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An Exploration on the Role of Small and Medium Enterprises (SMES) on Poverty Reduction: A Case Study of Kabwe District, Zambia

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Abstract

This study sought to explore the role of Small and Medium Enterprises (SMEs) on poverty reduction in Kabwe District, Zambia. SMEs are widely recognised as important drivers of employment, income generation and inclusive economic growth in developing countries, yet the extent to which they translate into reduced poverty at the household level remains under-researched in specific local contexts such as Kabwe District. The study was guided by three specific objectives: to understand the contribution of SMEs to employment creation in Kabwe District; to explore the effect of SMEs on household income and living standards in Kabwe District; and to explore the challenges that constrain SMEs in Kabwe District from contributing more effectively to poverty reduction. The study adopted a qualitative research approach and a descriptive research design. Data were collected through semi-structured, face-to-face interviews with SME owners, managers and employees operating in retail, service and small-scale manufacturing sectors within Kabwe District, selected using purposive sampling. Twelve interviews were conducted, at which point data saturation was reached. Collected data were analysed using thematic analysis, guided by the Sustainable Livelihoods Framework. The findings showed that SMEs contributed to employment creation and household income generation in Kabwe District, while also facing considerable challenges including limited access to finance, the high cost of inputs and equipment, poor and costly infrastructure, high levels of market competition and delayed customer payments, and storage and supply difficulties, which together constrained their full potential as vehicles for poverty reduction. The study recommended interventions relating to access to finance, entrepreneurship training, infrastructure development and supportive policy frameworks to strengthen the contribution of SMEs to poverty reduction in Kabwe District.

1. Introduction

Poverty remains one of the most pressing development challenges facing Zambia. According to the 2022 Living Conditions Monitoring Survey, sixty percent of the Zambian population lives below the national poverty line, with rural households (78.8%) far more affected than urban households (31.9%), and nearly half the population (48.0%) classified as extremely poor (Zambia Statistics Agency, 2023). Against this backdrop, Small and Medium Enterprises (SMEs) are widely regarded as a central mechanism through which households escape poverty, both directly through wages and owner income, and indirectly through the circulation of money to local suppliers and customers who are themselves often poor (Vandenberg, 2006). Cross-country evidence similarly links the relative size of a country's SME sector to both economic growth and reduced income inequality, although this relationship is strongest where the business environment is supportive (Beck, Demirgüç-Kunt, & Levine, 2005).

In sub-Saharan Africa, SMEs that survive early failure rates are consistently associated with job creation and rising household income (Abisuga-Oyekunle, Patra, & Muchie, 2020), although only a small fraction of African SMEs secure the credit needed to grow beyond survival level (AUDA-NEPAD, 2022). Zambia's own SME sector traces its rapid growth to the Structural Adjustment Programmes of the early 1990s, which pushed many Zambians into self-employment and informal trade (Aurick, Munalula, Mundia, Mwale, & Vincent, 2017). The sector has since become structurally embedded, employing roughly half of Zambia's working population, although more than nine in ten of these businesses remain informal and largely outside the reach of government support defined under the Zambia Development Agency's (2020) SME policy (enterprises employing five to ninety-nine people with annual turnover below one million United States dollars). National unemployment stood at 12.9 percent in 2024, up from 12.0 percent the year before, with youth unemployment at 10.1 percent (Central Statistical Office of Zambia; World Bank, 2025), figures consistent with a labour market that continues to push new entrants toward SMEs and informal trade.

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Kabwe District, the capital of Central Province, was shaped by these same national forces. With a population of 288,598 in 2022, up from 202,360 in 2010 (Zambia Statistics Agency, 2023), and a visible SME presence spanning markets, salons, hardware shops, welding yards and food stalls, the district plausibly accounts for a substantial share of Central Province's SME base, although no district-level enterprise count exists to confirm this precisely. Poverty within Kabwe District runs lower than in the more rural, eastern parts of Central Province, where poverty exceeds 70 percent (Zambia Statistics Agency, n.d.), yet Central Province was still identified among the provinces where poverty rose between 2015 and 2022 (World Bank, 2023).

This presents an unresolved contradiction: Zambia's SME sector has continued to expand even as national poverty rose from 54.4 percent in 2015 to 60.0 percent in 2022, with Central Province specifically named among the provinces where poverty increased over that period (Zambia Statistics Agency, 2023; World Bank, 2023). If SMEs functioned as the poverty-reducing engine the literature suggests (Vandenberg, 2006; Beck et al., 2005; Abisuga-Oyekunle et al., 2020), this simultaneous rise in poverty and unemployment alongside a growing SME base is difficult to explain. What has been missing is district-level evidence: existing literature sits almost entirely at the national or sectoral level (Aurick et al., 2017; Zambia Development Agency, 2020; Kambone & Mbetwa, 2024), leaving open the question of how a single district's enterprises actually function as household livelihood strategies. This study was designed to close that gap for Kabwe District.

