

UNIVERSITY OF LUSAKA

SCHOOL OF POSTGRADUATE STUDIES

THE SOCIOECONOMIC EFFECTS OF REGULATORY COMPLIANCE
COSTS ON FOOD PROCESSING MICRO, SMALL AND MEDIUM
ENTERPRISES: A MULTI-STAKEHOLDER ASSESSMENT

A DISSERTATION SUBMITTED TO THE SCHOOL OF
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FULFILLMENT OF THE AWARD OF THE MASTER OF ARTS IN
DEVELOPMENT STUDIES

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DECLARATION

I, CHISHIMBA MUSONDA do hereby declare that the contents of this study are my original work and that to the best of my knowledge have not been previously presented for any award in any other University. All the sources of information used in this piece of work have been duly acknowledged.

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Signature: 

Date: 15/04/2024

DEDICATION

This research is dedicated to my late mother Juliet Mubanga, who never got to achieve as much as I have and to my daughter Isubilo Rutendo Chinyere, who is going to achieve more than I ever will. I hope I have made you proud!

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Thirdly, I would like to acknowledge my supervisor Dr. Nkumbu Nalwimba for her guidance, support and insights during the research period.

Fourthly, I acknowledge the other researchers and writers of previous works of which I used to add onto my writing.

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List of Acronyms

EU	European Union
GDP	Gross Domestic Product
MSMEs	Micro, Small and Medium Enterprises
NAPSA	National Pension Scheme Authority
NHIMA	National Health Insurance Management Authority
SMEs	Small and Medium Enterprises
ZABS	Zambia Bureau of Standards
ZCSA	Zambia Compulsory Standards Agency
ZDA	Zambia Development Agency
ZEMA	Zambia Environmental Management Agency
ZMA	Zambia Metrology Agency
ZPPA	Zambia Public Procurement Authority
ZRA	Zambia Revenue Authority

Abstract

Micro, Small and Medium Enterprises, known as MSMEs, are crucial to Zambia's economy, making up 97% of businesses, contributing 70% to the GDP, and employing 88% of the workforce. However, these businesses face challenges, especially from the costs of meeting regulations, which hinders their growth, market reach, and financial health. Focused on 50 food processing MSMEs in Lusaka, the research adopts a qualitative approach, employing Google Forms for data collection from the respondents and Google Meet Interviews for qualitative insights from key informants.

The research highlights the significant impact of regulatory compliance expenses on Micro, Small, and Medium Enterprises (MSMEs), resulting in workforce downsizing and restructuring. Consumers exhibit a predilection for patronizing MSMEs owing to their affordability and interpersonal rapport with proprietors, thereby underscoring a proclivity towards supporting local businesses. Moreover, consumers demonstrate a discernible willingness to incur higher costs for food products to ensure their safety. Notably, the study uncovers a lack of strategies among MSMEs to mitigate these costs.

Recommendations include proactively budgeting for compliance costs to avoid financial strain, leverage consumer preferences for affordability, and the consolidation of certain taxes into annual payments. Collaboration with private sector organizations is advised to enhance regulatory efficiency and leverage industry expertise. The study underscores the need for broader research encompassing a diverse MSME sample to enhance generalizability. Future research should explore additional facets beyond financial health, production, marketing and sales, business performance, and growth.

Keywords: Regulations; Financial Health, Socio-economic wellbeing, Consumers, Affordability

CHAPTER ONE INTRODUCTION AND BACKGROUND

1.0 Introduction

In the landscape of global business, small and medium-sized enterprises (MSMEs) are major players in providing employment, constituting a significant portion of the workforce in both developed and developing nations. Particularly in less affluent countries, these smaller businesses play a crucial role in promoting economic inclusion, especially for women. A study conducted in 2002 by Chittenden et al. revealed that businesses, especially those with limited resources, face higher regulation costs and challenges because of these expenses (Chittenden et al., 2002).

This research aims to explore how these regulations affect the socioeconomic wellbeing of stakeholders in MSMEs, paying particular attention to employees and consumers of food processing enterprises. By examining the relationship between regulations and the socioeconomic wellbeing of these two groups of stakeholders, I hope to offer practical insights and recommendations to address the real-world challenges they encounter.

1.1 Background

MSMEs are critical to the Zambian economy as they play a vital role in producing goods and services, creating employment opportunities, and providing a means of livelihood for thousands of people. According to the International Trade Centre (ITC) Survey (2018), MSMEs in Zambia contribute significantly, accounting for 70% of GDP, 88% of employment, and 97% of all enterprises in the economy. The diverse range of business activities among MSMEs includes barbershops, hair salons, business centres, construction, commodities and public transportation, metal manufacturers, wood processors and food processors. The essential significance of MSMEs in Zambia's economy cannot be overstated.

The importance of food processing activities to the economy is a national phenomenon; they contribute to 40% of the GDP, 12% of export earnings, and 67% of employment (Technoserve, 2021). It is a necessity, and, increasingly, much of the food consumed today requires some form of processing (Connors et al., 1985). Food processing is important to the Zambian economy and entails a set of options for local firms to grow

and create employment, given the growth potential the country possesses in agriculture. The food processing industry in Zambia seeks to drive job creation, enhance nutrition, and empower women economically. In Zambia, the estimated 1,500 food processors account for 60% of the country's manufacturing output (Technoserve, 2021).

Research conducted by the Zambian Association of Manufacturers reveals that food processing MSMEs in Zambia may incur significant costs, up to K50,000, to obtain up to 20 licenses. These regulatory costs can act as barriers to entry, hindering the establishment of new enterprises and diminishing overall market competitiveness. Additionally, the financial burden of compliance may lead to micro, small and medium businesses losing money that could otherwise be used to increase their incomes, potentially causing them to incur losses (Banda et al., 2022).

Banda et al. (2022) further emphasises the importance of licences for the general running of a business and permits required for specific goods, especially for food processing enterprises. Business licencing and registration requirements grant authority and permissions to businesses, establishing legal standing critical for accessing services like bank loans and opportunities such as procurement contracts.

The licencing and registration procedure requires businesses to obtain relevant permits and comply with various legal conditions. Different institutions play a crucial role in granting businesses the authority to engage in different activities. For instance, in the food and beverage subsector, manufacturers must obtain certification to verify that their products meet health and safety guidelines. MSMEs in this sector are required to get their products certified before selling to consumers. In summary, the study focuses on licences for running a business (ZRA and PACRA) and licences required for businesses to supply food and beverages. A comprehensive table of all licences and permits according to statutory provisions is available in the annex of this report.

Table 0.1 Licenses Required for Running a Business

Business Registration Fees						
Institution	License/Permit	Frequency	Statutory Amount	Annual Average Paid	Minimum Paid	Maximum Paid
PACRA	Incorporation	Annual	K333.00	725.00	200.00	4,000.00
	Business Name		K83			
	Share Capital		K15,000			
	Patent		K500, K1,500			
	Trademark		K249.90, K699.90			
	Industrial Design		K333.30 K2000.10			
ZRA	Tax registration	Annual	-	-	-	-
	Excise License	Annual	9,000.00	6,000.00	2,000.00	9,000.00
	Skills Levy	Monthly	0.5% of gross emoluments	23,371.04	360.00	84,624.00

Source: Manufacturing Permits and Licenses: At What Cost (2022)

In order to run a business in Zambia, it must be registered with two institutions, PACRA and ZRA. PACRA is the central authority for business registration in Zambia. All business entities must be registered with PACRA before commencing their operations. Without a PACRA registration, a company cannot open bank accounts, register for Value Added Tax (VAT), or receive any payments from clients.

All businesses must register with the ZRA to obtain a Taxpayer Identification Number (TPIN). The TPIN is a unique number that identifies the business and enables it to pay taxes, file tax returns, and claim refunds.

In order to supply food or beverages, micro, small, and medium-sized enterprises (MSMEs) are required to obtain certification from three regulatory bodies: The Zambia Bureau of Standards (ZABS), the Zambia Compulsory Standards Agency (ZCSA), and the Zambia Metrology Agency (ZMA). Kalikiti (2020) outlined the functions of these bodies. ZMA, established under the Metrology Act No. 6 of 2017, oversees scientific, industrial, and legal metrology services in Zambia, ensuring standards and precision across sectors. ZCSA, formed under the Compulsory Standards Act No. 3 of 2017, administers mandatory standards for public safety, health, consumer protection, and environmental well-being. ZABS, whose responsibilities include developing, publishing, and maintaining Zambian National Standards, also provides testing services, product

certification, and promotes industry efficiency and trade facilitation through standardization initiatives. The organization engages in training and public education and represents Zambia internationally (Kalikiti, 2020).

Table 0.2 Licenses Required to Supply Food and Beverages

Institution	License/Permit	Frequency	Statutory Amount	Annual Average Paid	Minimum Paid	Maximum Paid
ZABS	Product Certification	2 years		20,212.38	400.00	60,000.00
	Local Supplier	Annual	11,000.00			
ZCSA	Application Fee	Annual	400.00			
	Annual Certificate	Annual	460.00			
	Conformity Certificate	Annual	2,615.00			
	Inspection of a factory per inspector days	Annual	From 3,150.00 to 15,000.00 depending on products and number of products			
ZMA	Service Licenses	Annual	7,500.00	6,471.07	4,000.00	11,445.00

Source: *Manufacturing Permits and Licenses: At What Cost (2022)*

1.2 Definition of Key Terms

1. Affordability- the state of being cheap enough for people to be able to buy.
2. Compliance Costs: All expenses incurred by a firm to adhere to industry regulations.
3. Financial Health: An overall measure of a person's or a company's financial state.

4. Food Processing Businesses: Enterprises that modify food from its natural state through processes like heating, canning, freezing, and drying.
5. Profitability: The ability of a business to generate income from sales that exceeds expenses.
6. Regulations: Rules made by a government or other authority in order to control the way something is done or the way people behave.
7. Stakeholder: Is a party that has an interest in a company and can either affect or be affected by the business.
8. Socioeconomic well-being: The mix of social and economic factors that produce the best outcomes for a person's health and well-being.

1.3 Statement of The Problem

Despite contributing significantly to Zambia's economy, the food processing industry, particularly Micro, Small, and Medium Enterprises (MSMEs), faces numerous challenges that hinder their growth and impact the socioeconomic well-being of their stakeholders. A critical barrier identified is the excessive burden of regulatory compliance costs (Berry et al., 2002).

This barrier manifests in several ways. Firstly, insufficient access to clear and concise compliance information creates confusion and uncertainty regarding procedures and associated costs. Secondly, the inconsistent application of regulations across different government levels creates an unpredictable environment for businesses. Thirdly, the high financial costs associated with compliance can be substantial, especially for smaller businesses, and can hinder their ability to invest in growth and development. Finally, the complex and lengthy compliance processes lead to significant time burdens, diverting valuable resources away from core business activities (Enabling Business Environment Secretariat, 2021).

The combined effect of these challenges is significant and multifaceted, negatively impacting various stakeholders within the food processing MSME ecosystem. Reduced profitability and competitiveness of MSMEs result from high compliance costs, limiting their ability to compete effectively in the market. The financial and time burdens

associated with compliance hinder growth and development, impeding investments in essential areas like innovation, expansion, and job creation. This ultimately leads to limited job creation and poverty reduction, as struggling MSMEs are restricted in their ability to create new employment opportunities and contribute to poverty alleviation efforts. Overly burdensome regulations can even incentivize businesses to operate informally to avoid the costs and complexities of compliance, undermining efforts to promote formalization and economic growth (Nyarku and Oduro, 2017).

Furthermore, these challenges can directly impact the ability of food processing MSMEs to provide safe and affordable food to communities. High compliance costs can force businesses to cut corners, potentially impacting the quality and safety of their products. Additionally, high and many compliance costs may lead to increased prices for consumers, making it harder for low-income communities to access healthy and nutritious food (Khan, 2020).

Addressing these challenges is crucial to ensure the sustainable development and positive socioeconomic contributions of food processing MSMEs in Zambia. It is imperative to find solutions that alleviate the excessive burdens of regulatory compliance and foster a more enabling environment for these businesses to thrive.

1.4 Research Objectives

1.4.1 Specific Objective

The specific objective of this study was to assess how regulatory compliance costs affect the socio-economic well-being of stakeholders in micro, small, and medium-sized enterprises (MSMEs) in the food processing sector.

1.4.2 General Objective

The general objectives of this research were to:

1. Assess how regulatory compliance costs impact the financial health of the business and employee social wellbeing (job security and income).
2. Analyse how regulatory compliance costs impact MSMEs' ability to maintain affordable food prices for the local communities.
3. Investigate the presence (if any) and potential effectiveness of strategies adopted by MSMEs to mitigate the impact of regulatory compliance costs on the socio-economic

wellbeing of its stakeholders.

1.5 Research Questions

1. To what extent do regulatory compliance costs impact the financial health of MSMEs, and how does this affect employee social well-being in terms of job security and income?
2. How do regulatory compliance costs influence the ability of MSMEs to maintain affordable food prices for local communities?
3. Do MSMEs currently employ any strategies to mitigate the impact of regulatory compliance costs on their socio-economic well-being? If so, what is the potential effectiveness of these strategies?

1.6 Scope of The Study

The scope of the study was limited to 50 MSMEs, whose details were retrieved from a list of micro, small, and medium food processing businesses that attended an MSME food safety and regulations training held in March 2023. Each Respondent was asked to complete a short questionnaire via Google Forms to assess how regulatory compliance costs affect the socio-economic well-being of stakeholders such as themselves in micro, small, and medium-sized enterprises (MSMEs) in the food processing sector.

1.7 Significance of The Study

There is a growing recognition of the critical role that micro, small, and medium-sized enterprises (MSMEs) play in the economic development of many countries. These businesses create new job opportunities, introduce a wider range of goods and services to the market through innovation, create wealth for a significant portion of the population, and serve as catalysts for national prosperity by contributing to a country's Gross Domestic Product (GDP). Furthermore, these business enterprises have a favourable impact on a country's revenue base by expanding the tax structure (Qureshi and Herani, 2011).

Despite this, MSMEs continue to confront a variety of obstacles, including the costs associated with complying with regulations. The purpose of this study is to evaluate how

these costs affect the socio economic wellbeing of stakeholders of micro, small, and medium-sized enterprises (MSMEs). By undertaking this study, I hope to learn more about how these expenses affect MSME employee socio-economic wellbeing focusing on their job security and income the ability of these MSMEs to provide affordable food to the community.

I will then be able to give thorough insights into the effects of these costs on the socioeconomic wellbeing of the stakeholders of MSMEs as a result of this research. Additionally, I would like to provide workable solutions that can lighten the burden of these costs for MSMEs by supporting improved compliance while enhancing their socioeconomic wellbeing.

1.8 Organization of The Report

The report is structured into six chapters, with the introductory chapter followed by the literature review comprising three sections: the empirical literature review, the theoretical framework, and the conceptual framework. The empirical literature review section establishes the study's empirical foundation by thoroughly examining previous research conducted by scholars. The theoretical review delves into the theories upon which this research is based, assessing the extent to which these theories are investigated. Finally, within this chapter, the conceptual framework defines the pertinent variables for the report and illustrates their interrelationships.

Moving on to the third chapter, the methodology details the techniques and procedures employed to identify and analyze information related to the research topic. This section is subdivided to cover various elements, including research approach, research design, study population, sample size, sampling design, data collection, data analysis, and study variables (independent and dependent).

The fourth chapter is dedicated to presenting and analyzing the results, encompassing quantitative data analysis from the questionnaire and qualitative interpretation based on interview results. The fifth chapter delves into the research findings emerging from the data collection and analysis, leading to conclusions and offering recommendations.

The final chapter of the study, chapter six, comprises the conclusion and recommendations. This section encapsulates summaries, conclusions, and recommendations from all preceding chapters, along with an evaluation of the research's goals, objectives, and hypotheses.

Following chapter six, appendices and references will be presented.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter provides a comprehensive overview of Micro, Small, and Medium Enterprises (MSMEs) and costs associated with complying with regulations by synthesizing insights from previous studies conducted by various researchers. The literature review delves into concepts and theories surrounding the relationship between MSMEs and costs associated with complying to regulations.

2.1 Empirical Literature Review

2.1.1 Classifications of Micro, Small and Medium Enterprises

In the literary exploration conducted by Munyeji in 2017, the elusive nature of defining Micro, Small, and Medium Enterprises (MSMEs) across nations is underscored. Munyeji reveals the absence of a universally accepted definition for MSMEs, leaving room for diverse interpretations in different countries. Within this classification, the spectrum of business entities is vast, encompassing the vulnerable zero-growth micro enterprises with minimal personnel and subsistence-level revenues, to the dynamically expanding medium-sized firms employing up to 250 individuals.

