



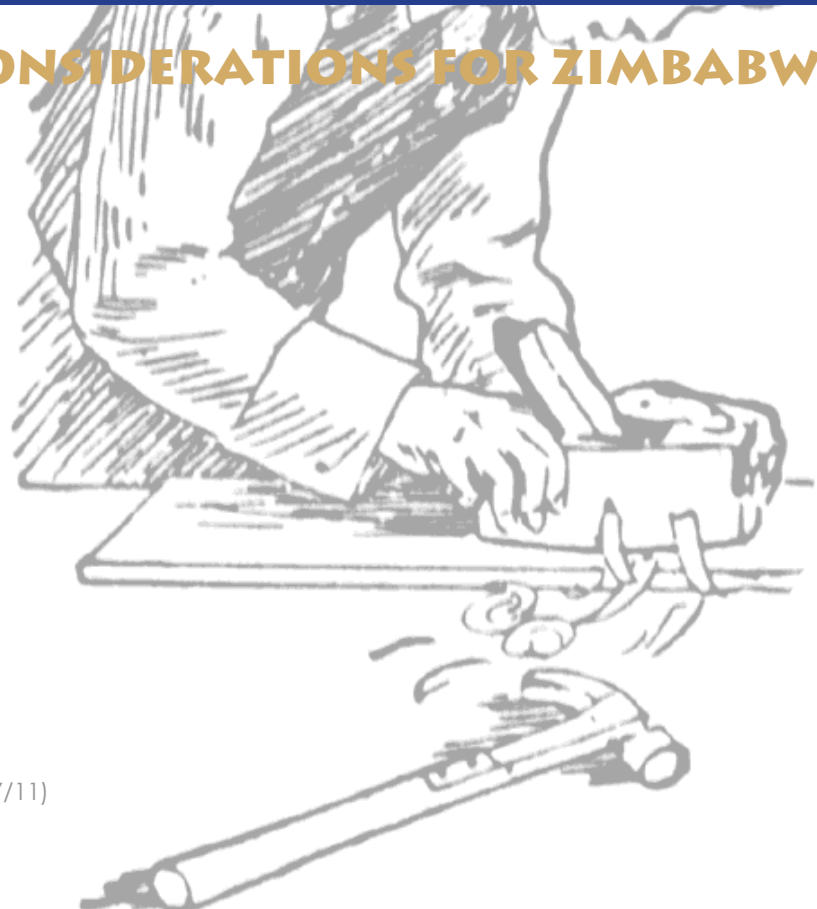
ZIMBABWE ECONOMIC  
POLICY ANALYSIS AND  
RESEARCH UNIT

# EXPLORING THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT:

**SOME POLICY CONSIDERATIONS FOR ZIMBABWE**

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**ABSTRACT**

*This research focuses on the role of the SME sector in Zimbabwe's economic development. The paper explores the best practice cases in terms of SMEs development and then benchmarks Zimbabwe against these cases. It then looks at the main characteristics of SMEs in Zimbabwe and their strengths and weaknesses. The major strength of Zimbabwe's SMEs is their flexibility in adapting to changes in market tastes and preferences. On the other hand, they face challenges related to management ability, financial constraints, accommodation challenges as well as weak legal and regulatory structures. The paper identifies that SMEs have been a major source of livelihood income for many households in Zimbabwe, especially those whose heads lost their jobs during the economic downturn of 2000 –2008. The SMEs sector has also provided necessary competition in some sectors of the economy, especially in the manufacture of furniture, which has kept the prices within the reach of many. The paper then identifies the major policy gaps and proffers some policy options for consideration by the government of Zimbabwe.*

Key Words: SMEs, Economic Development, Zimbabwe

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## LIST OF ABBREVIATIONS

ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
RBZ	Reserve Bank of Zimbabwe
SEDCO	Small Enterprises Development Cooperation
SME	Small and Medium Enterprises
UNIDO	United Nations Industrial Development Organization

