Figure 4.10 Respondents’ View of the Effectiveness of Government Policy Framework to stir growth of Entrepreneurship



Source: Field Data (2022)

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Figure 4.10 above shows how respondents felt about the government's policy frameworks to encourage entrepreneurship. According to the study findings, 113 respondents were unaware of any policy framework aimed at stimulating their growth, while 40 indicated that they were aware.

When asked if the government held regular workshops to discuss these policies with them, 133 people said no, while 20 said yes. When asked if the government distributed information about these policies, 108 said yes, while 45 said no. The respondents were also asked if they had benefited from any government entrepreneurship policy frameworks. 42 respondents said they had benefited, while 111 said they had not.

4.2.1. Effects of Government policies on SME performance.

The interviewees were asked to explain the effects of government policies on SME performance. The respondents indicated that the government used public and private media such as the national newspapers, radios and television sets as a means of disseminating information to the SME stakeholders. These sentiments were emphasized by a male responded K03, who works in the retail sector and had this to say: “The government mostly used public media. The state newspapers, the radio and the televisions were used to disseminate the necessary information for the entrepreneurs. I still remember reading about the policies in the newspaper where the Minister of SMEs was talking about the SMEs and how the government is encouraging people to be involved in this sector. The public media provides the information to the SME operators.” The respondents stated that the government did not provide much support to the SMEs in terms of loans, farming inputs and training. In the instances where the government made an effort to assist the SME operators, there were no formal procedures for the selection of beneficiaries and very few people benefited from such programmes.

4.3. Reasons for Registration

The third objective of the study was to determine the reason why those MSME’s have registered their businesses. Responses were collected through a 5-point Likert scale and results are presented in table 4.1

Table 4.11 Respondents reasons for business registration

Statement	Mean	Std. Deviation
Because it is a legal requirement	4.67	.505
So as to access loans from financial institutions	4.22	.690
To enhance my firms’ image	3.69	.890
So as to regularise my business operations	4.33	1.150
For future growth prospects that require formality	4.59	1.064
For no reason	2.36	.764
In response to awareness raised by PACRA & ZDA	3.93	1.118
Eases my business operations	3.91	.754
Nature of my business demands so	3.78	.937
Size of my business requires so	3.63	1.120

Source: Field Data, (2021)

Table 4.10 above shows the mean of respondents and Standard deviation of the above variables. ‘Because it is a legal requirement’, (M = 4.67, SD = 0.505) was the most agreed variable that influenced respondents’ reasons to register, followed by for ‘Future growth prospects that require formality’, (M = 4.59, SD = 1.064), and ‘So as to regularize my business operations’, (M = 4.33, SD = 1.150) was the third supported construct followed by ‘So as to access loans from financial institutions’ (M = 4.22, SD = .690). The least supported construct was ‘For no reason’, (M = 2.36, SD = .764). The lack of support for the ‘For no reason’ construct is an indication that the respondents had some form of reason for registering their businesses albeit varied. The rest of the constructs were somewhat supported with the notable ones being ‘In response to awareness raised by PACRA & ZDA’ (M = 3.93, SD = 1.118) and ‘Eases my business operations’ (M = 3.91, SD = .754).

Key Informant K05 gave the following narrative why the majority of SMEs do not favour registering their enterprises with PACRA: “Because most businesses are not legalized by Zambian law such as dealing in smuggled goods, some of the SMEs running these businesses do not want to come out in the open. Their concern is that once exposed, SMEs’ access to finance will be halted, resulting in a lack of growth, and/or they will be arrested by law enforcement officers”.

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and Key Informant K06 gave the following narrative as to why the majority of SMEs do not favour registering their enterprises with PACRA;

"Some of the SMEs who run these businesses do not want to pay tax because it reduces their profits and they do not see the benefit of paying taxes," says one source. When one goes to the hospital, the doctors say there are no drugs, they pay in school, and they are expected to pay in all government departments where they need their services."

Key Informant K07 gave the following narrative on the registration of SMEs with a different view from K06 and noted that:

"A small number of SMEs register their businesses for the sake of registration, but they are only owner registered in reality." Even if they are registered, they are treated the same as unregistered businesses because they are still treated as sole proprietors and avoid paying corporate taxes. This is also true for those who do not fully intend to register. They only register to take advantage of government or private sector opportunities. The importance of registration is better understood by medium and large businesses than by micro businesses."