Notably, the European Commission stands out for adopting a standardized definition of MSMEs, taking into account factors such as the total number of employees, annual turnover volume, total assets, and the degree of independence (legal persona), as elucidated by Munyeji (2017).

In the literary landscape of the 2020 Fact Sheets on the European Union (EU), titled "Small and medium-sized enterprises," the pivotal role played by MSMEs is illuminated. Constituting 99% of all registered businesses in the EU, these enterprises in 2015 contributed significantly to the economic landscape, generating approximately €3.9 trillion in value-added and providing employment for 90 million individuals. Their impact extends beyond national borders, serving as crucial sources of entrepreneurship and innovation, contributing to the regional and global competitiveness of EU corporations.

By 2018, MSMEs had entrenched themselves as the backbone of the EU workforce, constituting 66.4% of the total employment. The EU's strategic approach towards MSMEs seeks to create an environment where policies and initiatives foster the growth

of small businesses, enhancing Europe's allure as a hub for initiating and conducting business activities. Under the new EU definition, any entity involved in economic activity, irrespective of its legal form, qualifies as an MSME. The key criteria for categorization—micro, small, or medium-sized—are contingent upon the number of employees and the annual turnover or annual balance sheet total, marking a significant step towards clarity in the literary discourse on MSMEs.

Table 0.1 Classifications of MSMEs according to the European Union

Enterprise	Employees	Annual Turnover	Annual Balance Sheet
Medium	250 ≤	€ 50m ≤	€ 43m ≤
Small	50 ≤	€ 10m ≤	€ 10m ≤
Micro	10 ≤	€ 2m ≤	€ 2m ≤

Source: Fact Sheets on the European Union (2020)

In the literary landscape presented by Pedraza in 2021, the World Bank's classification of Micro, Small, and Medium Enterprises (MSMEs) takes centre stage, emphasizing the significance of country-specific standards. Pedraza reveals that the World Bank employs a multifaceted approach, considering the number of employees, total assets, and yearly sales for categorizing MSMEs (Pedraza, 2011).

The categorization outlined by the World Bank is meticulous. Micro enterprises, as defined by the number of employees (10 to 50) and total assets or annual sales (between US\$100,000 and up to US\$3 million), encompass individuals and firms operating on a smaller scale. Small enterprises, falling into a similar range of total assets or annual sales (between US\$100,000 and up to US\$3 million), form the next tier of this classification. Meanwhile, medium-sized enterprises are identified by total assets or annual sales between US\$3 million and up to US\$15 million, denoting a higher scale of operations.

Interestingly, Pedraza sheds light on Russia's distinctive approach to classifying MSMEs. In this context, the key criteria are the number of employees (up to 250) and revenue (up to RUB 2000 million). This tailored classification underscores the variability in standards employed by different nations, showcasing the nuanced nature of MSME definitions on a global scale. Such diversity adds layers to the literary discourse, emphasizing the dynamic and context-specific nature of MSME categorizations across different regions and countries.

Table 0.2 Classification of MSMEs in Russia

Enterprise	Number of Employees	Revenue (€ million)
Medium	10-25	101-250
Small	1.5-10	15-100
Micro	<1.5	<15

Source: Facts Sheet on the European Union (2020)

The intricate landscape of Micro, Small, and Medium Enterprises (MSMEs) classifications unfolds across diverse African nations, as illuminated by various authoritative sources.

In Zimbabwe, the Finscope MSME Survey of 2012, as referenced by Munyeji in 2017, characterizes an MSME as a business entity with fewer than seventy-five employees. This classification spans micro-enterprises in the informal sector, small enterprises (1-50 employees), medium enterprises (51-75 employees), and large enterprises (above 75 employees), encapsulating the varying scales of operations within the MSME sector.

In Lesotho, the Ministry of Trade & Industry, Cooperatives & Marketing (MTICM) employs a distinctive definition. A small business is identified as an independently owned firm with a modest national market share, as articulated in the White Paper on Development and Promotion of Small Business in 2002. This paper further refines the categorization into micro enterprises (employing fewer than three people), small enterprises (employing three to nine people), and medium enterprises (employing 10 to 49 people), providing a nuanced framework for understanding the diversity within Lesotho's MSME landscape.

Meanwhile, Zambia's approach, as outlined in the 2023 Zambia Institute of Policy Analysis and Research (ZIPAR) Report and the Revised National Micro, Small, and Medium Enterprise Development Policy, underscores the importance of a comprehensive classification system for successful targeting of support programs and incentives. In Zambia, MSMEs are categorized based on business variables, including annual turnover, total fixed investments, the number of employees, and legal status. A micro enterprise in Zambia, as per this policy, is defined by an annual turnover of up to

One Million Kwacha (K1,000,000.00), employment of up to ten persons, and a total investment (excluding fixed assets like land and buildings) within specified parameters. These diverse definitions and categorizations within the African context not only highlight the complexities in characterizing MSMEs but also underscore the importance of tailoring definitions to the unique socio-economic contexts of individual nations. Such variations contribute to a rich literary tapestry that reflects the nuanced nature of MSMEs across different regions in Africa.

Table 0.3 Fixed Assets of Micro Enterprises

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	1	250,000.00
Mining and Quarrying	1	5,000,000.00
Manufacturing and Others	1	400,000.00
Services and Trade	1	250,000.00
Construction	1	400,000.00

Source: The Revised National Micro Small and Medium Enterprise Development Policy 2023

A small enterprise is defined as any business meeting the following criteria: an annual turnover between One Million and One Kwacha (K1,000,001) but not exceeding Ten Million Kwacha (K10,000,000), employing between 11 and 50 individuals, and maintaining a total investment (excluding fixed assets like land and buildings) within the specified limits.

Table 0.4 Fixed Assets of Small Enterprises

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	250,001.00	5,250,000.00
Mining and Quarrying	5,000,001.00	10,500,000.00
Manufacturing and Others	400,001.00	8,400,000.00
Services and Trade	250,001.00	5,250,000.00
Construction	400,001.00	8,400,000.00

Source: The Revised National Micro Small and Medium Enterprise Development Policy 2023

A medium enterprise is characterized as a business meeting the following criteria: an annual turnover between Ten Million and One Kwacha (K10,000,001.00) to Fifty Million Kwacha (K50,000,000.00), employing between 51 and 100 individuals, and maintaining

a total investment (excluding fixed assets like land and buildings) within the specified parameters.

Table 0.5 Fixed Assets of Medium Enterprises

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	5,250,001.00	25,000,000.00
Mining and Quarrying	10,500,001.00	50,000,000.00
Manufacturing and Others	8,400,001.00	40,000,000.00
Services and Trade	5,250,001.00	25,000,000.00
Construction	8,400,001.00	40,000,000.00

Source: *The Revised National Micro Small and Medium Enterprise Development Policy 2023*

According to the MSME Development Policy outlined by the Ministry of Commerce, Trade, and Industry (MCTI), a Micro, Small, or Medium Enterprise (MSME) is defined as any business entity registered with the Patents and Companies Registration Agency (PACRA) and demonstrating specific attributes summarized in the following table.

Table 0.6 Summary of Micro, Small and Medium Enterprises in Zambia

Category	Micro Enterprise	Small Enterprise	Medium Enterprise
Total Investment (equipment)	K1-80,000.00	K80,001-K200,000	K200,001-K500,000
Annual Sales Turnover	K1- 150,000.00	K150,001-K300,000	K300,001-K800,000
Employees	1-10 employees	11-15 employees	51-100 employees

Source: <https://www.zda.org.zm/msme-services/>

2.1.2 Regulation and Related Costs

Havens (1978) 'Regulation differs from other types of government activity in that the majority of the cost to society is borne by individuals and firms in the private sector, rather than by the government. The costs imposed on the private sector appear to be many times greater than the government's own expenditures on regulation, and include both direct costs of complying with regulation and complex indirect consequences that are difficult to accurately measure', Testimony before the Senate Committee on Commerce, Science, and Transportation: Consumer Subcommittee.

Mupimpila (2020) offers a comprehensive definition of regulation costs, characterizing them as the combined expenditure of time and money essential for adhering to government obligations such as legislation and regulations. Particularly, individuals or businesses enrolled in value-added tax (VAT) encounter an additional obligation of maintaining meticulous records for both input and output tax. This obligation serves as an illustrative example of the onerous nature of compliance expenses.

The OECD (1994) provides a succinct definition of 'regulation' as a set of 'incentives' instituted by the legislature, government, or public administration. These incentives serve to either mandate or prohibit actions taken by citizens and enterprises. Notably, regulations are underpinned by the explicit threat of punishment for non-compliance. In essence, this definition emphasizes the coercive nature of regulations, wherein adherence is reinforced by the explicit prospect of penalties in the event of non-compliance (OECD, 1994).

In the context of regulatory studies, Hart et al. (2008) provide a comprehensive definition of regulations as the legal and administrative rules crafted, implemented, and enforced by government regulatory authorities. This definition spans across local, national, and transnational levels, encompassing a broad spectrum of governance. These regulations play a dual role by both mandating and prohibiting actions undertaken by individuals and organizations within the specified jurisdictions. Crucially, infringements of these regulatory standards are met with a range of penalties, including criminal, civil, and administrative consequences. This conceptualization captures the multifaceted nature of regulations and underscores their coercive nature, emphasizing the explicit consequences imposed for non-compliance (Hart et al., 2008).

A foundational 1989 paper by Sandford, Godwin, and Hardwick provides a comprehensive definition of regulation costs, encompassing a diverse range of expenditures associated with meeting legal obligations. These costs involve compliance with legal requirements, organization of receipts and pertinent data, fulfilment of tax return obligations, compensation for professional advisors, and other incidental expenses related to the firm's legal responsibilities. Furthermore, the paper considers expenses related to the collection, remittance, and accounting for taxes on the firm's

products or profits, as well as employee wages, all falling under the umbrella of compliance costs (Sandford et al., 1989).

In the realm of regulatory analysis, Lewis, Richardson, and Corliss (2015), along with other scholars, have delineated the costs associated with regulations into three primary categories: direct costs, allocative inefficiency, and compliance costs. Their framework classifies these costs based on distinct aspects. The first category involves the costs associated with comprehending the regulations that necessitate adherence. The second category encompasses the actual expenses incurred in meeting regulatory requirements, which may include the acquisition of specialized equipment, hiring specific expertise, participating in training programs, and dedicating time for education on legislative requirements. The third category pertains to the costs linked to demonstrating compliance through record-keeping, colloquially referred to as paperwork (Lewis, Richardson, and Corliss, 2015).

This study specifically concentrates on the second type of costs incurred during compliance with regulations.

2.1.3 Regulations Role in Economic Performance

The measurement of the impact of regulations on economic activity presents a formidable challenge, often leading to oversight in policy debates. Basu (2015) illuminates the intricate influence of regulations on the underlying mechanisms of the economy. These are the fundamental components operating beneath the surface, eluding easy observation or recognition. Given their nuanced nature and profound impact, accurately quantifying the effects of regulations becomes intricate, contributing to their neglect in discussions surrounding economic policy.

He further underscores that the predominant focus tends to be on visible aspects, such as fiscal measures, monetary interventions, and welfare programs, particularly during economic downturns. However, he emphasizes that what often receives less attention, despite being equally or even more crucial for an economy's success or failure, are the less conspicuous yet foundational elements that sustain the economy (World Bank's Doing Business Report, 2015).

The World Bank's Doing Business Report of 2015 expands on these fundamental aspects, highlighting the pivotal role played by laws governing business initiation and closure, the efficiency of contract enforcement, and the administrative rules governing activities such as obtaining permits or managing paperwork for exports and imports. Despite operating behind the scenes, the proper functioning of these elements is crucial. Any malfunction in these less visible components can impede the progress of an economy and diminish the effectiveness of more overt policy instruments, such as fiscal and monetary policies. In essence, this emphasizes the imperative to recognize and address the less apparent yet essential components that constitute the backbone of a thriving economy.

In their 2020 study, Mazwi and Kasongo emphasized the crucial role of taxation, including licensing costs, in government revenue generation. They underscored that tax revenue serves as a vital source of funding for essential development initiatives, such as infrastructure upgrades encompassing road improvements and the provision of stable power and water supplies, among other critical endeavours. The enhancement of infrastructure, in turn, contributes to the creation of a conducive environment for businesses to flourish, thereby fostering economic growth. Additionally, the authors highlighted that taxes play a pivotal role in enabling the government to establish a business-friendly environment that benefits all enterprises, with a particular emphasis on supporting the growth of small and medium-sized businesses (Mazwi and Kasongo, 2020).

Micro, Small and Medium-sized enterprises (MSMEs) stand prominently acknowledged as the economic backbone, garnering commendation from economists and policymakers globally for their unique capacity to absorb a substantial number of unemployed workers, thereby contributing to job growth. These enterprises, often referred to as MSMEs, are identified as the breeding grounds for significant multinational firms, serving as the impetus behind national economic engines across the globe. The practical implications of MSMEs have ignited debates in various forums among diverse stakeholders. This heightened attention is primarily attributed to the anticipated benefits that MSMEs are expected to bring to the national economy, including poverty reduction

and GDP growth. The significance of MSMEs, as highlighted by Munyeji (2017), underscores their pivotal role as catalysts for economic development and prosperity.

Numerous pieces of literature reviewed consistently affirm the pivotal role of Small and Medium-sized Enterprises (SMEs) across various dimensions. These enterprises are recognized for serving as a vital source of livelihood for the less fortunate, contributing to economic decentralization, creating employment opportunities, generating revenue through tax payments, and playing a substantial role in overall economic growth. In essence, MSMEs are positioned as catalysts for economic breakthroughs and innovation, efficiently functioning as job creators, the breeding ground for larger firms, and the driving force behind national economies.

In their work, Kitching et al. (2015) argue that a considerable number of studies adopt a one-sided perspective that predominantly characterizes regulations as burdensome for businesses. They underscore the limited exploration into the ways in which regulations might serve to facilitate or enhance business performance, potentially fostering market opportunities and driving the adoption of efficient and competitive business practices. The authors point out that regulatory authorities play a crucial role in opening up new market prospects by issuing licenses for specific economic activities. These licenses, in turn, have a tangible impact on market entry dynamics and the supply of goods and services across diverse industries and professions. This perspective challenges the prevailing narrative by highlighting the dual nature of regulations as both potential hindrances and catalysts for business activities (Kitching et al., 2015).

The impact of government regulatory interventions on economic performance, particularly within the private sector, is a prominent theme in the literature. Acknowledging the importance of regulations for maintaining societal order, there is a growing emphasis on the need to reduce the regulatory burden on businesses. This reduction aligns with the overarching goal of enhancing international competitiveness, emphasizing the interconnected relationship between regulatory frameworks and economic vitality (Munyeji, 2017).

2.1.4 Effects of Regulatory Compliance Costs on Employee Wellbeing: Job Creation, Incomes

The literature extensively discusses the adverse socioeconomic impacts of regulation on employee well-being, particularly highlighting the disproportionate burden borne by employees of small enterprises. Despite longstanding concerns over the effects of regulations on employment, federal agencies have not effectively prioritized job-related considerations (Hall, 2013).

The relationship between regulations and business growth remains a subject of ongoing debate. While regulations aim to safeguard consumers, the environment, and worker safety, concerns persist regarding their potential to impede economic activity. Studies such as that conducted by McLaughlin and Sherouse (2020) lend credence to these concerns, suggesting a potential 6.3% decrease in new hires within an industry when regulations are doubled.

Regulations can function as implicit taxes on employment, potentially hindering job creation. Increased labour costs associated with regulatory compliance may incentivize employers to adopt cost-cutting measures (Moore, 1987). These strategies could include reductions in wages and salaries, or a decrease in voluntary benefits previously offered to attract and retain employees (Heymann, 2000). Such adjustments aim to offset the financial burden imposed by regulations, potentially leading to no net change in the overall employee compensation package compared to a non-regulated scenario (Laffer, 1993).

Emphasizing the significant role of regulatory measures in workforce displacement, Hall (2013) underscores their impact on escalating production costs within regulated industries. These cost increases subsequently lead to higher prices and reduced output, ultimately resulting in employment reduction within the regulated sector. The immediate repercussions of such job losses encompass wage deprivation, expenses related to job search endeavours, and the need for retraining initiatives.

Tu (2020) corroborates this by indicating that firms often need to adjust their utilization of capital and labour to manage the costs associated with regulatory compliance,

sometimes necessitating restructuring efforts such as redundancies and staff retrenchments.