Research Objectives

- To understand the contribution of SMEs to employment creation in Kabwe District;
- Explore how SMEs affect household income and living standards in Kabwe District; and
- Explore the challenges that constrain SMEs in Kabwe District from contributing more effectively to poverty reduction.

2 Literature Review

2.1 Theoretical Framework

This study was anchored on the Sustainable Livelihoods Framework (SLF), first set out by Chambers and Conway (1992) and later formalised by the UK's Department for International Development (DFID, 1999). The framework holds that households pursue livelihood strategies, such as running a small business, using whatever combination of five kinds of capital they can draw on: human, social, natural, physical and financial. Two further elements shape outcomes: the vulnerability context (shocks and trends outside a household's control) and transforming structures and processes (the policies, institutions and markets that widen or narrow what a household can do with its assets). The framework resists the simplistic assumption that starting a business automatically lifts a household out of poverty; instead, it asks which assets a household began with, what shocks and structures shaped the outcome, and what livelihood strategy resulted (Chambers & Conway, 1992; DFID, 1999).

2.2 Empirical Review

Empirical evidence on SMEs and poverty spans several layers. At the global level, Beck et al. (2005) found a robust positive association between the relative size of a country's SME sector and both growth and reduced inequality, while Fajarika, Trapsilawati and Sopha (2024), synthesising 108 studies, confirmed that SME contribution to job creation and poverty alleviation is typical but conditional on entrepreneurial skill and institutional environment. Country-specific evidence tells a similar story: Mundia (2026) found that Indonesian MSMEs reduced poverty both directly and indirectly over a twenty-year period, while Dahliah, Tjan and Rahmi (2023), working at city level in Indonesia, found a more complicated relationship, with SME growth having a significant negative effect on unemployment but a more limited effect on poverty. Zafar, Waqas and Butt (2019), examining Pakistan, likewise found a positive but constrained relationship, with access to finance and human capital identified as binding limits.

In sub-Saharan Mundia et al. (2025) found that surviving SMEs are consistently associated with employment and income gains, while Abor and Quartey (2010) identified weak access to finance, thin managerial skills and unhelpful regulation as recurring constraints in Ghana and South Africa. AUDA-NEPAD (2022) found that only a small share of African SMEs obtain formal credit, while Kanu (2022) and Mugano (2024) catalogued financing, infrastructure and market-access constraints as structural features of the region rather than country-specific quirks. Makara, Faimau and Maphosa (2024) found that even modest, informally organised capital through a savings-led microfinance programme in rural Lesotho translated directly into new enterprise activity, while Nyamamu, Nchimbi, Mteti and Ndimbo (2025) found that rural households diversifying into small non-farm enterprises across sub-Saharan Africa saw income gains that depended heavily on access to capital, skills and functioning markets.

On home ground, Aurick et al. (2017) traced Zambia's informal SME boom to the Structural Adjustment Programmes of the 1990s and found the sector still hemmed in by financial, market and infrastructural limits decades later, while Nuwagaba (2015) put SME employment at roughly half of Zambia's workforce, over ninety percent of it informal. Kambone and Mbetwa (2024), analysing a decade of Zambian time-series data, found that SMEs contributed positively to employment and growth but that their contribution to poverty reduction specifically lagged behind their contribution to output, a national-level version of the disconnect this study investigated at district level.

Read together, the literature points to a conditional promise: SMEs can reduce poverty, but only where households have the requisite assets and the surrounding environment supports them in doing so (Vandenberg, 2006). What the literature has not done, at least for Kabwe District, is test that principle against a specific place; national figures can mask substantial local variation, as Dahliah, Tjan and Rahmi (2023) demonstrated for a comparable case in Indonesia. This study addressed that gap.

3 Research Methodology

Research Design

The study adopted a qualitative approach and a descriptive research design, appropriate for understanding lived experience from participants' own framing (Creswell & Poth, 2018) and for documenting real-world situations as they naturally occur without experimental manipulation (Kothari, 2004).

Study Area and Population

The study was conducted in Kabwe District, Central Province, Zambia. The target population comprised owners, managers and employees of SMEs operating in retail trade, food and hospitality, personal-care services and small-scale manufacturing within the district.