## 1. INTRODUCTION

### 1.1 Background

The development and successful performance of Small and Medium sized Enterprises (SMEs) has been of great interest to, among others, development economists, entrepreneurs, governments, financial institutions and non-governmental organizations the world over. Over the years, SMEs have played a key role in economic growth and equitable development in many developing countries (Organisation for Economic Co-operation and Development (OECD)<sup>1</sup>, 2000b). They are fast becoming a more dominant form of business venture in many developing economies, especially in South Asia and Africa. Their contribution to employment generation, output, exports, poverty alleviation, economic empowerment, entrepreneurialism and wealth distribution provide a number of potential benefits to both the countries and the individual entrepreneurs. However, national statistics on the Gross Domestic Product (GDP) and other economic indicators, especially in developing countries, do not show these very important aspects of SMEs accurately, mainly because these firms are not properly defined (informal) yet most of them are in formal businesses and operate like any other businesses in the country. Most small and medium enterprises are grouped with large enterprises when data is collected from them by the statistical office.

The potential contribution of SMEs is not realized due to a number of factors relating to their operation. They often have difficulties in achieving economies of scale in the purchase of inputs such as equipment and raw materials as well as finance. In addition, they are often unable to take advantage of market opportunities that require large production quantities, homogeneous standards and regular supply. SMEs also face constraints on the standardization of their production processes and other programmes like training as well as technology innovation and product quality. More serious challenges arise from lack of branding for their products

On the African continent, with high unemployment rates, people are turning towards small formal and informal and formal small business in order to sustain their livelihood. Many economies in Sub-Saharan Africa have recorded a high number of SMEs in their economies (World Bank, 2008). In South Africa, for example, SMEs account for about 91% of the formal business entities, contributing between 51% and 57% to GDP and providing almost 60% of employment (Kongolo, 2010). According to the Zimbabwe Vulnerability Assessment Committee Report of 2011, about 47% of the economically active population in urban areas derives their income from self-employment compared to 43% and 3% in formal employment and cash remittances (MOF, 2011). Furthermore, SMEs have of late made a major contribution in absorbing retrenched from major industries and have thus been a major source of livelihood support for about 80% of the population in Zimbabwe through an estimated three million projects<sup>2</sup>.

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<sup>1</sup>[http://www.oecd.org/document/4/0,3343,en\\_2649\\_33933\\_41460917\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/4/0,3343,en_2649_33933_41460917_1_1_1_1,00.html)

<sup>2</sup>Small Enterprises Development Corporation (SEDCO), May 2010

The recent decline in living standards and unemployment due to economic downturns the world over, and in Zimbabwe in particular, are the most noticeable challenges facing many poor people to this day. This has been made worse by the fact that the formal economy has been continuously shedding jobs and at the same time many workers being retrenched (Abraham, 2003; DTI, 2004). It is recognized that the development and growth of small, micro and medium enterprises plays an important role in supporting economic development. Policies, programmes and strategies to support and enhance the development of SMEs are an important part of the programmes to create better conditions for all.

## **1.2 Research Focus/Study Rationale**

Despite their importance in the economy, SMEs have attracted limited research attention. In Zimbabwe, even though there is a huge number of SMEs, little is actually known about their role in economic development. The survey by the Ministry of Small and Eedium Enterprise and Co-operative Development in conjunction with the World Bank, which began in 2011, seems to be moving at a very slow pace, and is mainly focusing on creating a database of SMEs in the country by geographical distribution. However, the need to see SMEs grow and increase their contributions has grown over the last two decades. They have been contributing significantly to employment, poverty alleviation and ownership of productive sectors. Despite this, the full potential of this contribution is little known due to lack of information and understanding about this sector. For many years, the SMEs sector has been regarded as informal, thus militating against its growth for meaningful economic development (IMANI, 1990).

A number of researchers are engaged in the collection and analysis of information pertaining to SMEs, especially on the challenges that the sector is facing. A few have tried to establish the role of SMEs in job creation (Rondinelli et al, 1993; Meeks, 1993; Aley, 1993). The majority of previous studies focused on observing and reporting SMEs' demographic characteristics, business weaknesses and support programmes, with little focus on the role of SMEs in general economic development.