Scholarly investigations reveal that the process of recovering lost earnings post-reemployment is protracted, extending up to two decades. This prolonged duration is primarily attributed to disparities in skills between the positions forfeited and those newly established within the evolving economic landscape (Hall, 2013).

2.1.5 Effects of Regulatory Compliance Costs on Consumers

Regulatory measures, though not invariably conceived to induce price escalation, frequently engender augmented operational expenditures for enterprises as a consequence of compliance mandates. This often precipitates the imposition of elevated consumer prices. It is noteworthy that regulations targeting specific industries may disproportionately impact particular socioeconomic segments (Chambers & Collins, 2016).

Consumer protection regulations epitomize a double-edged phenomenon. While ostensibly safeguarding individuals against perilous or deceptive products, they concurrently impose economic burdens. Such regulations have the potential to inflate production costs, leading to augmented consumer prices. Additionally, they impose constraints on individual autonomy, potentially restricting the freedom of choice for those inclined to assume certain risks in pursuit of more economical alternatives (Crain & Hopkins, 2001).

Advocates assert that regulations empower consumers by ensuring access to goods of enhanced quality, fortified with warranties. However, critics argue that this regulatory framework restricts the choices available to individuals prioritizing cost efficiency over premium features, even at the expense of assuming a degree of risk. Furthermore, the escalation of product costs due to regulatory compliance may disproportionately affect low-income consumers, compelling them to opt for higher-quality merchandise, while affluent consumers might already prioritize such options (Chambers, 2020).

Evidential studies indicate that exorbitant costs associated with goods and services impose detrimental repercussions on societal and economic well-being, both in the present and with regard to future developmental trajectories. Such circumstances significantly diminish consumer purchasing power, as escalating prices erode the value of their earnings and savings, thereby constraining current living standards and expenditure capacities, consequently impeding overall economic progress (Sarkar et al., 2009).

Moreover, the regulatory burden's associated costs can amplify the prices consumers pay at the grocery store and curtail product availability for lower-income households (Staples & Malone, 2021). Conversely, Frey (2022) posits that regulations, if meticulously formulated, can confer advantages upon Micro, Small, and Medium-sized Enterprises (MSMEs). Advocates contend that well-crafted regulations are indispensable in safeguarding public welfare by addressing market imperfections, particularly those concerning public goods such as health, safety, environmental preservation, and consumer entitlements.

In conclusion, extant literature underscores the manifold impact of regulatory compliance costs on stakeholders within MSMEs. While these costs may pose formidable impediments to entry and expansion, they also present avenues for the enhancement of product quality and the broadening of market access. Regulations, while not always intended to directly increase prices, can often lead to higher costs for businesses due to compliance requirements, ultimately impacting consumer prices and socioeconomic strata differentially (Chambers & Collins, 2016).

2.2 Theoretical Framework

2.2.1 George Stigler's Theory of Economic Regulation

The research is anchored in George Stigler's Theory of Economic Regulation, articulated in 1971. Stigler posits that regulation originates from the need to address market failures and serve the public interest. Contrary to the conventional view of regulation as a public good, Stigler contends that industries acquire and use it for their benefit. Stigler's theory aims to identify regulatory recipients, specify measures' nature, and analyze their impact on resource allocation. Stigler introduces the idea that regulation is a commodity within

a marketplace, shaped by political processes. Despite this departure, applying economic concepts can yield insights into regulation's emergence and forms (Stigler, 1971).

Within Stigler's framework, understanding the impact of regulatory dynamics on Micro, Small, and Medium Enterprises (MSMEs) is crucial. Despite the focus on larger businesses, the consequences of regulations affect smaller enterprises significantly. MSMEs, with limited resources, face challenges in complying with regulatory frameworks. Barriers to market entry, favored by larger firms, pose hurdles for MSMEs. The regulatory landscape's influence on product substitutes or complements disproportionately affects the diverse offerings of MSMEs.

Carrigan and Coglianese (2016) expand on Stigler's theory, exploring the regulatory marketplace. Businesses strategically "acquire" various regulatory products, including subsidies, control over entry, and intervention in prices. Their strategic behavior reveals a pursuit of competitive advantages through barriers, control of substitutes, or price influence. This exploration sheds light on how MSMEs navigate challenges. The accessibility of subsidies and regulatory impact on entry significantly affects MSME viability. Regulation of substitutes or complements directly influences MSME competitiveness.

Incorporating the impact of regulations on MSMEs into the framework extends the discussion to economic diversity, innovation, and entrepreneurship. It underscores the need for a nuanced understanding of how regulations foster or impede MSME growth. In essence, integrating Stigler's Theory into the framework reveals the interplay between economic and political forces. It illuminates how businesses strategically navigate regulations, impacting market dynamics. This approach challenges traditional perspectives on regulatory motivations.

2.2.2 The Institutional Theory

Institutional Theory emerged in the late 19th century as a critique of solely rational actors and market forces, it owes a debt to sociologist Max Weber's emphasis on social structures and cultural values shaping economic behavior (Jepperson, 1991).

Today, Institutional Theory examines how social expectations and norms influence organizational behavior, particularly focusing on how structures like rules and routines become established as legitimate guides for social interaction (Scott, 2008). It unpacks

the processes behind the creation, diffusion, and adaptation of these structures across space and time (Dacin, Goodstein & Scott, 2002).

Three key mechanisms underpin this theory:

- **Institutionalization:** This refers to the process by which social structures and norms become established as legitimate and widely accepted guidelines for behavior (DiMaggio & Powell, 1983). For example, how specific accounting practices become the industry standard.
- **Isomorphism:** Organizations often conform to these established structures (isomorphism) to gain legitimacy and social acceptance from stakeholders (DiMaggio & Powell, 1983). This can be mimicking successful competitors, conforming to external pressures like regulations, or adopting practices endorsed by professional associations.
- **Institutional Actors:** The theory also considers the role of actors like government agencies and professional associations who influence and enforce these norms and structures (Scott, 2008). Regulatory bodies, for instance, play a significant role in shaping organizational practices.

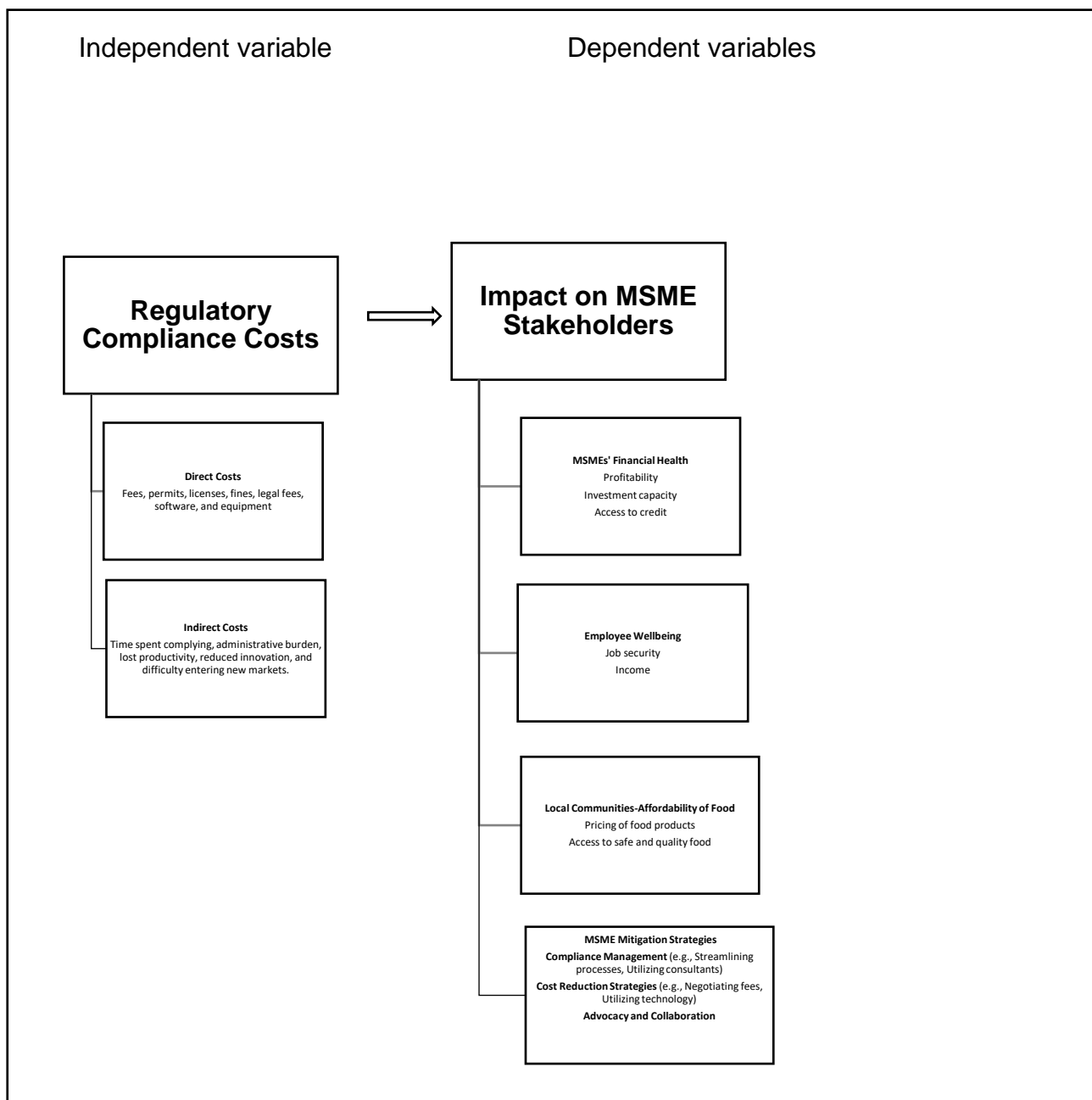
This framework holds particular value for understanding how social pressures and external forces influence decision-making and behavior within organizations, especially in the context of regulations. Institutional pressures can compel businesses to comply with regulations, even if the individual benefits are unclear. The theory also highlights the influence of power dynamics and regulatory bodies on organizational practices. Finally, organizations often engage in legitimacy-seeking behaviors to gain social acceptance, such as adhering to regulations or adopting specific technologies, even when it comes at a cost. By analyzing these insights, we can gain a deeper understanding of the various factors influencing organizational behavior.

This theoretical framework is particularly relevant to this research due to its explanation of regulatory compliance as a pressure point for businesses regardless of individual benefits. Scott (2008), helps put into context, regulatory compliance as a pressure point for businesses regardless of individual benefits, the influence of power dynamics and

institutional actors on regulations impacting businesses, and legitimacy-seeking behaviors such as adhering to regulations, adopting technologies, or seeking certifications, even when it comes at a cost.

2.3 Conceptual Framework

Figure 0.1 Conceptual Framework



Source: Author, 2024

CHAPTER THREE RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology used in this study and is organized under the following sections: the research approach, research design, study population, sample size, sample techniques, data collection tools, data collection technique and ethical consideration.

3.1 Research Approach

According to Taderhoost (2022), the choice of a research approach depends on the type of data sought, leading to the categorization of research into either qualitative or quantitative approaches. Alternatively, a combination of these methods, known as a mixed-method study, can be employed, harnessing the advantages of both approaches. Quantitative research involves explaining phenomena by collecting numerical data and analysing them using mathematically based methods, particularly statistics (Creswell, 2003).

Qualitative research, as conceptualized by Creswell (1994), holds a prominent position in the realm of academic research, particularly serving as the bedrock for theses and dissertations worldwide. It distinguishes itself as a holistic investigative approach that prioritizes discovery, unfolding within the natural context of the subjects under study. By immersing researchers in the intricacies of actual experiences, qualitative research offers a nuanced understanding that transcends numerical data, capturing the richness and depth of human phenomena.

Complementing the singular focus of qualitative research, a mixed methods research design emerges as a systematic and integrative approach to research. This methodological framework, as articulated by Bhawna and Gobind (2015), orchestrates the harmonious blend of both quantitative and qualitative research methods within a single study. This integration not only allows for a more comprehensive examination of the research problem but also facilitates a holistic understanding by acknowledging the diversity of perspectives and sources of evidence.

To gain an understanding of the diverse perspectives of MSMEs navigating the complexities of regulatory compliance costs, I employed qualitative research methods through questionnaire with both closed ended and open ended questions. This approach allowed me to delve into the "why" behind the respondents answers and explore the impact of these costs on their businesses.

3.2 Research Design

Research design functions as a strategic framework, connecting research inquiries to the execution of the research process (Othman et al., 2020). It establishes conditions governing data collection and analysis, aiming for a balance between relevance to the study's purpose and procedural efficiency. As described by Greener (2018), it acts as a cohesive element unifying various research operations, including tasks like identifying data sources, collecting data, measuring variables, and conducting data analysis, all guided by the underlying research questions. In this study, a narrative research design was chosen to facilitate a comprehensive exploration of the intricate interplay between regulatory compliance costs and the socioeconomic impact on MSMEs stakeholders

3.3 Study Population

The scope of the study was limited to 50 MSMEs whose details were retrieved from a list of micro, small and medium businesses that attended a MSME training on food safety and regulations held in March 2023. To be eligible for participation in this study, businesses needed to meet the criteria of being classified as micro, small, or medium-sized enterprises as defined by the Zambia Development Agency, having attended the food safety and regulations training in March 2023, being a registered with PACRA, and either being a food processor or having a business that adds value to food.

These four criteria would ensure that evaluation was conducted on micro, small and medium businesses that are in the same line of businesses and therefore face similar costs. Every MSME was requested to fill out a brief questionnaire to assess the impacts of regulatory compliance costs on micro, small, and medium enterprises in Lusaka. With a total of 100 attendees from diverse MSMEs, the selection of the 50 businesses was done by counting off every second business name when the list was organized alphabetically.

3.4 Sample Size

Sample size is a research term that denotes the number of individuals included in a study chosen to represent a population. It refers to the total number of respondents in a study, often categorized into sub-groups based on demographics like age, gender, and location to ensure the sample represents the entire population (Kibuacha, 2021). In this study, the sample size was 50 MSMEs, chosen through systematic sampling.

3.5 Sampling Techniques

The survey employed systematic sampling to select MSMEs, with businesses chosen by counting off every second business name when the list was arranged alphabetically. In systematic sampling, individuals are selected at regular intervals from the sampling frame, ensuring an adequate sample size. For a required sample size (n) from a population of size (x), the approach involves selecting every x/n th individual for inclusion in the sample.

3.6 Data Collection Procedures

Data collection involved a combination of quantitative and qualitative methods. The survey utilized a structured questionnaire with both closed-ended and open-ended questions, administered through Google Forms to the chosen MSMEs. Additionally, for qualitative data, semi-structured interview guides featuring open-ended questions were employed with key informants from ZABS, ZCSA, and ZMA. These regulatory bodies, possessing extensive knowledge of costs associated with regulations in food processing enterprises, frequently interact with MSMEs in the food processing sector.

3.7 Data Analysis Procedures

The quantitative data collected from the survey was gathered via Google Forms and meticulously analysed in Excel. Charts and graphs were adeptly used to vividly present the findings.

3.8 Study Variables (Independent, Dependent, Control)

In a study or experiment, a variable is a measurable factor. The independent and dependent variables are crucial for understanding and conducting research. The dependent variable is what is measured in the study or experiment, while the independent variable is what the researcher manipulates or changes. It is the factor responsible for influencing the dependent variable. Additionally, a control variable is a factor held constant or limited in a research study, not of direct interest to the study's objectives but controlled to prevent it from influencing the outcomes (Al Bistami, 2023).

3.8.1 Independent Variable

In this research, the independent variable focuses on regulatory compliance costs, which are divided into two types: direct and indirect costs. Direct costs involve tangible expenses like fees, permits, fines, legal fees, and technology investments. Indirect costs are more intangible and include factors like time spent on compliance, administrative burden, lost productivity, reduced innovation, and difficulties in entering new markets. This breakdown aims to explore how these regulatory costs impact the financial and operational aspects of Micro, Small, and Medium Enterprises (MSMEs) in a comprehensive manner.

3.8.2 Dependent Variable

The research will examine two primary dependent variables: the impact on MSMEs and the impact on local communities.

Impact on MSMEs: This refers to the consequences of regulatory compliance costs on the financial health of the businesses, including their profitability, investment capacity, and access to credit. Additionally, it will explore the social wellbeing of the MSMEs' employees, encompassing factors like job security, income levels, and overall morale.

Impact on Local Communities: This dependent variable investigates how regulatory compliance costs for MSMEs might influence the affordability of food products for local communities. The study will assess the potential changes in pricing and access to safe and quality food within the local market.