Sampling Technique and Sample Size

Participants were selected purposively (Patton, 2015), varying sector, business size and years of operation deliberately. A target range of twelve to fifteen participants was set at the design stage, with the stopping point determined by data saturation (Guest, Bunce, & Johnson, 2006). Saturation was reached at the twelfth interview, yielding a final sample of eleven business owners and one employee across six broad sectors: retail and general trade, personal-care services, tailoring and small-scale manufacturing, food service, poultry and agro-based trading, financial services, vehicle and equipment services, building and hardware retail, and printing/stationery. Businesses ranged from one to more than ten years in operation and employed between two and eight people in addition to the owner (Table 1).

Data Collection Methods

Data were collected through semi-structured, face-to-face interviews, conducted in person where feasible and audio-recorded with consent (Creswell & Poth, 2018). A semi-structured interview guide, organised into background information, employment creation, household income and living standards, challenges, and a closing section, ensured that every session covered the same core ground.

Data Analysis

Interview data were analysed using thematic analysis, following Braun and Clarke's (2006) approach of identifying, analysing and reporting patterns across a dataset. Themes were then interpreted through the Sustainable Livelihoods Framework, asking in each case what assets, vulnerabilities and structures the theme revealed.

Ethical Considerations

Fieldwork proceeded on the basis of informed, voluntary consent. Every participant signed a consent form and was free to withdraw without consequence. No participant was identified by name, and recordings and transcripts were stored securely and used only for academic purposes (Creswell & Poth, 2018).

4 Results and Discussion

4.1 Demographic characteristics

Twelve participants were interviewed, comprising eleven business owners and one employee, spanning six broad sectors (Table 1). Businesses ranged from one to more than ten years in operation and employed between two and eight people in addition to the owner, giving the sample deliberate variation in business age and scale.

Table 1: Profile of Participants

Participant	Type of Business	Position	Years in Operation	Employees
P1	Grocery / General Dealer	Owner	7–10 years	4
P2	Hair Salon / Barbershop	Owner	4–6 years	3
P3	Tailoring	Owner	7–10 years	5
P4	Small Restaurant	Owner	1–3 years	4
P5	Poultry	Owner	4–6 years	3
P6	Mobile Money Booth	Employee	1–3 years	2
P7	Car Wash	Owner	4–6 years	5
P8	Building / Hardware	Owner	More than 10 years	8
P9	Vegetable / Fruit Trading	Owner	4–6 years	2
P10	Welding / Metal Fabrication	Owner	7–10 years	6
P11	Small Transport	Owner	More than 10 years	4
P12	Printing / Stationery	Owner	1–3 years	3

4.2 Contribution of SMEs to Employment Creation

Every participant confirmed that their business created employment beyond the owner alone, with jobs ranging from two to eight per enterprise. Participant 1, a grocery owner, explained that the business now supported four employees drawn from the surrounding community, noting that "the business has helped reduce unemployment because some young people who were not working are now earning an income." Participant 8's hardware business employed eight people, the largest workforce recorded in the sample. Several participants described their businesses as sites of informal skills transfer: Participant 3, a tailor, reported that most of his five employees had learnt tailoring on the job, a pattern echoed by Participant 10 (welding) and Participant 2 (hairdressing), who had "trained two young people who had no formal employment." Employment was not always permanent: Participants 5 and 9 both hired temporary staff during busy periods, indicating a degree of seasonal work alongside core jobs.

These findings are consistent with Nuwagaba's (2015) observation that Zambian SMEs employ a substantial share of the national workforce, and with the ILO's (2022) finding that small enterprises generate most new jobs in developing economies. Read through the Sustainable Livelihoods Framework, the businesses functioned as a route through which employees converted labour (human capital) into income, while several owners simultaneously built the human capital of their employees through informal training – matching the framework's expectation that a successful livelihood strategy strengthens, rather than simply draws on, a household's asset base.

4.3 Impact of SMEs on Household Income and Living Standards

Across all twelve interviews, participants described their businesses as a primary or significant source of household income. Education costs featured prominently: Participant 1 reported that her income "helped me pay school fees for my children, buy food and meet household expenses," while Participant 9, whose trading business employed only two people, was similarly able to "pay school requirements for my children," indicating that these effects were not confined to the larger enterprises. Participant 8, whose business had operated for more than ten years, described it as his family's main income source, enabling him to "educate my children, improve my home and meet healthcare expenses." Importantly, the income effect extended beyond owners: every participant who employed staff reported that those employees relied on their wages to support their own households, a pattern confirmed directly by Participant 6, the one employee interviewed, who used her income to "buy food, pay for transport and contribute to household expenses" as well as to "support my education."