This study is an exploratory research on the role of SMEs in economic development. The main objective of this study is to examine the role SMEs play in supporting and enhancing economic development. It will focus on how they can be enhanced to contribute meaningfully to Gross Domestic Product GDP and will profer some policy options for Zimbabwe. By focusing on their role and contributions, this paper should provide a better understanding of SMEs as well as explaining why they form a vital component of the Zimbabwean economy. The paper also recognizes that the creation of descent work leads to formalization of the informal sector and inclusivity. Specifically, it aims to establish the following:

- whether SMEs are contributing meaningfully to total industrial output.
- whether government promotion programs are important for the growth of SMEs.
- whether there are any policy gaps

In order to fulfill the above objective, the study seeks to answer the following research questions:

- Why are small businesses and entrepreneurs important for economic development?
- Is the promotion of small businesses and entrepreneurship a good strategy for economic development?
- What should the Government of Zimbabwe do in order to revive the SME sector, at least in short run?

## **2. THEORETICAL AND EMPIRICAL CONSIDERATIONS ON THE ROLE OF SMEs IN ECONOMIC DEVELOPMENT**

### **2.1 Theoretical Perspectives**

One of the significant characteristics of a flourishing and growing economy is a booming and blooming SMEs sector (Kongolo, 2010). SMEs form the basis point of development of economies towards industrialization, impacting income distribution, poverty levels, tax revenue and employment. According to the United Nations Industrial Development Organization (UNIDO), for developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the paramount way to triumph over poverty and inequality (Kongolo, 2010). It is thus apparent that SMEs be given a more central role in regional integration efforts and also throughout the development process.

SMEs are a crucial element in the development from predominantly agricultural economies to more industrial ones mainly through engaging in opportunities for processing which can generate and enhance a sustainable development process. Their main contribution is the absorption of productive resources at all levels of the economy. The inter-linkages they create in the economy also add to the formation of flexible economic systems in which small and large firms are intertwined, creating good opportunities for the attraction of foreign investment. Most multinational companies look for sound domestic suppliers for the supply of crucial raw materials. In addition, they also look for sound distribution systems, and SMEs are pathfinders in the market and by their nature usually do well in this aspect. Their operations are normally supply/demand driven and they understand the market well.

On a socio-economic development perspective, SMEs are more labour intensive than larger firms. Advani (1997) further postulates that SMEs have lower capital costs associated with job creation. In that regard, they thus play a critical role in ensuring income stability, employment and economic growth (Schmitz, 1995). The contribution which small businesses can make to national economy and wealth creation need to be recognized by the governments from the beginning and be considered as part and parcel of the economic development process. There are several schools of thought on the evolution and role of SMEs in economic development



### 2.1.1 “Classical” Paradigm

The role of SMEs in economic development is centered around seminal articles by Hoselitz (1959) and Staley and Morse (1965), which have now been termed “The Classical Theories” on SMEs. Hoselitz’s paper was centered on industrial development in Germany. It indicated that it is normal that during the early stages of economic, industries are mainly small and dominated by craftsmen. Such establishments would then graduate into small businesses while others would die out. At this stage, SMEs will be the greatest contributor to the economic activities in the country.

This idea was followed by the works of Anderson (1982) who developed the general growth phase typologies based on the experience of the industrialized countries. The approach postulates that, in the course of economic development, the composition of manufacturing activities passes through three phases. The first phase is the “early” stage of industrial development where the economy is characterized by agrarian economies and household and simple artisanal activities in the manufacturing industry. At this stage, these small establishments co-exist with a few larger-scale firms but are the backbone of economic activities in the country. They are mainly engaged in such activities as garment-making, handicrafts, and various crop-processing industries with a strong link to the agricultural sector.