3.9 Limitations of The Study

The limitations faced during the undertaking of the study were as outlined below:

- i. The data collection coincided with a period marked by business breaks due to the festive season. This temporal alignment led to an unfavourable response rate as many businesses were temporarily inactive. Additionally, respondents' engagement was affected, resulting in delayed responses. This limitation introduces a potential source of bias, as the data may not accurately reflect the typical operational dynamics of micro, small, and medium enterprises (MSMEs) during regular business periods.
- ii. The use of Google Forms as the primary data collection tool faced limitations as some respondents did not regularly check their emails for the survey link. Moreover, a subset of participants perceived the email containing the Google Form as a potential security threat, leading to concerns about the safety of providing business information. This limitation introduced challenges in reaching a representative sample and may have influenced the willingness of respondents to engage with the questionnaire.
- iii. The sample size and sample population was not a representative of the entire MSME population neither was it a representation of the entire food processing population in Lusaka, this limitation may lead to biased results.
- iv. As the study needed to be adjusted in a way, objectives had to be revised and therefore some data collection had to be revisited. This was a challenge as some respondents were not willing to participate in the study again.

3.10 Ethical Considerations

The study adhered to ethical guidelines for involving human participants in research. Participants were fully informed about the study's objectives and purpose, and their consent was obtained through signed consent forms. The research report maintains confidentiality by excluding identifying information, respecting the privacy of participants' data. The study strictly followed the University of Lusaka's ethical code of practice in research and underwent review by the research ethics committee. Approval from the committee was obtained, confirming that the study presented no significant ethical concerns.

CHAPTER 4 PRESENTATION AND ANALYSIS OF FINDINGS

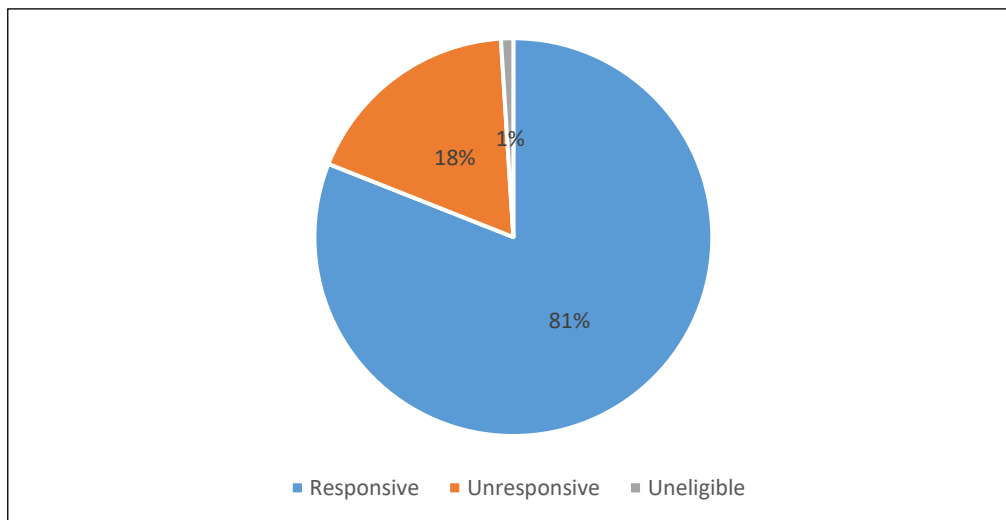
4.0 Introduction

This chapter unveils the study's findings, elucidating the results aimed at discerning the influence of regulatory costs on Micro, Small, and Medium Enterprises (MSMEs). The study specifically focused on 50 employers and employees of MSMEs and 10 consumers of products produced by these enterprises.

4.1 Response Rate Analysis

The study distributed a total of 60 questionnaires to stakeholders of Micro, Small, and Medium Enterprises in Lusaka that participated in a food safety and regulations training in March 2023. Out of the 60 questionnaires, 50 were administered to employees and employers of MSMEs and 10 were administered to customers of these businesses via Google Forms. Of the 50 questionnaires sent, 40 were sent back completed, and 10 were unresponsive. Of the 10 questionnaires administered to consumers, 9 were completed and there was one incomplete questionnaire which was deemed ineligible. With this, there was an 81% response rate for this study. Figure 4.1 shows a summary of the questionnaire response rate.

Figure 0.1 Response Rate



Source: Author, 2024

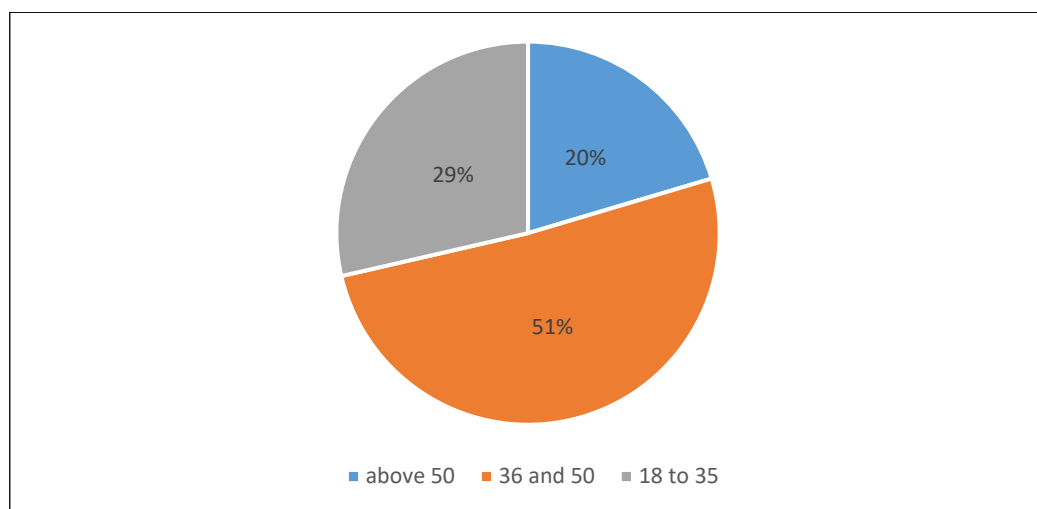
4.2 Respondent's General Information

This section assessed the contextual characteristics of the respondents, including age, gender, and their respective positions within the business.

4.2.1 Age of Respondents

The study revealed that of the 49 respondents, 10 were above the age of 50 accounting for 20%, 25 were between the ages of 36 and 50 accounting for 51% and 14 were between the ages of 18-35 accounting for 29%.

Figure 0.2 Age of Respondents

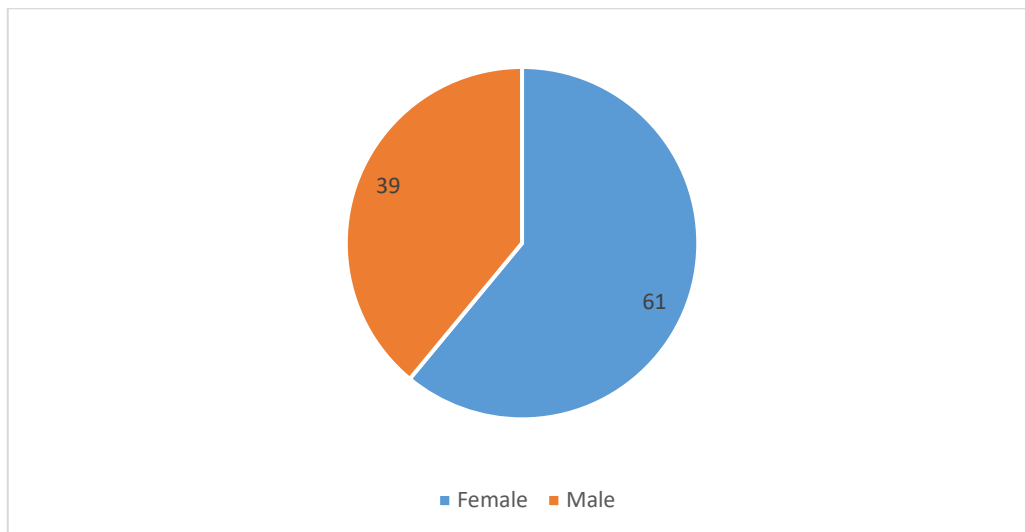


Source: Author, 2024

4.2.2 Gender of Respondents

The study found that of the 49 respondents' 61% were female, 39 were male.

Figure 0.3 Gender of Respondents

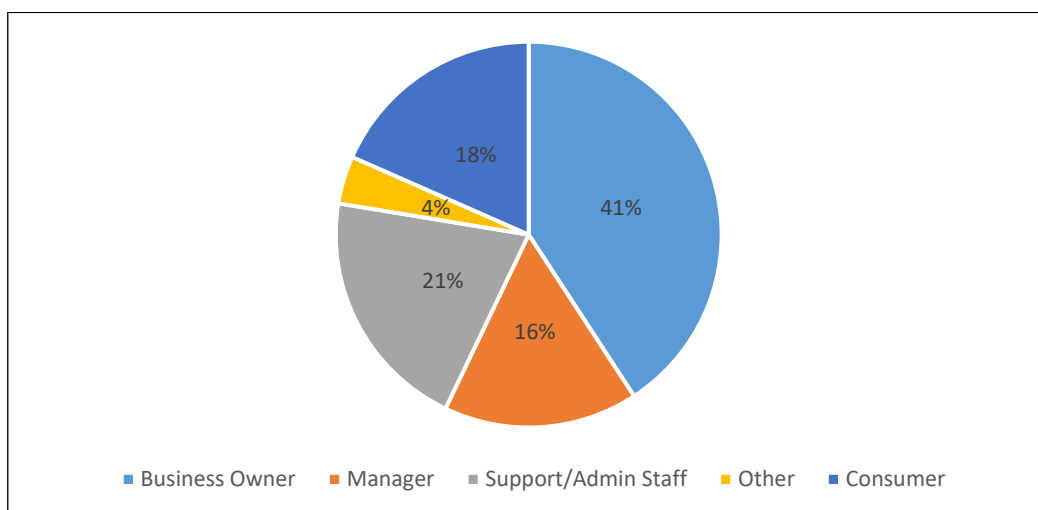


Source: Author, 2024

4.2.3 Position of Respondents'

As illustrated in the figure below; 40.8% of the respondents were the business owner, 16.3% were in a managerial position, 20.5% were support/administration staff, 4% were other and 18.4% were consumers.

Figure 0.4 Position of Respondents



Source: Author, 2024

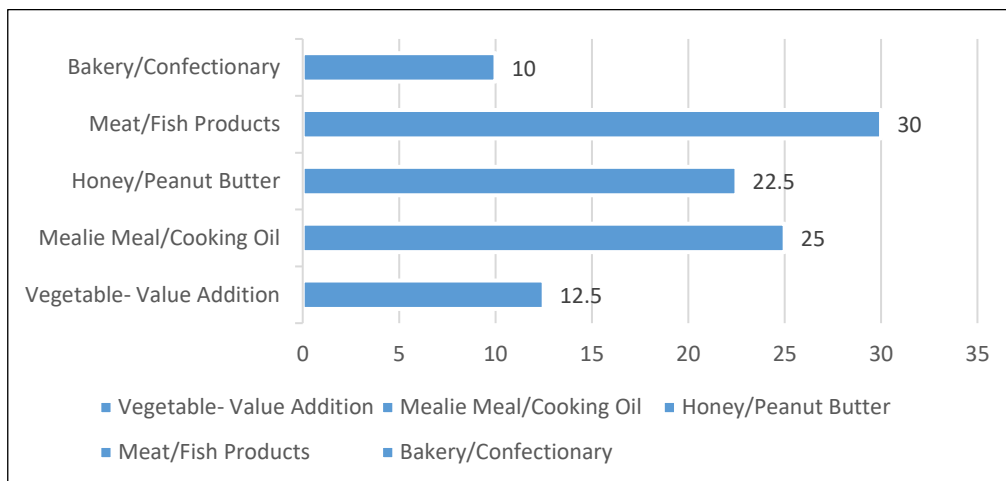
4.3 Business General Information

The study determined the Micro, Small or Medium Enterprises' contextual characteristics based on industry- type of products, number of employees and years in operation.

4.3.1 Industry- Type of Products

Of the 40 employers and employees of the business enterprises, 12.5% were into value addition of vegetables/vegetable farming, 25% were into mealie meal and/or cooking oil processing, 22.5% were into honey or peanut butter processing, 30% were into meat and fish products and 10% were into baking/confectioneries.

Figure 0.5 Industry- Types of Products

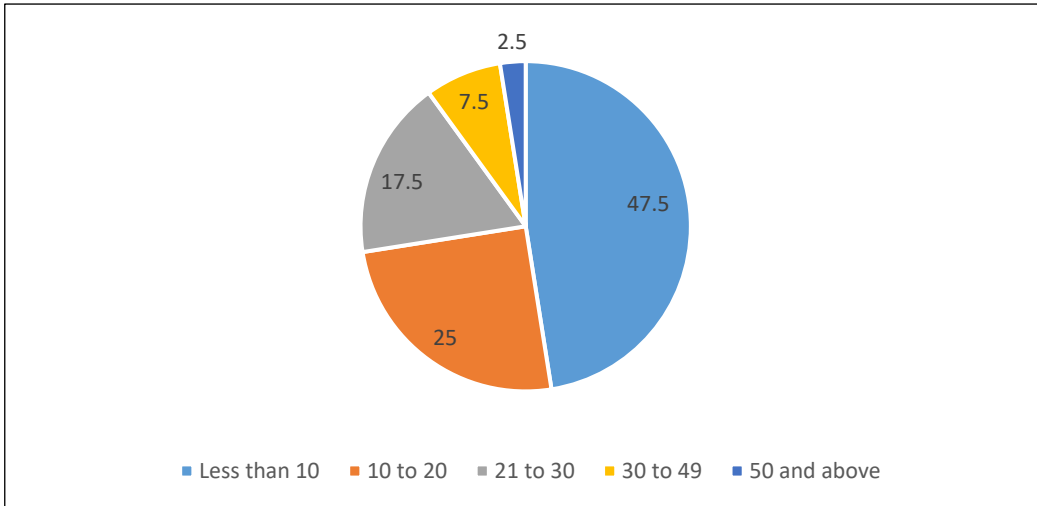


Source: Author, 2024

4.3.2 Number of Employees

The study revealed that 47.5% businesses had less than 10 employees, 25% had between 10 to 20 employees, 17.5% businesses had between 21 to 30 employees, 7.5% had between 30 to 49 employees, and 2.5% had 50 and above employees.

Figure 0.6 Number of Employees

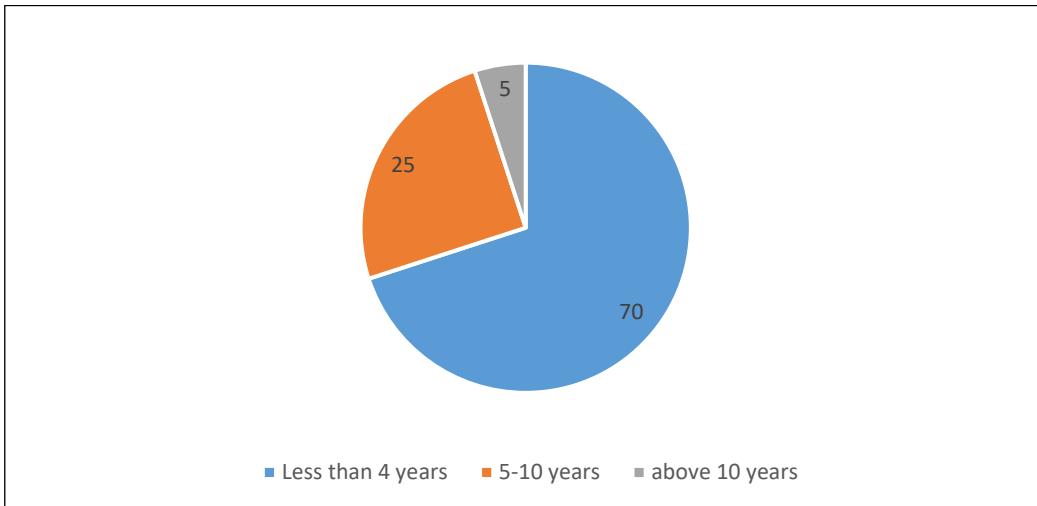


Source: Author, 2024

4.3.3 Years in Operation

Out of the 40 enterprises, 70% had been in operation for less than 4 years, 25% have been in operation for between 5 to 10 years and 5% have been in operation for above 10 years.