4.1 Importance of registration

Respondents were asked to indicate their perceived importance of registration and results are presented in table 4.11

Table 4.12. Importance of registration

Importance of registration	Mean	Std. Deviation
Helps with access to business support services	4.37	1.111
Helps with business growth	3.94	.854
Helps with business organisation	3.15	.659
Helps meet legal requirements	4.22	1.105
Does not help at all	2.32	.968

Source: Field Data (2021)

The table above shows the respondents, mean and Standard deviation of the above variables. ‘Helps with access to business support services’ (M = 4.37 SD = 1.111) was the most agreed external variable perceived as the Importance of registration. ‘Helps meet legal requirements’ was also supported (M = 4.22, SD = 1.105) as being an importance of registration, equally ‘Helps with business growth’ was seen as an importance of registration (M = 3.94, SD = 0.854). The construct ‘Help with business organisation’ (M = 3.15, SD = 0.659) was moderately supported while, ‘Does not help at all’ (M = 2.32, SD = .968) was not supported.

5. DISCUSSION OF FINDINGS

5.1. What is the size and nature of Businesses in the Informal Sector Not Registered with PACRA?

According to the findings, 73% of respondents had formally registered their businesses whilst 52% had not. Out of the 73 that had registered 79% were registered as business names whilst 21% had registered as local companies. The size of the informal sector is reflected by the number of MSME’s that are both registered and unregistered with the registrar of companies. According to the Doing Business in Zambia report (2019), the 2014 business regulatory reforms had a positive impact on inspiring MSME’s to regularize their operations. The Business Regulatory Act of 2014 was enacted with the goal of providing for more efficient and cost-effective business licensing in order to address the issues of multiple licenses, numerous regulatory agencies, and rising costs, which created a complex and inhibiting environment for the private sector, particularly MSME’s. This Act simplified the processes for registering a business and made the statutory obligations simple for small businesses to follow (PMRC,2014).

Respondents' businesses had fewer than ten employees. According to the Small Enterprises Development Act of 1996, an MSME is any business that employs up to thirty (30) people. Because the volume of business at the micro or small level is small, many SMEs are in business to access finance in order to support their family members, according to the key informant. As a result, their relatives are expected to contribute labor to the businesses. They don't have anything to live on if they don't contribute. SMEs owners refuse to hire full-time employees because it adds another cost to the business, which cannot generate enough profit to cover their salaries.

The majority respondents interviewed were involved in various non-specialized wholesale trading businesses followed by those offering services. These results are similar to the findings by Kambone (2017) and ZDA (2019) who note that Zambian SME businesses are predominantly in trading (Non-Specialized Wholesale and Retail Trade) with those in the service industry slowly increasing as a result of the opportunity created in mobile money businesses. It easy common for SME to start with these businesses as there is ease of entry and exit with less risks associated with trading.

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5.2. Policy Framework to Stir Growth of Entrepreneurship in Zambia

The qualitative data was collected from 10 respondents from the Ministry of enterprise development, Ministry of Commerce and ZDA who are experts in SME policy formulation, implementation and the related monitoring and evaluation of SME programmes in Zambia. The respondents were knowledgeable of government processes of policy formulation, information dissemination and but not the general implementation processes. The respondents were also asked if they were aware of any policy frameworks by the government aimed at stirring their growth as MSME's. The study findings revealed that though the Ministry of Medium and Small-Scale Enterprise Development had not yet completed the process of finalizing policy frameworks aimed at string growth of entrepreneurship in Zambia. They did indicate however, that they were working with the existing MSME development policy and National Industrialization policy formulated by the ministry of commerce trade and industry and ZDA in order to support the MSME sector in Zambia.

The respondents stated that the government did not provide much support to the SMEs in terms of loans, farming inputs and training. In the instances where the government made an effort to assist the SME operators, there were no formal procedures for the selection of beneficiaries and very few people benefited from such programmes.

5.3. Reasons for Business Registration

According to the responses, the majority of respondents registered their businesses because it was a legal requirement. This could be due to increased public awareness following the passage of the Business Regulatory Act No. 3 of 2014, which saw an increase in efforts by the Ministry of Commerce and Trade to educate SMEs on the importance of registering their businesses. Prior to the rain of information on the importance of registering a business, most SME preferred not to regularize their operations (PMRC, 2014). Because most SMEs are not legalized, such as those dealing in smuggled goods, and thus are not authorized by Zambian law, some of the SMEs running these businesses do not want to come out in the open, as noted by key informants. Their concern is that if they are discovered, SMEs' access to finance will be halted, resulting in a lack of growth, and/or they will be arrested by law enforcement.

However, a good number of respondents registered their business due to perceived future growth prospects that require formality. According to Matoka (2001) and ZDA (2019), SME's stand a chance to benefit from financial inclusion and financial products once their status is fully regularized. This seemingly benefit could be a driver to business registration. This response was similarly responded as the construct the third construct 'So as to access loans from financial institutions. Surprisingly few respondents registered their businesses with the intention just to regularize their business operations. This could indicate a lack of knowledge among the MSME's who feel that one has to register a business only if they want to access financial services from the bank. Infact, Kambone (2017) found a knowledge gap in his study on SMEs in Zambia on the importance of business registration as the majority of SME's feel that once formally registered, the business is monitored heavily by the authorities and all profits made are to be shared with the government.