In the second phase, SMEs begin to be more noticeable and displace the small family establishments in some sectors in the manufacturing sector. The growth of these industries might be as a result of the growth of the cash market for the expansion of SMEs (Kongolo, 2010). Kongolo (2010) further postulates that increased urbanization and expanding cash markets give rise to a shift from traditional household activities to complete specialization of the entrepreneur in small scale production processes.

The third phase is characterized by the later stage of development where there is a large dominance of large factories. These will be displacing SMEs in some sectors of the economy, with some still remaining to fill the niche markets. At this stage, there is a slight slowdown in the role of SMEs in the economic development. This idea is supported by Anderson (1982), who postulates that this phase is an extension of the second phase.

Therefore, from the above arguments, it can be established that they predicted that the advantages of SMEs will diminish over time as the economy develops to be dominated by large corporates. They believe that, in the course of economic development, reflected by the increase of per capita real income/GDP, the “economic” share of SMEs will decline steadily.

### 2.1.2 “Modern” Thesis

The modern thesis was born in the 1980s under the auspices of flexible specialization. It came into being as a way of trying to explain production processes the world over emanating from

the effect of globalization. Globalization forced a re-organisation of production process across all economic sectors. Piore and Sabel's (1984), in their work on the "second industrial divide," discussed the re-emergence of craft-based regions in some countries in Italy and Austria where SMEs have become the anchor of the new form of industrial organization.

The "new" forms of SMEs are such that they have highly multi-skilled workers using a wide variety of flexible machinery. They normally produce a small range of products of high specialty, sometimes for export to the global market. The main argument behind the modern thesis is that SMEs can grow much more easily and faster than large companies for more meaningful economic development. These SMEs have been major sources of inventions in countries like the United States and Japan. In these countries, SMEs have satisfied niche markets and in some instances been able to survive stiff competition from large enterprises, mainly in the manufacturing of electronics and automotive parts.

The "modern" paradigm on the role of SMEs in economic development thus argues that the economic share of SMEs increases in the course of economic development and remains key throughout the development trajectory. Piore and Sabel (1984) interpret this paradigm by looking at the first industrial divide which occurred during the nineteenth century with the emergence of mass production, and the second industrial divide has occurred in the late twentieth century with the reemergence of craft industries.

### **2.1.3 The "Pro-SME Policy" Thesis**

This thesis postulates that SMEs enhance competition and entrepreneurship. In this regard, they have positive externalities to the whole economy by supporting efficiency, innovation and total productivity growth. This thus means that SMEs will help countries exploit the social benefits from greater competition and entrepreneurship (World Bank, 2004<sup>3</sup>).

## **2.2 Empirical Perspectives On The Role Of SME sin Economic Development**

There is unanimity about the role and importance of small and medium enterprises in the development of economies the world over. According to the OECD (1997), SMEs produce contribute about 25% to total exports within the OECD region. The same source indicates that the figure is higher for Asia, where they account for about 35%. In China, SMEs have underpinned its phenomenal growth in the recent past, accounting for 40% of GDP (Pang, 2008). They have also been a major force behind product diversification and employment creation. Similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society (Pang, 2008).

Sanchez (2006) postulates that SMEs have a major advantage of being flexible in their production processes. This is against an old saying which says that "small is smart", meaning

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<sup>3</sup><http://siteresources.worldbank.org/DEC/Resources/>

that businesses should be able to continuously change and introduce new or an improved range of products. SMEs have this unique characteristic of being small and smart and flexible and easily adapt to changing market conditions. This makes it important to create an environment in which small businesses can operate, innovate and create needed jobs as a strategy to better economic development (Edmiston, 2004).