Figure 0.7 Years in Operation



Source: Author, 2024

4.4 Regulation Costs

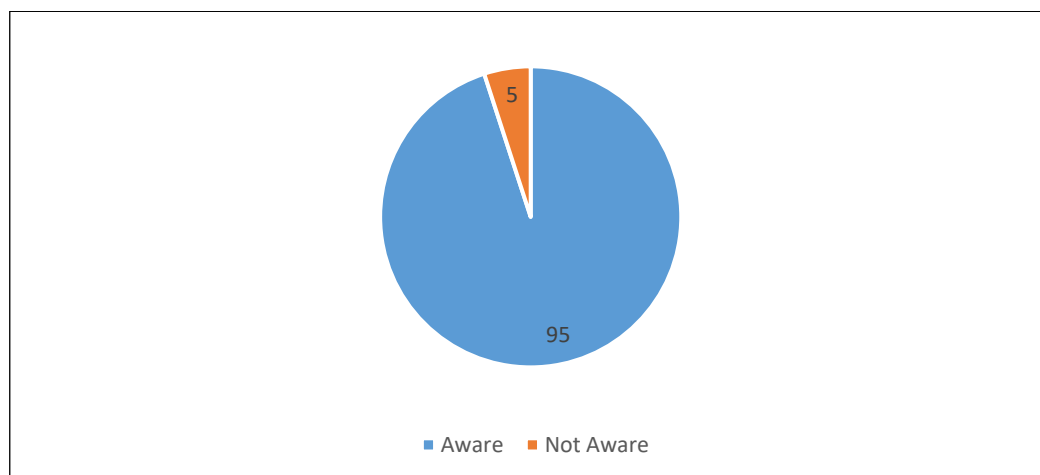
Some businesses do not comply to regulations due to having no knowledge of the standards that their business in order to operate. This section looked at whether the

respondents knew what costs associated with regulation compliance their business needed to pay for, the amount of these cost and whether they had paid these costs for the year 2023.

4.4.1 Awareness of Regulations and the Costs Associated to the Business

Of the 40 employees and employers, 95 % were aware of the regulations that are associated to their businesses and 5% were not aware. All of the consumers stated that they were not aware of any of the regulatory costs associated to the business that they purchase food products from. When further questioned about the regulation standards that were aware of, the following were mentioned: Business Levy, Health Permit, Fire Certificate, Food Handlers Certificate, Workman’s Compensation, ZCSA Permit to Supply and ZABS Local Supplier.

Figure 0.8 Awareness of Regulations and their Costs

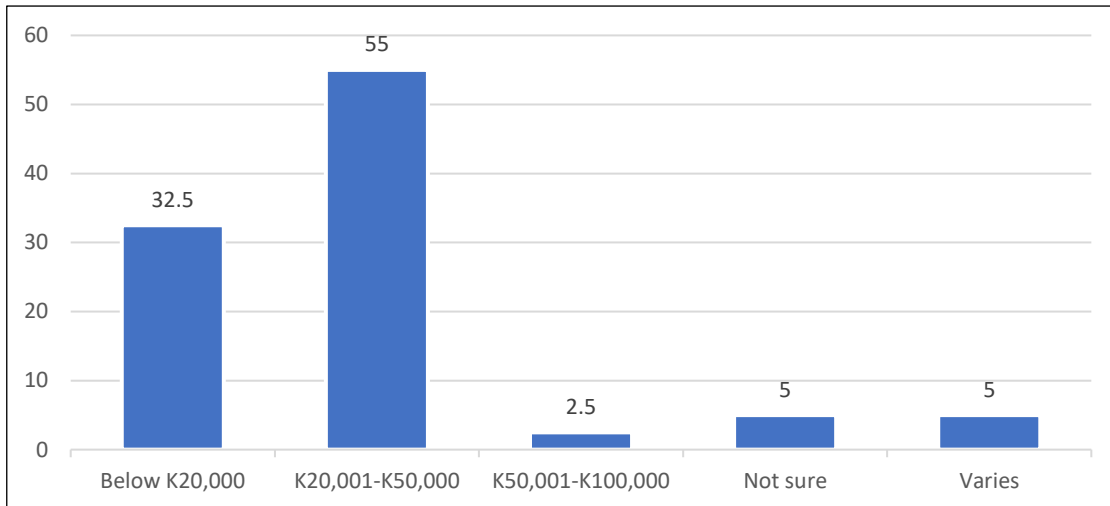


Source: Author, 2024

4.4.2 Costs Relating Regulations Associated to the Business

This section looked at the costs of regulations related to respective MSMEs per year. 32.5% of the businesses stated that their business incurred cost below K20,000 per year. 55% stated that their business incurred costs between K20,000K50,000 a year. 2.5% stated their business incurred costs between K50,001- K100,000 per year. 5% stated that the costs varied per year and another 5% stated that they were not sure. None of the respondents stated that they incurred costs of above K100,001.

Figure 0.9 Costs Relating to Regulations Associated to The Business



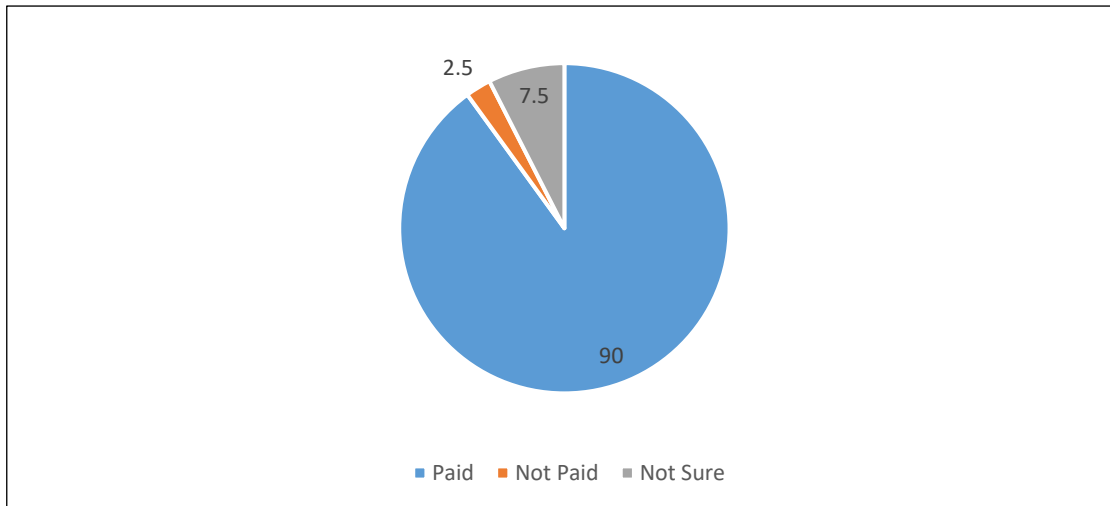
Source: Author, 2024

4.4.3 Payment of Costs Associated to Regulations for the Business

This section determined whether the MSMEs had already paid for the respective business regulations. As this study was undertaken in the fourth quarter of the year, it was hoped that for the businesses to be operational thus far, they all had paid the cost of regulations relating to their businesses.

90% of the respondents indicated that they had paid for their business regulations. 2.5% indicated that they had not yet paid and 7.5% indicated that they were not sure if the business had paid for their business regulations. Those that had not yet paid for their business regulations had indicated that they were currently not in production and so did not pay for any business regulations.

Figure 0.10 Payment of Costs Associated to Regulations For the Business



Source: Author, 2024

4.5 Financial Health and Employee Wellbeing

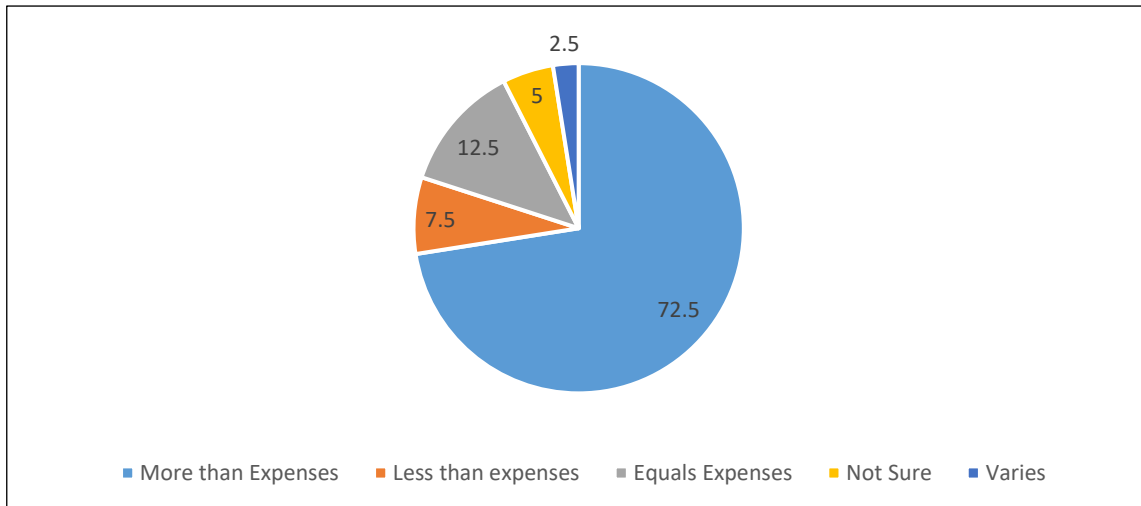
This section explores the financial health of the MSMEs and the impact of the regulatory costs on the socioeconomic wellbeing of employees (job security, income, morale)

4.5.1 Profitability of the Businesses

This section looks at the overall profitability of the businesses.

72.5% of respondents indicated that the business's total income is more than its total expenses. 7.5% indicated that the business's total income is less than its total expenses. 12.5 indicated that the business's total income equals its total expenses. 5% indicated that they were not sure of the business's profitability and 2.5% indicated that it varied.

Figure 0.11 Profitability of the Business

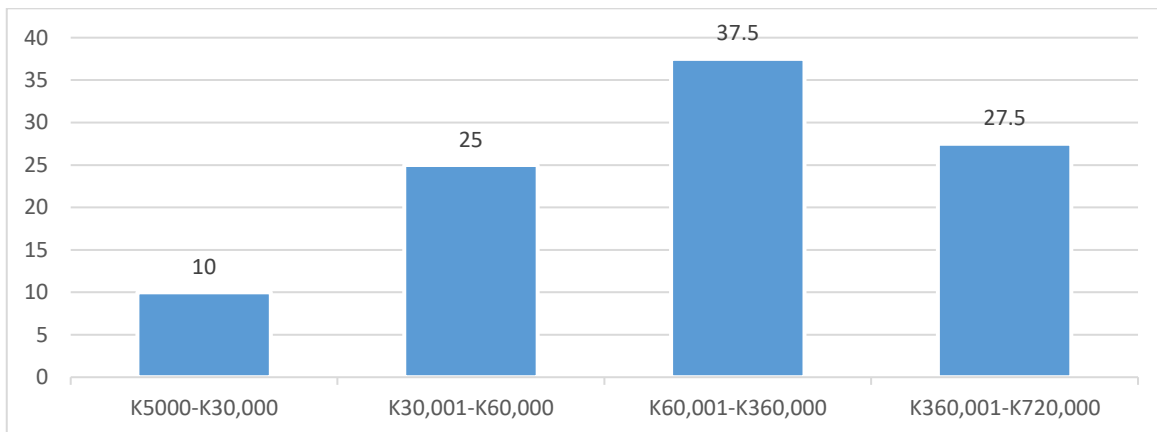


Source: Author, 2024

4.5.2 Revenue Per Year

Out of 40 respondents, 10% had a total yearly revenue of between K5,000-K30,000. 25% had a total yearly revenue of between K30,001-K60,000. 37.5% had a total yearly revenue of K60,001-K360,000 and 27.5% had a total revenue of K360,001-K720,000

Figure 0.12 Revenue Per Year



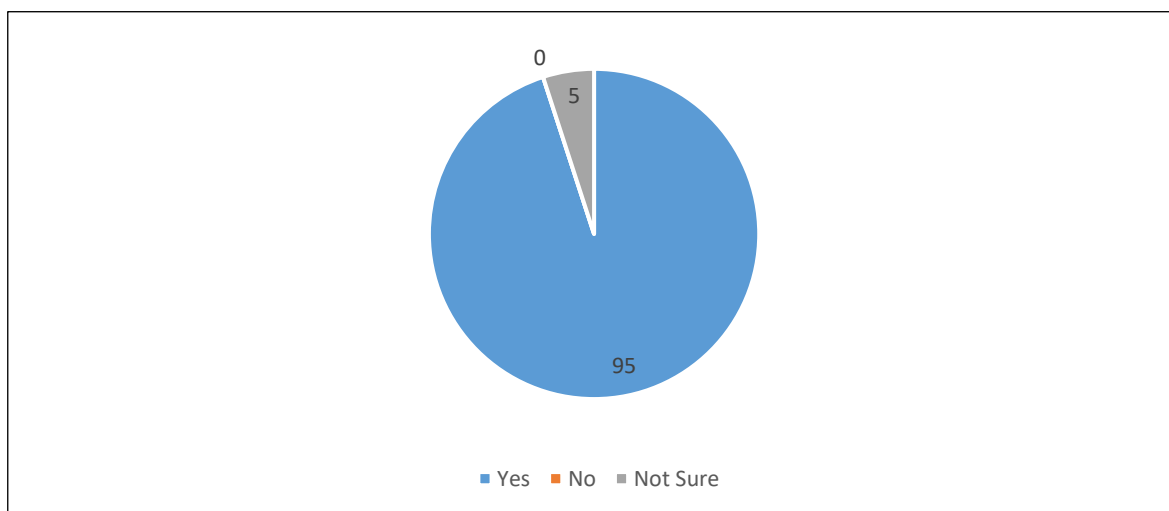
Source: Author, 2024

4.5.3 Regulatory Compliance Budget Allocation

This section looked at how much of the business's annual operating budget is allocated to meeting regulatory compliance requirements. 95% of respondents stated that they did

not have any percentage of their operating budget allocated to meeting regulatory compliance costs. 5% stated that they were not sure if there was a percentage of the annual operating budget allocated to regulatory compliance. None of the respondents stated that they had a percentage of their operating budget allocated to meeting regulatory compliance costs. Most of the respondents stated that they did not even have an annual operating budget. Those respondents that did have an annual operating budget did not find considering regulatory compliance costs into the budget.

Figure 0.13 Regulatory Compliance Budget Allocation



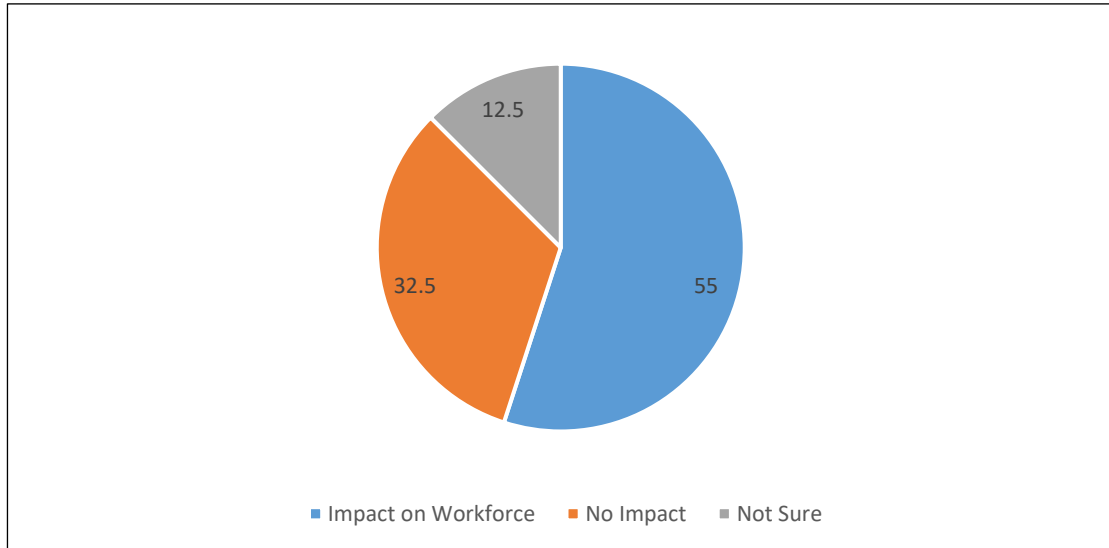
Source: Author, 2024

4.5.4 Effect of Regulatory Compliance Costs on Workforce (Employee Layoffs)

This section explores whether the financial burden of complying with regulations has led to workforce reductions, specifically through employee layoffs.