These findings support Vandenberg's (2006) argument that small enterprises reduce poverty through both a direct channel (owner and employee income) and an indirect channel (income circulating further into the local economy), and align with Abisuga-Oyekunle et al.'s (2020) conclusion that SME income visibly improves the welfare of owners, employees and dependents in sub-Saharan Africa. Viewed through the SLF, business income functioned as financial capital converted into improved outcomes across several dimensions of welfare – education, housing, food and health – simultaneously, consistent with the framework's account of how a successful livelihood strategy translates into broader livelihood outcomes.

4.4 Challenges Constraining SMEs from Contributing More Effectively to Poverty Reduction

Five recurring constraints emerged. The high cost of inputs, materials and equipment was raised by seven participants; Participant 1 cited "high prices of goods, competition and limited capital," while Participant 5's poultry business faced both expensive feed and disease-related losses. Limited access to finance affected six participants: Participant 5 explained that "banks require conditions that many small businesses cannot meet," a constraint that Participant 3 linked directly to cash-flow strain when customers delayed payment. Poor and costly infrastructure – principally electricity, water and network connectivity – was raised by seven participants, cutting across sectors from Participant 10's welding business to Participant 7's car wash, where "water shortages are one of the biggest challenges." Competition and delayed customer payments affected six participants, with Participant 2 noting that "customers cannot afford our services because they have low incomes." A more sector-specific challenge, raised by Participant 9 alone, was storage and spoilage: "vegetables spoil because there are no proper storage facilities," alongside frequently changing supplier prices.

These findings are consistent with Abor and Quartey's (2010) observation that limited resources constrain SME performance in Ghana and South Africa, with Aurick et al.'s (2017) account of Zambian SMEs operating on thin margins, and with AUDA-NEPAD's (2022) finding that only a small share of African SMEs obtain formal credit. Interpreted through the SLF, rising costs and infrastructural weaknesses functioned as part of the vulnerability context and a shortfall in physical capital respectively, both of which suppressed the returns available from participants' other assets – labour, skill and financial capital – regardless of individual effort or management.

4.5 Support Needed to Strengthen the Poverty-Reducing Role of SMEs

All twelve participants converged on four broad areas of needed support: affordable financing, business or technical training, reliable infrastructure, and improved access to markets and storage. Affordable credit was the most frequently mentioned, with Participant 3 calling for "affordable loans so that SMEs can buy modern equipment and expand," while training needs were raised alongside financing rather than instead of it. Infrastructure-related support was raised most strongly by participants dependent on continuous electricity or water supply. These responses indicate that SME owners were not asking for a single intervention but a coordinated package addressing finance, skills and infrastructure simultaneously – consistent with UNIDO's (2020) recommendation that SME capacity, infrastructure and financing be strengthened together rather than piecemeal, and with the SLF's premise that a livelihood strategy depends on a combination of capitals rather than any one in isolation.

5 Conclusion and Recommendations

5.1 Conclusion

This study examined the role of Small and Medium Enterprises in poverty reduction in Kabwe District, Zambia. On employment, every SME in the sample created work beyond the owner alone, employing between two and eight people and, in several cases, providing informal skills training to previously unemployed young people. On household income and living standards, SME income was consistently used to meet school fees, food, housing, healthcare and other basic needs, and this benefit extended to employees and their households as well as to owners. On the constraints, the study identified five recurring challenges – the high cost of inputs and equipment, limited access to affordable finance, poor and costly infrastructure, competition combined with delayed customer payments, and, for perishable-goods traders, inadequate storage – that consistently limited how far SMEs' contribution to poverty reduction could go, consistent with the Sustainable Livelihoods Framework's premise that livelihood outcomes depend as much on the assets and structures surrounding a household as on the effort invested in the livelihood strategy itself (Chambers & Conway, 1992; DFID, 1999). Overall, SMEs in Kabwe District made a real and tangible contribution to household-level poverty reduction, but this contribution remained constrained well below its potential by financing gaps, infrastructural weaknesses and market pressures largely outside the control of individual business owners.

5.2 Recommendations

Government, through the Zambia Development Agency and related ministries, should expand access to affordable, appropriately structured SME credit and continue investing in reliable electricity, water and network infrastructure serving business areas in Kabwe District. SME owners and managers should continue investing in the informal skills transfer already evident in the sector while seeking formal business and financial management training, and maintaining basic financial records to improve access to credit. Financial institutions should design lending products – smaller loan sizes, flexible seasonal repayment schedules, reduced collateral requirements – better suited to the cash-flow patterns of small enterprises. Utility providers should prioritise reliability of supply to commercial and market areas, given how directly interruptions affect production and sales. Training and development institutions should design short, practical programmes in business management, record-keeping, marketing and sector-specific technical skills. Future research should extend this inquiry to other Zambian districts, and a quantitative or mixed-methods study with a larger sample would allow the income effects identified here to be measured more precisely against formal poverty thresholds.

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