The key informants best explained the constructs that suggested that some MSME's register as a result of awareness raised by PACRA & ZDA and eases my business operations. Because some SMEs' deal in smuggled goods with no proper documentation on how the products were imported, they feel they are already against the Zambian law as such are reluctant to come out in the open. Their fear is that if they are discovered, their access to finance will be halted, resulting in a lack of growth, and/or they will be arrested by law enforcement officers. Some of the SMEs that run these businesses refuse to pay taxes because it reduces their profits and they do not see the benefit of paying taxes. In the end, the efforts to raise awareness if well undertaken seem to negate the main intention of having more businesses register their businesses.

According to PACRA, the benefits of registering a company include the acquisition of legal status for the business, exclusive rights to the use of the company name, and shareholders having the pride of being honest entrepreneurs. This information is critical when educating MSME on the importance of registration. What is going on in the minds of MSMEs is consistent with legalist theory. Entrepreneurs are hesitant to register their businesses because of the government's exorbitant, inefficient, cumbersome, and costly rules and regulations, which make compliance difficult and cause micro-entrepreneurs to go informal. Legalist enterprises participate in the formal economy to avoid the burden of high taxes and stringent regulations in the informal sector (McClain, et al, 2008).

MSME's, on the other hand, must view the need to register their businesses in accordance with Structuralist theory. The informal sector must be recognized as a component of the global economic system that reduces input and labor costs while indirectly increasing the competitiveness of large corporations (Chen, 2006). The emphasis must then shift to MSME recognition of the coexistence of the formal and informal sectors, as well as the significance of the connections, interconnectedness, and interdependence that ensure the informal and formal sectors as a necessary component of the global economy.

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5.4. Implication of Findings

In as much as a number of MSME's have appreciated the need to formalize their businesses, it can still be noted that most MSME's still have limited access to information regarding the many benefits that come with formalization of their businesses regardless of whether they operate informally or not. The findings of this study maybe important for policy and practice that may aid in creating a conducive business environment for the MSME's. With the introduction of the Ministry of Small and Medium Scale Enterprise Development, the government needs to move in quickly to create policies that will enhance the growth of the MSME sector. Government policy and regulation has a moderating effect on the growth of MSME's and therefore there is need to measure the growth of MSME's in other sectors such as agriculture and manufacturing as most MSME's were only engaged in Trading of various goods and offering mobile money services.

Most MSMEs require guidance and nurturing to grow into independent established business entities. This support is more effective when delivered in a well-coordinated manner that can create positive impact on enterprise performance. Currently however, the sector has limited access to comprehensive integrated business development support even though this was listed as one of the major reasons for MSME's to formalize their businesses. Government needs to have a deliberate policy through designated agencies and in cooperation with Development Organizations that will facilitate MSMEs access to comprehensive business development support for this sector.

The findings of this study will further help the government to develop and implement incentives that make it attractive for MSMEs to operate registered businesses and raise awareness of the benefits of operating a formal business by conducting mobile business clinics to popularize MSMEs use of business development support services. In pursuing the policy provisions, it is important that policy strategies are clearly outlined in order to address the challenges and constraints faced by MSMEs whilst at the same time achieving the policy goal and short-term development objectives, effective development of the MSME sector will require well-articulated strategies, existence of a conducive environment including appropriate legal and regulatory framework.

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

The study concludes that MSME's which have formally registered their businesses are determined by social demographics. Businesses located in high population density areas are more likely to be registered than those in low population density due to frequent inspections by authorities and regulators that are keen to collect statutory obligations from the businesses operating there. It is also concluded the MSME's prefer to register as Business Name as it is a basic registration with little requirements so as to meet the statutory requirements by authorities. These businesses are run mostly by the owners with the help of family members with 1-3 workers. The impact this has on the MSME's is that they have less experience to grow their businesses as a result remain in operation mostly up to 5 years and do not record any business growth. The study also concludes that there is high lack of knowledge among the MSMEs on the importance of business registration other than that it is a legal requirement and an avenue to access capital from formal institutions. Finally, the study concludes that MSME's register because it helps with access to business support services, then it helps meet legal requirements and it helps with business growth.

6.2. Recommendations

On account of the study's candid findings, the following recommendations are considered to be appropriate for sanitization and normalization of the sector:

- 6.2.1.** In order for more businesses to formally register, there is need for the Ministry of Small and Medium Enterprises closely working with the Ministry of Commerce, Trade and Industry (MCTI) through its line agencies (ZDA, PACRA) to increase efforts to raise awareness on the importance of registration for MSME's regardless of the business type and location of operation.
- 6.2.2.** There is need for the MCTI and the Ministry of Small and Medium Enterprises to devise policy frameworks for incentivizing the accelerated growth of the informal sector.
- 6.2.3.** The MCTI could embark on a repudiation exercise of the mis-information in the MSME's on the perceived only reasons to register their businesses

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