55% of the respondents indicated that financial burden of complying with regulations has led to employee layoffs. 32.5% indicated that financial burden of complying with regulations has not led to employee layoffs and 12.5% indicated that they were not sure if that financial burden of complying with regulations has led to employee layoffs. Those that indicated that the financial burden of complying with regulations has led to workforce reductions, specifically through employee layoffs stated that they had laid off less than 5 people in the past year due to regulation costs and also had to engage casual workers than full time employees as they were cheaper.

Figure 0.14 Impact of Regulatory Compliance Costs on Workforce (Employee Layoffs)



Source: Author, 2024

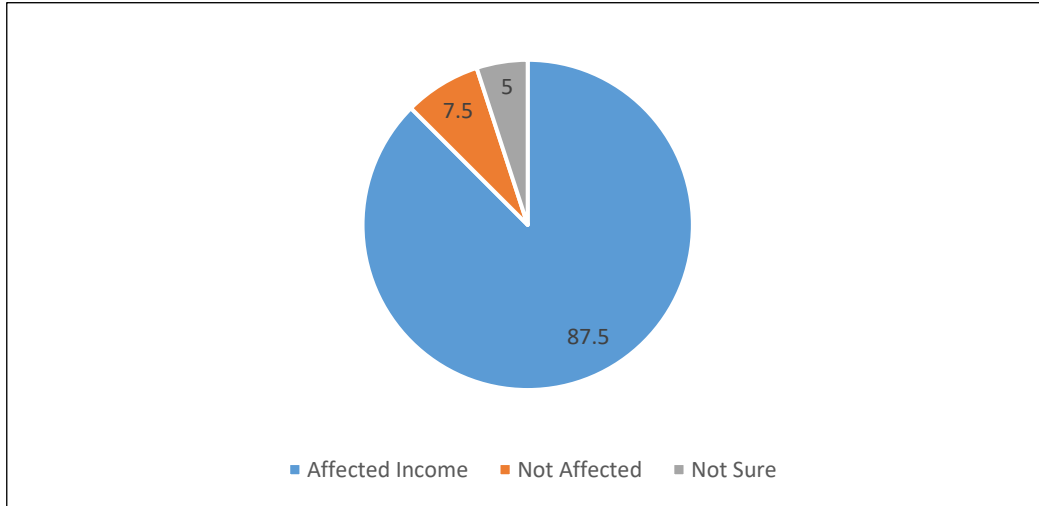
4.5.5 Effects of Regulatory Compliance Costs on Employee Income

This section looks at whether the costs associated with complying to regulations affected the employees' income. 87.5% of respondents indicated that the costs associated with complying to regulations had affected the employees' income.

7.5% of respondents indicated the costs associated with complying to regulations did not affect their employee income and 5% were not sure on whether costs associated with regulations affected their employee income or not.

Several respondents highlighted that these expenses limited the business's ability to offer bonuses and overtime costs to the employees. In some cases, companies had to resort to direct salary cuts as a cost-saving measure to manage compliance expenses. Interestingly, some respondents also mentioned taking a personal financial hit. They stated that in a few circumstances they have chosen to reduce their own salaries for that month to lessen the burden on employees and maintain a level of income fairness within the company.

Figure 0.15 Effect of Regulatory Compliance Costs on Employee Income

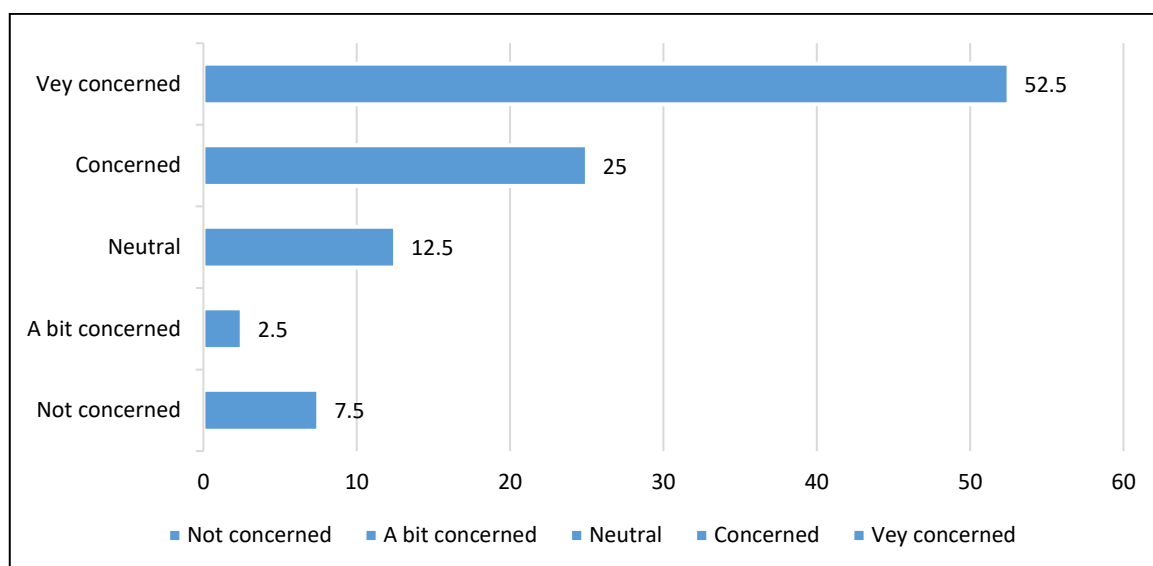


Source: Author, 2024

4.5.6 Effect of Regulatory Compliance Costs on Job Security

This section looked at the impact of regulatory compliance costs on job security. Respondents were asked on how concerned they were on a scale of 1-5, with 1 being not concerned and 5 being very concerned about job security at their company due to regulatory compliance costs. 52.5% stated that they were very concerned. 25% stated that they were concerned. 12.5% stated that they were neutral. 2.5% stated that they were concerned just a bit and 7.5% were not concerned at all. Those who expressed concern or being very concerned indicated that the concern arose from the fact that this could lead to job loss of permanent or full time employees to make room for the hiring of casual workers or part time staff as it was less expensive.

Figure 0.16 Impact on Job Security



Source: Author, 2024

4.6 Regulatory Compliance Costs and MSMEs' Food Affordability

This section examines how regulatory compliance costs impact MSMEs' ability to offer affordable food to local communities. It was based solely on consumer responses on the questionnaire.

4.6.1 Regulatory Costs and Consumer Awareness

When asked whether consumers are aware of any regulations or licenses that local MSMEs need to comply with in order to sell food, 100% indicated that they were not aware of any licenses.

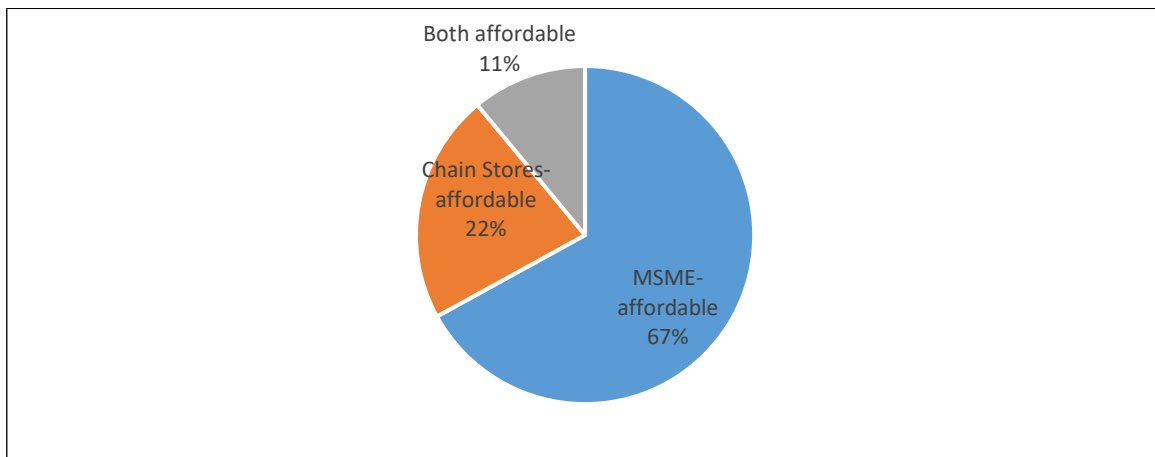
4.6.2 Regulatory Compliance Costs and Price Changes

When asked whether consumers had noticed any change in the price of the goods that they were purchasing from these MSMEs, 100% indicated that they had noticed a change in the price of goods they were purchasing. Respondents indicated that they noticed a change in prices of goods in the past months and associated this increase with the depreciation of the kwacha and fuel prices.

4.6.3 Affordability of Processed Food Manufactured by MSMEs

When asked whether processed food manufactured by these MSMEs was more affordable than those found in chain stores such as Shoprite, Pick and Pay etc. 67% of the respondents stated that processed foods manufactured by MSMEs were cheaper and more affordable than that of chain stores. 22% stated that the food that processed foods manufactured by MSMEs were more expensive and 11% felt that both had affordable prices. The respondents that felt that processed foods manufactured by MSMEs were cheaper and more affordable than that of chain stores stated that this was probably due to the fact that the process had the middle man cut out than with chain stores

Figure .0.17 Affordability of Processed Food Manufactured by MSMEs

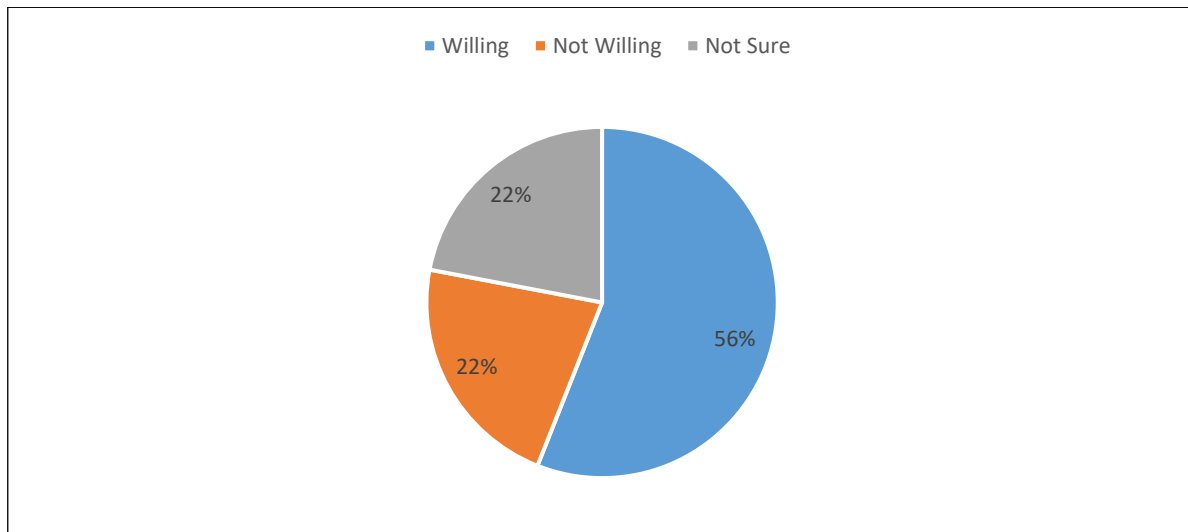


Source: Author, 2024

4.6.4 Consumer Willingness to Pay for Higher Prices for Food Quality and Safety

This section looked at whether consumers would be willing to pay slightly higher prices for food if it ensured better quality or safety standards. 56% of the respondents stated that they would be willing to pay slightly higher prices. 22% stated that they would not be willing to pay slightly higher prices and 22% said they were not sure. Respondents that said they would be willing to pay more stated that it is important to ensure what they are purchasing is safe for consumption. Those who said they were not willing stated that a higher price does not reflect better quality or safety standards.

Figure 0.18 Consumer Willingness to Pay for Higher Prices for Food Quality and Safety



Source: Author, 2024

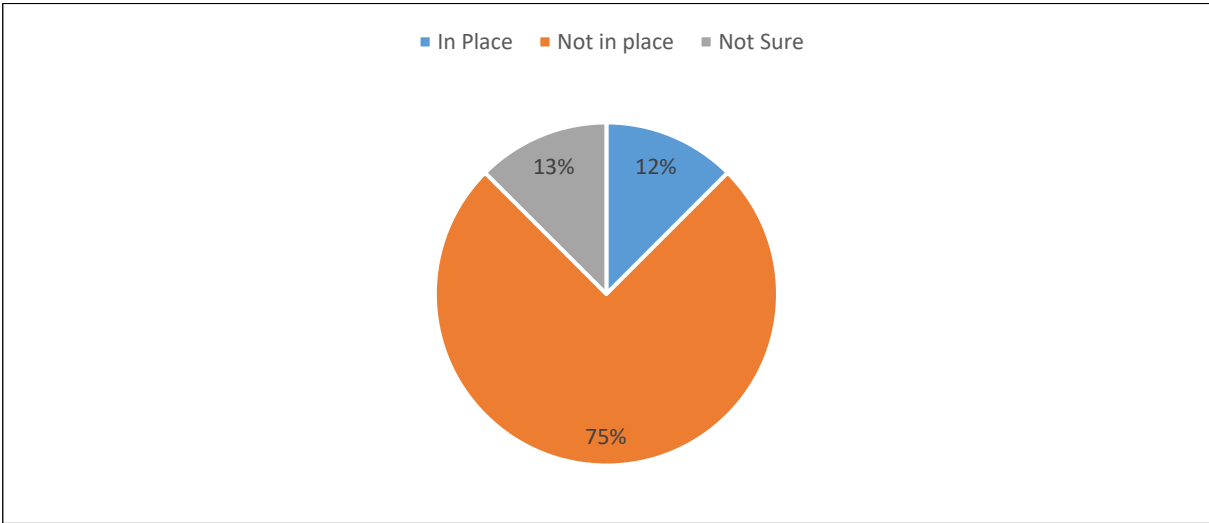
4.7 Strategies for Mitigating Regulatory Compliance Costs for Socio-Economic Wellbeing

This section looks at strategies adopted by MSMEs to mitigate the impact of regulatory compliance costs on the socio-economic wellbeing of its stakeholders.

4.7.1 Investigating the Presence of Strategies

75% of the respondents indicated that they did not have any strategies in place to mitigate the impact of regulatory compliance costs on the socio-economic wellbeing of its stakeholders. On the other hand, 12% said they had strategies in place, and another 13% were unsure about any existing strategies. One respondent highlighted that they prioritized the most critical regulations and focused their resources on those costs.

Figure 0.19 Strategies in Place to Cope with Costs Associated with Regulations

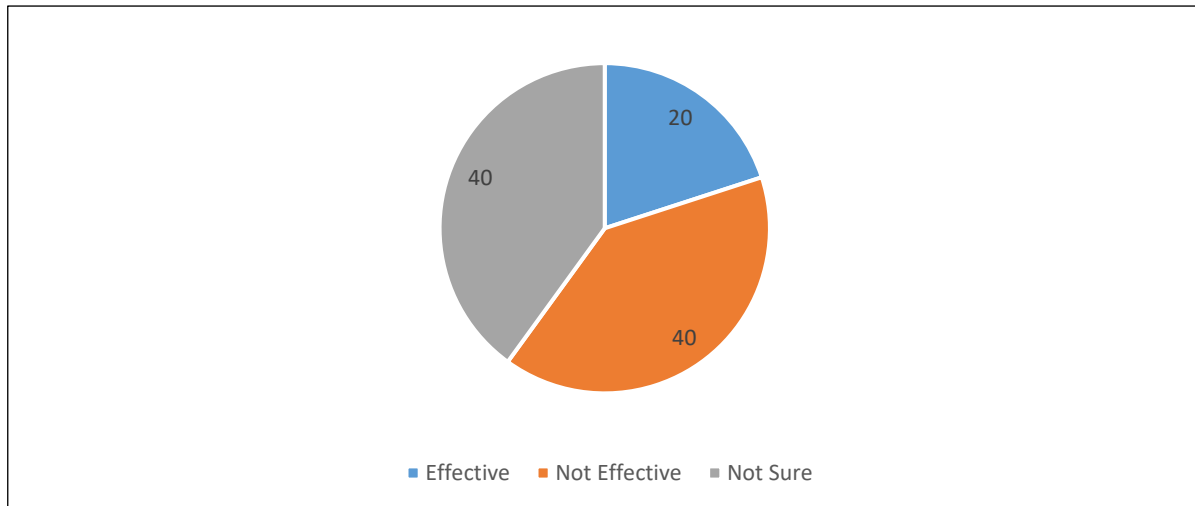


Source: Author, 2024

4.7.2 Effectiveness of Mitigation Strategies

Of the 12% of respondents that indicated that they had strategies in place to mitigate the cost of regulations, 20% indicated that the strategies put in place were effective. 40% indicated that they were not effective and another 40% indicated they were not sure of the effectiveness of these strategies as they had just begun to use them and could not determine the effectiveness at that point. Those that indicated that the strategies were ineffective indicated that they currently had short term strategies in place and not long term strategies to help them in the long run.

Figure 0.20 Effectiveness of Strategies

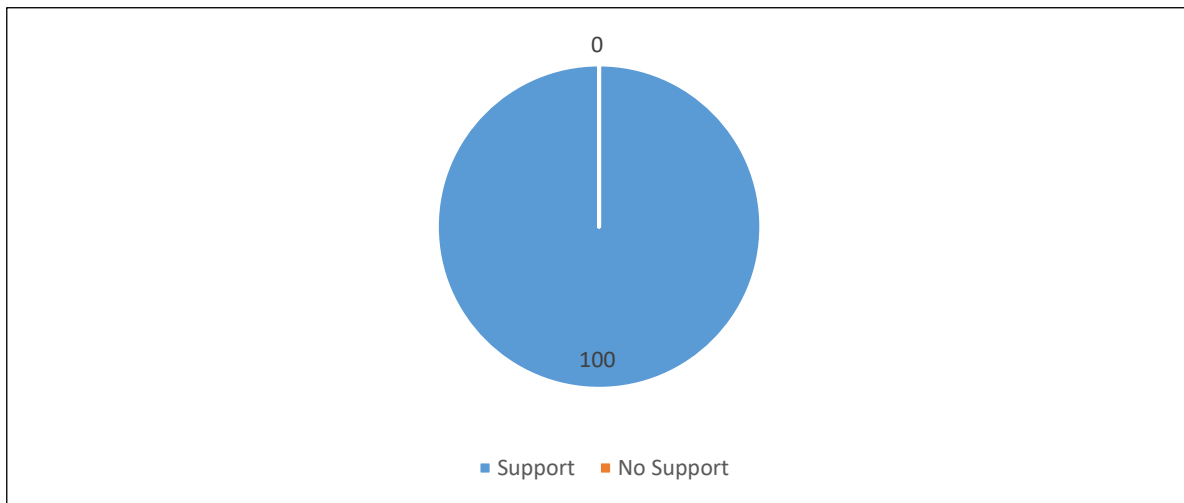


Source: Author, 2024

4.7.3 Government Incentives/Support

100% of respondents indicated that there should be government support or incentives that can help businesses manage the costs associated with complying to regulations. Respondents indicated that the government should assess the level and growth of a business before putting in place the costs associated with regulations. Some respondents conveyed that there should be charge these payments after assessing Exemptions or “tax holidays” for MSMEs until they meet a certain threshold of growth. Other government incentives that respondents highlighted were merging some taxes and which should be payable annually especially for family businesses and start-ups till they achieve a good financial standing.

Figure 0.21 Government Incentives to Help Businesses Manage the Costs Associated with Regulation Compliance



Source: Author, 2024

4.7.4 Collaborative Approaches for Managing Regulatory Compliance Costs

100% of respondents indicated that they have not explored any partnerships and/or collaborations to address challenges associated with costs associated with regulations. Some partnerships that MSMEs could explore are with various non-governmental organizations that offer grants in the form payments of costs associated with regulations. MSMEs that are in the same line of business could also collaborate with one another in regulations and therefore share costs.

4.8 Respondent's Role in MSME Regulations as an Individual/Organization

To explain the roles undertaken by the informants both as individuals and representatives of their respective organizations in the context of regulations, they were specifically queried for explanations. The ensuing responses, outlined below, shed light on the diverse and nuanced responsibilities these individuals and organizations assumed to ensure adherence to regulatory standards:

One stated that she is not a technical person but works in the financial department, issuing out quotations, invoices and other financial documents to MSMEs in regards to their payment for compliance.

Another informant indicated that *“I handle non-compliances and ensure successful conclusion of enforcement matters”*. When probed further on what that entailed, the informant stated that it entails managing situations where MSMEs fail to adhere to established compliance standards. It also meant putting in place corrective actions to address the non-compliance issues, investigating the root causes, and implementing measures to bring the entities back into compliance.

4.9 Interaction with Regulatory Body and MSMEs for Compliance and Oversight

The researcher sought to assess the regulatory bodies' interaction with MSMEs and the role they played in compliance and oversight of these MSMEs. The responses were as follows:

“We interact with MSMEs through standardization and quality assurance activities. These activities include training and mentorship in the use of product standards as well as testing of their products and offering a certificate of conformity as well as grant to apply the certification mark on their products.”

Another regulatory body stated that *“If the necessary resources are available, we conduct capacity building workshops and training for MSMEs where they are made aware of what the law requires and trained on how their products can comply to the necessary requirements.”*

Overall, the informants stated they are interacting with MSMEs through training and educating them on what is required of them in terms of business compliance.

4.10 Assessment of Costs, Challenges and Compliance of Regulatory Compliance for MSMEs

The following were the responses to how regulatory body assess the costs associated with regulations imposed on MSMEs:

All the informants stated that as their regulatory bodies were established by the government the costs were assessed and quantified as stipulated in various statutory instruments. However, they all stated various discounts available as long as certain conditions were met.

“MSMEs have the incentive of paying 50% of the stipulated fees provided they have a certificate from the Zambia Development Agency classifying them as a micro enterprise.”

When asked about some of the challenges that the informants observed with the costs associated with regulations, they stated:

“Generally the fee structures are not friendly to MSMEs even at cost recovery pricing especially those located in the rural areas just that is the major challenge.”

Regarding the prevalent challenges that MSMEs encounter in adhering to the costs associated with regulations, a single informant expressed: *“its lack of information and fear of the regulatory fees”*

4.11 Resources for Supporting MSMEs in Regulatory Compliance.

Respondents indicated that they provide technical assistance and the inherent benefits of certification which include enhancing capacity to meet statutory, regulatory and customer requirements.

Another respondent stated, “We offer capacity building training and awareness on the benefits of compliance to MSMEs”

4.12 Regulatory Changes and Adaptation

When asked how the respective regulatory bodies considered the needs and challenges of MSMEs when proposing or implementing regulatory changes, the following were the responses:

“This has been institutionalized through the establishment of the Business Regulatory Review Agency (BRRA) under the Ministry of Commerce Trade and Industry. It is now a requirement for regulators to undertake a regulatory impact assessment (RIA) and submit to the BRRA for approve before any changes in the regulations are effected”

Another respondent stated *“when implementing regulatory changes, a Regulatory Impact Assessment is always carried out to get the views of stakeholders.”*

4.13 Future Outlook

The informants were asked what they foresaw for the regulatory landscape evolving for MSMEs in the coming years. Their responses were as follows:

“The future of the regulatory landscape is that it will become more risk-based meaning that there could be a drastic reduction in costs for MSMEs.”

Another respondent stated that with the creation of the Ministry Small and Medium Enterprises, there seems to be favourable government policy towards MSMEs. This will consequently result in favourable regulations such as for these enterprises. Favourable regulation involves coordinating mandates among regulatory bodies to minimize overlap and reduce duplication. This strategic approach enhances operational efficiency and underscores a commitment to creating a more business-friendly environment.

CHAPTER FIVE DISCUSSION OF FINDINGS

5.0 Introduction

This chapter primarily focuses on discussing the significant findings of the study, which aimed to evaluate and analyse the ramifications of elevated regulatory compliance costs on micro, small, and medium enterprises (MSMEs) in Lusaka.

5.1 Discussion of Findings

In this section, an in-depth discussion of the research findings is provided, comparing the obtained results with the literature previously reviewed in Chapter Two. The analysis of the key findings presented below follows the sequence of the research objectives.

5.1.1 Regulatory Compliance Costs on MSMEs' Financial Health and Employee Wellbeing

The study established that the costs associated with complying to regulations can have significant implications for an MSMEs' financial health and therefore have a trickle-down effect on the employee wellbeing.

Regulatory Compliance Costs and MSMEs' Profitability

The research findings demonstrate the multifaceted impact of regulatory compliance costs on the financial health of Micro, Small, and Medium Enterprises (MSMEs). Notably, 72.5% of the surveyed MSMEs acknowledged that the business's total income is more than its total expenses. However, despite this 95% stated that they did not have an allocation for regulatory compliance costs in their annual budget. Those respondents that did have an annual operating budget did not find considering regulatory compliance costs into the budget as it was of high importance but not a priority. Others indicated that they had never considered putting that allocation in their budget. A few stated they did not have an annual budget and used money as it came in.

The findings of this study are consistent with prior research conducted by Ayuketang-Nso's (2019), which identified a common trend among SMEs. Many overlook the importance of their annual operating budget. This perception stems from the belief that the budget doesn't directly impact product sales and therefore isn't as beneficial.

Moreover, Jindrichovska (2013) identified various factors contributing to the inadequate budgeting practices prevalent among businesses. Primarily, a lack of proficiency or interest in financial affairs, encompassing transaction recording, financial statement preparation, and analysis, may divert entrepreneurs' attention away from these critical financial management tasks. Consequently, they may prioritize operational facets such as personnel management, sales, procurement, and production, relegating financial planning to a secondary role.

Additionally, entrepreneurs often heavily rely on their accountants to assume responsibility for financial matters, thereby diminishing their direct involvement in the budgeting process. This dependency fosters a diminished sense of ownership and comprehension regarding the financial well-being of the enterprise, ultimately culminating in the absence of a comprehensive budgeting framework or an annual operating budget.

Regulatory Compliance Costs on the Workforce (Employee Layoffs, Job Security and Income)

55% of respondents indicated that regulatory compliance costs affects their workforce and that they had to lay off employees in the recent past due to these costs. Others indicated that they had to lay off full time employees and replaced them with casual or part time employees as this reduced costs that they incurred. 52.5% of respondents stated that they were very concerned about job security. They indicated that the concern arose from the fact that this could lead to job loss of permanent or full time employees to make room for the hiring of casual workers or part time staff as it was more cost effective.

This strategic utilization of casual labour aligns with findings from the Australian Bureau of Statistics (2008), which underscore the financial advantages of hiring individuals on a casual basis. By adopting a flexible staffing approach and engaging workers only as needed, businesses can optimize their expenditure, effectively channelling resources towards activities that actively contribute to productive output. Additionally, the absence of a fixed hourly rate for casual labour allows for negotiation between employers and

potential workers, further enhancing the cost-effectiveness of this employment arrangement. Thus, the employment of casual labour emerges as a prudent strategy for businesses seeking to streamline operational costs while maintaining workforce flexibility.

5.1.2 Regulatory Compliance Costs and MSMEs' Food Affordability

The study established that the costs associated with complying to regulation have an impact on the businesses' ability to provide affordable to consumers. Here's how these costs can impact each of these areas

Regulations, Consumer Awareness and Prices Changes

100% of respondents indicated that they were not aware of any regulation costs or regulations the businesses faced. Furthermore, they indicated that they had noticed a change in the price of goods they were purchasing and associated this increase with the depreciation of the kwacha and fuel prices.

These findings corroborate with insights from Cannock (2002), who analyzed extracts from a report titled "Regulatory Challenges: Feedback to Regulators from Consumers." The report highlights that consumers often lack awareness of telecommunications regulations and the regulatory process, primarily due to their exclusion from the initial decision-making stages leading to significant changes in service provision. These changes encompass alterations in market structure, ownership dynamics, and tariff regulations within the telecommunications sector.

Consequently, consumers perceive their delayed involvement in the regulatory process as constraining their ability to exert influence or challenge pivotal decisions formulated at the outset of sectoral reform initiatives (Rao and Murthi, 2012). Studies also suggest that consumers may not always have complete knowledge of prices when making brand choices (Rao and Murthi, 2012).

Regulatory Compliance Costs and Affordability

67% of the respondents stated that processed foods manufactured by MSMEs were cheaper and more affordable than that of chain stores and so preferred to purchase

items from these MSMEs. Others indicated that there is a certain rapport created with business owners when they purchase items direct from these MSMEs than chain stores.

This aligns itself with a study by Bhatnagar and Ratchford (2004) investigated consumer shopping behavior across different retail formats, focusing on non-durable goods like groceries and everyday items. Their study suggests that consumers prioritize a combination of factors when choosing where to shop. These factors include price, product assortment (variety of products offered), travel cost (convenience of location), and customer service.

Regulatory Compliance Costs and Consumer Willingness to Pay More

In my findings, 56% of the respondents expressed their willingness to pay slightly higher prices for food. Those who indicated their readiness to pay more emphasized the importance of ensuring the safety of the products they purchase for consumption. Conversely, respondents who were not inclined to pay extra argued that a higher price does not necessarily guarantee better quality or safety standards.

Several studies, such as Kim et al. (2019), have highlighted consumers' heightened emphasis on food safety aspects like quality certification and hygiene over factors such as quantity, taste, or price. Additionally, research by Lee et al. (2009) and others has examined consumers' willingness to pay a premium for food safety. For instance, in a study gauging consumers' readiness to pay extra to ensure the absence of foreign substances in food, more than half of respondents indicated their willingness to do so. This extra payment would serve to offset the additional costs borne by manufacturers in their efforts to mitigate the presence of foreign substances in food.

5.1.3 Presence of Strategies

To alleviate the financial strain of complying with regulations, both MSMEs should adopt specific strategies to ensure timely payment compliance. 75% of the respondents indicated that they did not have any strategies in place to mitigate the impact of regulatory compliance costs on the socio-economic wellbeing of its stakeholders. This finding aligns with a study conducted by Hermanto et al. (2022), which emphasized the significance of strategic resource allocation in managing regulatory compliance costs.

One respondent highlighted that they prioritized the most critical regulations and focused their resources on those costs. Having a well-defined strategy in place helps mitigate the stress and financial burden associated with regulatory compliance costs. This strategic approach ensures that limited resources are directed towards addressing the most impactful regulations, thereby optimizing compliance efforts while minimizing associated expenses

5.1.4 Effectiveness of Mitigation Strategies

Of the 12% of respondents that indicated that they had strategies in place to mitigate the cost of regulations, 20% indicated that the strategies put in place were effective. 40% indicated that they were not effective and another 40% indicated they were not sure of the effectiveness of these strategies as they had just begun to use them and could not determine the effectiveness at that point. Those that indicated that the strategies were ineffective indicated that they currently had short term strategies in place and not long term strategies to help them in the long run.

These findings reveal a potential disconnect between the prevailing practices and established institutional theory frameworks. Similarly, Scott's 2008 work determined that the dominance of short-term strategies aligns with the concept of isomorphism within institutional theory. Isomorphism suggests that organizations adapt to environmental pressures by mimicking each other. In this case, MSMEs might be replicating a perceived norm of short-term compliance solutions without considering long-term consequences.

However, the low effectiveness rate suggests a potential conflict with another key concept in institutional theory, legitimacy. Legitimacy refers to the acceptance and approval of an organization by its stakeholders, including regulatory bodies. While short-term solutions might offer temporary relief, they are unlikely to achieve long-term legitimacy. Regulatory bodies might eventually see through these fixes, potentially leading to stricter enforcement measures (Scott, 2008).

In conclusion, this research indicates a clear alignment between the observed cost reduction measures, especially in labour-related adjustments, and the principles of the private interest theory of regulation. Businesses are actively navigating regulatory requirements to optimize their economic interests and sustain profitability.

CHAPTER SIX CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This chapter culminates in drawing conclusions derived from the analysis and discussion of the research findings. It puts forth recommendations designed to address the research problem and endeavours to fulfil the research objectives by examining the research questions. Additionally, the chapter highlights the research's contribution to the body of knowledge and outlines the limitations of the study.

6.1 Conclusion

This study aimed to assess how regulatory compliance costs affect the socio-economic well-being of stakeholders in micro, small, and medium-sized enterprises (MSMEs) within the food processing sector. It specifically investigated the impact of regulatory compliance costs on the financial health of businesses and consequently on the social well-being of employees, encompassing factors such as job security and income stability. Furthermore, the study analysed how these compliance costs influence MSMEs' ability to maintain affordable food prices for local communities. Additionally, it sought to explore any existing strategies implemented by MSMEs to mitigate the impact of regulatory compliance costs on the socio-economic well-being of their stakeholders. The ensuing research questions are addressed in detail below:

6.1.1 Impact of Regulatory Compliance Costs on MSMEs' Financial Health and Employee Wellbeing

The research findings reveal the significant impact of regulatory compliance costs on the financial health of Micro, Small, and Medium Enterprises (MSMEs), as well as the well-being of their employees. Many MSMEs reported that their total income exceeded expenses, yet the overwhelming majority admitted to lacking a specific allocation for regulatory compliance costs within their annual budgets. Even among those with an annual operating budget, the inclusion of regulatory compliance costs was often overlooked. Additionally, some respondents confessed to never having considered incorporating such expenses into their budgeting practices, while others operated without an annual budget altogether, relying on incoming funds as they arrived.

Of concern is the impact of regulatory compliance costs on the workforce. Many MSMEs reported resorting to layoffs due to the financial strain imposed by these costs. Furthermore, some businesses disclosed that they had replaced full-time employees with casual or part-time workers as a cost-saving measure. This restructuring of the workforce not only affects job security but also exacerbates concerns among employees. Indeed, respondents expressed significant apprehension regarding job security, fearing potential layoffs or displacement of permanent positions in favour of more cost-effective staffing arrangements.

In summary, the research findings highlight the pervasive and multifaceted impact of regulatory compliance costs on MSMEs, illustrating their deleterious effects on both financial stability and job security within these enterprises.

6.1.2 Impact of Regulatory Compliance Costs on Consumer Awareness, Affordability and Willingness to Pay More

The research findings reveal a concerning lack of awareness among respondents regarding regulation costs or regulations faced by their businesses. Additionally, they attributed price increases in goods to the depreciation of the kwacha and fluctuations in fuel prices, suggesting potential impacts of external economic factors on business operations.

Interestingly, many respondents favoured purchasing processed foods from MSMEs over chain stores, citing their affordability and the rapport established with MSME owners as key factors driving their preference. This preference indicates a consumer inclination towards supporting local businesses and valuing personal connections with proprietors.

Regarding consumer behaviour, a significant portion of respondents expressed a willingness to pay slightly higher prices for food, driven by a desire to ensure the safety of the products they consume. Conversely, some were hesitant to pay extra, arguing that higher prices do not necessarily correlate with improved quality or safety standards.

Overall, the findings highlight the importance of raising awareness about regulatory costs among MSMEs and emphasize consumer preferences for affordability, personal connections, and food safety in purchasing decisions.

6.1.3 Strategies to Mitigate Regulatory Compliance Costs

To alleviate the financial strain of complying with regulations, both MSMEs should adopt specific strategies to ensure timely payment compliance. However, the research reveals a lack of such strategies among a significant portion of respondents. One respondent highlighted the importance of prioritizing critical regulations and focusing resources accordingly.

Among the minority of respondents who reported having strategies in place to mitigate regulatory compliance costs, only a fraction deemed these strategies effective. Others expressed uncertainty about their effectiveness, citing recent adoption and the need for long-term evaluation.

Those who perceived the strategies as ineffective attributed this to the implementation of short-term measures without long-term planning. This highlights the necessity for MSMEs to develop comprehensive and sustainable strategies to address regulatory compliance costs effectively.

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to the Zambian economy, contributing significantly to GDP, employment, and overall enterprise count. Despite their crucial societal role, particularly in providing livelihoods and employment opportunities for vulnerable segments of the population, MSMEs face challenges, with high regulatory costs being a notable concern. This research, conducted in Lusaka, examines the impact of these costs on the socio-economic well-being of stakeholders in the food processing sector, revealing substantial repercussions on financial health, employee income, job security, and the ability to maintain affordable food prices for local communities.

The study underscores a lack of strategic initiatives or effective cost-cutting techniques among MSMEs, highlighting the need for government intervention. Proposed measures include tax holidays and incentives for start-ups, aimed at providing tangible support to alleviate the burdens imposed by regulatory compliance. Ultimately, these suggested interventions aspire to foster the growth and success of MSMEs in Zambia.

6.2 Recommendations

The research study provides the following recommendations:

- i. The study recommends that MSMEs should prioritize incorporating regulatory compliance costs into their annual operating budgets. This includes identifying and allocating specific funds for regulatory expenses, ensuring that they are adequately prepared to address compliance requirements without compromising financial stability.
- ii. The study further recommends that MSMEs should prioritize the well-being and job security of their employees amidst regulatory compliance challenges. Strategies such as providing training and upskilling opportunities, fostering a supportive work environment, and exploring alternative staffing arrangements can help alleviate concerns and mitigate the impact of workforce restructuring.
- iii. The study also recommends that MSMEs should capitalize on consumer preferences for affordability, personal connections, and food safety. Building strong relationships with customers, emphasizing product quality and safety, and leveraging local support can enhance competitiveness and foster loyalty among consumers.
- iv. The study also recommends that MSMEs should leverage the expertise of industry associations to understand compliance requirements and explore cost-effective approaches to achieve and maintain regulatory compliance.

6.3 Future Research Areas

Given that the study was limited to a small number of food processing MSMEs, it is recommended that comparable research be conducted on a larger scale, encompassing

a more extensive range of MSMEs and not confined solely to the food processing sector, to enhance the depth and generalizability of the results.

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APPENDIX ONE: QUESTIONNAIRE FOR MSMEs

Informed Consent Form

My name is Chishimba Musonda, I am a student at the University of Lusaka (UNILUS) undertaking a Master's of Arts Degree in Development Studies (MDS). In fulfilment of my master's degree, I am undertaking a research on the impact of regulatory compliance costs on Micro, Small, and Medium Enterprises (MSMEs) and I request your participation in this research.

Purpose of the Study: The purpose of this study is to gain insights into how costs associated with complying to regulations affect the financial health of MSMEs, their business operations, and the strategies they employ to cope with these costs.

Procedures: If you choose to participate, you will be asked to respond to a questionnaire consisting of questions related to the financial health of your MSME, the impact of costs associated with complying to regulations on your business operations, and the strategies you have adopted to cope with these costs. Your responses will be anonymized, and no personally identifiable information will be disclosed.

Risks and Benefits: There are minimal risks associated with participating in this study and no monetary benefits. However, you may benefit from the opportunity to reflect on your business experiences and contribute valuable information that may inform future policies and support a change in regulatory compliance costs for MSMEs.

Confidentiality: Your participation in this study is confidential. Your responses will be aggregated and reported in a way that ensures the anonymity of individual participants. No personal information that could identify you or your business will be disclosed. Your email address will be collected only for the purposes of sharing the results from the findings and full report for those who will be interested.

Voluntary Participation: Participation in this study is voluntary. You have the right to withdraw at any time without consequence. Your decision to participate or not will not affect your current or future relationship with the researcher or any affiliated institutions.

Contact Information: If you have any questions or concerns about the study, you may contact the researcher at 0979413537 or cmusonda31@gmail.com

Consent: By agreeing to participate in this study, you acknowledge that you have read and understood the information provided in this consent form. You voluntarily agree to participate in the study under the conditions outlined.

Participant's Name: _____

Participant's Signature: _____

Date: _____

Section 1: General Information

1.1. Business Details:

- Industry/ Sector: _____
- Number of Employees: _____
- Years in Operation: _____

1.2 Regulatory Compliance

- Are you aware of any costs associated with complying to regulations that your business has to pay for? If so, can you name them?
- How much does it cost you when you pay for these costs associated with complying to regulations and how often do you pay?
- Have you paid for these costs for this year?

Section 2: Financial Health and Employee Wellbeing

2.1. Profitability:

- How would you describe the overall profitability of your MSME?

- Can you give an estimate or accurate figure of how much revenue you make in a year?
- How much of your annual operating budget is typically dedicated to meeting regulatory compliance requirements?

2.2 Employee Wellbeing:

- In the past year, have you had to lay off any employees due to challenges related to regulatory compliance costs?
- If yes to question above, about how many employees were laid off?
- Would you say that payment of regulatory costs has affected your/ your employees' income? If yes, in what way?
- What did you do to remedy this?
- On a scale of 1-5 with 1 being not concerned and 5 being very concerned, how concerned are you over job security due to regulatory compliance costs?

Section 3 below examines how regulatory compliance costs impact MSMEs' ability to offer affordable food to local communities. This is only for consumers to respond.

Section 3: Food Prices and Community Affordability:

- Are you aware of any regulations or licenses that local MSMEs need to comply with in order to sell food?
- If yes, please state the ones you are aware of.
- Have you observed any change in the price of the goods that you usually purchase from these MSMEs?
- If yes, what do you believe has contributed to these changes?
- Do you think that processed food manufactured by these MSMEs is more affordable than those found in chain stores such as Shoprite, Pick and Pay etc.? Please give your reasons.
- Are you willing to pay slightly higher prices for food if it ensured better quality or safety standards? Please give your reasons.

Section 4: Strategies to Mitigate Regulatory Costs

- Do you have any strategies in place to mitigate the impact of regulatory compliance costs on the socio-economic wellbeing of your stakeholders (employees/consumers)?
- If yes to the above question, do you find your strategies effective? Please give your reasons.

Section 5: Additional Comments

5.1. Government Support:

- Do you think that government support or incentives, if available, could help your business manage the costs associated with complying to regulations more effectively? Please elaborate.

5.2. Collaborations:

- Have you explored any partnerships or collaborations with other businesses or industry associations to collectively address the challenges associated with costs associated with complying to regulations? If so, please provide details.

Conclusion: Thank you for your time taken to complete this questionnaire. Your input is crucial for the success of this research. If you have any additional comments or insights, please feel free to share them in the space provided below.

Additional Comments:

Thank you for your time and participation.

APPENDIX TWO: INTERVIEW GUIDE FOR KEY INFORMANTS

Good morning/Good afternoon (pick one according to the time of day)

My name is Chishimba Musonda, a post-graduate student at the University of Lusaka, currently pursuing a Master's Degree in Development Studies. As part of the academic requirements, I am conducting a research study to fulfil the criteria for the Master's Degree.

The objective of this study is to analyse the impact of regulatory compliance costs on Micro, Small, and Medium Enterprises (MSMEs), specifically focusing on food processing enterprises in Lusaka. Recognizing your expertise in this field, I am reaching out to seek your valuable insights, knowledge, and experience. I hope to engage in a brief discussion with you, acknowledging that this interview is purely academic, and all information provided will be treated with the utmost confidentiality. Voice-recording will only be conducted with your explicit permission, and any data shared will be anonymized in the final research.

I appreciate your willingness to contribute to this research, and if you agree to participate, kindly grant me permission to proceed with the interview.

Introduction

1.1 Name of Organization: _____

1.2 Position: _____

1.3 How long have you been serving in the organization: _____?

1.4 Can you provide a brief overview of your role within the regulatory body?

1.5 How does your regulatory body interact with MSMEs in terms of compliance and oversight?

2. Understanding the Regulatory Landscape:

2.1 What are the key regulations and policies that MSMEs need to comply with in our industry/sector?

2.2 How have these regulations evolved over the past few years?

3 Assessment of Regulatory Costs:

3.1 How does your regulatory body assess and quantify the regulatory costs imposed on MSMEs?

3.2 Are there specific cost categories or components that are particularly challenging for MSMEs?

4 Compliance Challenges:

4.1 In your experience, what are the most common challenges MSMEs face in complying with regulatory requirements?

4.2 Are there any specific compliance issues that disproportionately affect smaller enterprises?

5 Impact on Business Operations:

5.1 How do regulatory costs impact the day-to-day operations of MSMEs?

5.2 Are there specific areas of business operations that are more significantly affected by regulatory burdens?

6 Support Mechanisms:

6.1 What support mechanisms or resources does your regulatory body provide to assist MSMEs in complying with regulations?

6.2 How effective are these support mechanisms, and are there areas for improvement?

7 Regulatory Changes and Adaptation:

7.1 How does your regulatory body consider the needs and challenges of MSMEs when proposing or implementing regulatory changes?

7.2 What mechanisms are in place to help MSMEs adapt to new regulations?

8 Feedback and Consultation Process:

8.1 How does your regulatory body gather feedback from MSMEs regarding the impact of regulations on their businesses?

8.2 Is there an established consultation process, and if so, how frequently is it conducted?

9 Future Outlook:

9.1 In your opinion, how do you foresee the regulatory landscape evolving for MSMEs in the coming years?

9.2 Are there initiatives or changes planned to alleviate regulatory burdens on MSMEs?

The interview is now over, thank you for your time and your contribution towards my research.

**APPENDIX THREE: LICENSES/PERMITS ACCORDING TO
STATUTORY PROVISIONS**

Institution	License/Permit	Frequency	Statutory Amount	Annual Average Paid	Minimum Paid	Maximum Paid
PACRA	Incorporation	Annual	K333.00	725.00	200.00	4,000.00
	Business Name		K83			
	Share Capital		K15,000			
	Patent		K500, K1,500			
	Trademark		K249.90, K699.90			
	Industrial Design		K333.30 K2000.10			
	Excise License	Annual	9,000.00	6,000.00	2,000.00	9,000.00
Skills Levy	Monthly	0.5% of gross emoluments	23,371.04	360.00	84,624.00	
ZDA	Investment	10 years	14,916.00	1,782.91	1,000.00	2,857.14
	SME Investment License					
ZABS	Product Certification	2 years		20,212.38	400.00	60,000.00
	Local Supplier	Annual	11,000.00			
ZCSA	Application Fee	Annual	400.00			
	Annual Certificate	Annual	460.00			
	Conformity Certificate	Annual	2,615.00			
	Inspection of a factory per inspector days	Annual	From 3,150.00 to 15,000.00			
	Testing fees	Annual	3,215.00	95,918.33	4,080.00	264,000.00
			(up to 100) 0.15% of ex-factory income minimum of 1,666.80	31,608.61	3,275.00	92,000.00
			(101 – 500) 0.075% of ex-factory income			
(Greater than 500) 0.05% of ex-factory income						
ZMA	Service Licenses	Annual	7,500.00	6,471.07	4,000.00	11,445.00
	Examination of instrument	Annual	10,000.00			

Institution	License/Permit	Frequency	Statutory Amount	Annual Average Paid	Minimum Paid	Maximum Paid
Lusaka Municipal Council	Manufacturing License	Annual	450.00	3,869.90	600.00	8,000.00
	Wholesale Trading License	Annual	450.00	2,236.66	130.00	5,000.00
	Retail Trading License	Annual	225.00 (Prescribed area) and 113.00 (in any other area)	2,000.00	2,000.00	2,000.00
	Fire Certificate	Annual	Low cost 250.00 Medium cost 500.00 High cost 1,331.00	3,356.20	100.00	15,000.00
	Occupational License	Annual	5000.00(Commercial) 1500.00 (Residential)	11,000.00	11,000.00	11,000.00
	Business Levy	Annual	2,499.90 (Large scale) 1,250.10(Small scale)	2,639.78	500.00	6,000.00
	Food Handlers Application fees	Bi-Annual	50.00 per handler	75,269.00	150.00	720,270.00
	Property Rates	Annual	0.5% of property value	32,723.10	10,430.00	64,722.00
	Public Health Certificate	Annual	Class A – 5,989.50 Class B – 3,327.50 Class C – 1,530.65 (Medium cost) Class E – 998.25 (Low cost)	5,160.13	3,000.00	6,000.00
	Dangerous Fuels License	Annual	5,400.00 (220 to 22,730 litres of dangerous Petroleum) 13,500.00 (exceeding 22,730)	5,325.25	3,450.50	7,200.00
Organic Certificate	Organic Certificate	Annual		22,400.00	22,400.00	22,400.00

Labour Related Regulations						
Institution	License/Permit	Frequency	Statutory Amount	Annual Average Paid	Minimum Paid	Maximum Paid
NAPSA	NAPSA	Monthly	5% of employee salary	1,132,775.12	1,200	32,913,000.28
NHIMA	NHIMA	Monthly	1% of employee salary	1,716,457.00	1,572.00	12,536,000.00
Workers Compensation Fund	Workers Compensation Fund	Annual		19,778,000.00	38,000.00	39,518,000.00
Zambia Federation of Employers (ZFE)	ZFE	Annual		5,778.36	4,800	6,756.71
Occupational Health and Safety Institute	Occupational Health & Safety License	Annual		76,962.57	30,000.00	123,925.14
Lusaka Municipal Council	Personal Levy	Monthly	K15 Per employee	2,234.50	2,234.50	2,234.50



UNIVERSITY
OF
LUSAKA

SCHOOL OF POSTGRADUATE STUDIES

SUBMISSION OF DISSERTATION FOR EXAMINATION

Name of student:.....Chishimba Musonda.....

Student number:..... MDS22217113.....

Programme of study:.....Masters of Arts Degree in Development Studies....

Dissertation title:..... The Impact of Regulatory Compliance Costs On Micro, Small and Medium Enterprises.....


Signature of student: .....

Date: ...22/01/2023.....

Supervisor's Comments:

I recommend this dissertation for submission for examination (If you do not recommend, kindly provide a written report and attach hereto).

Name of Supervisor: Dr Nkumbu Nalwimba

Signature of Supervisor:... 

Date:23/01/2023.....