An important contribution of small businesses to national economy is derived from the United States (US) economy. Small businesses are job creators and are what really drive the U.S. economy. Small business with fewer than 500 employees drives the US economy by providing jobs for about half of the nation's workforce. During 2001 - 2002, small businesses with less than 20 employees increased employment by 853,074. Of the 10.5 million jobs created in the private sector between 1980 and 1986, 6.6 million (or 63.5%) were created by small business (Khan and Rivsi, 2000). In 2004, there were an estimated 23,974,000 businesses in the US, of which 5,683,700 were small businesses who employed about 5,666,600 people (Longly, 2006). Small businesses represent 99.7% of the firms, creating more than half of the private non-farm gross domestic product including 60% to 80% of the net new jobs in the economy. According to the Small Business Administration, the US had approximately 19 million businesses (Kongolo, 2010). Of those, about 15 million operated as sole proprietorships. Of the remaining 3.3 million corporations and partnerships, 99.8% employ less than 500 people and fall under the small business administration programmes.

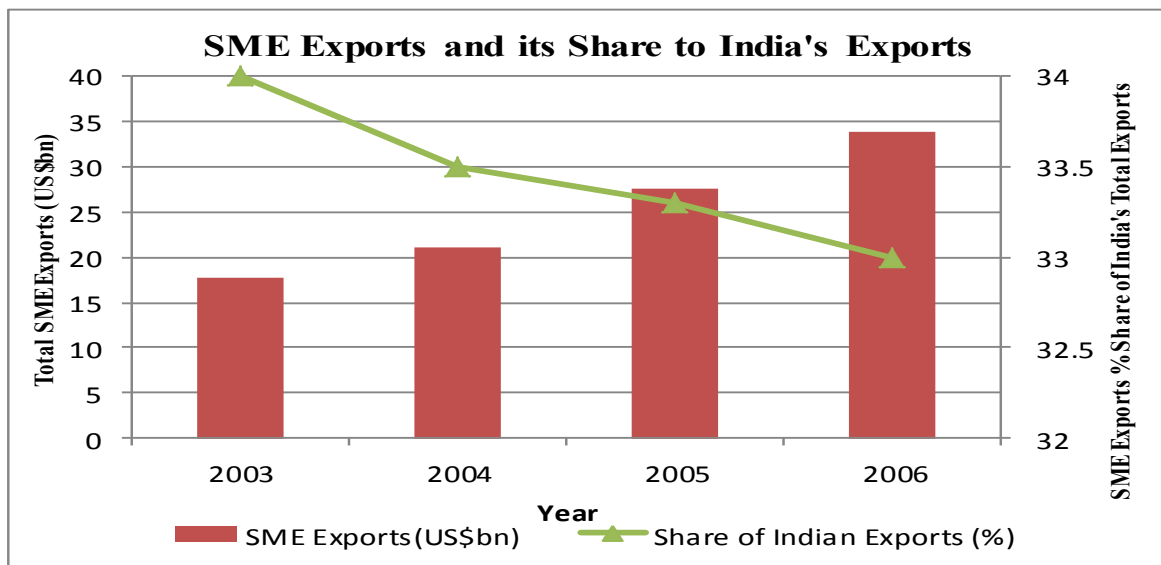
In Japan, SMEs were the main economic anchors during the reconstruction period after the Second World War. During that period, the government established financial institutions for SMEs, promulgated the credit insurance system and formed SME business associations such as the Chamber of Commerce and Industry. During the high growth period in the 1960s and 1970s, government focus was aimed at upgrading the structure and improving the productivity of SMEs through the enhancement of facilities and promotion of subcontractor SME's as well as support measures for start ups, new businesses and business innovation. The results were positive, with massive subcontracting arrangements taking place between SMEs and major corporates like Toyota and Mitsubishi Corporations (Khan and Rivsi, 2000). After the high growth period, focus was now geared towards fostering the diverse and vigorous growth of independent SME's and meeting the demands of the global economy. This was anchored on the successes that had been recorded during the high growth period

In China, the Government recognized that vibrant SMEs are an essential part of sustained economic development. They worked out on measures and strategies aimed at improving their operating environment. They created a network of credit guarantee agencies in the late 1990s and tasked the SME Bureau to their operations. This led to a remarkable growth of the small and medium with some graduation to be able to tap into the official financial systems for credit facilities that had previously been on a commercial basis for large corporations. Today, it is estimated that SMEs are now responsible for about 60% of China's industrial output, employing about 75% of the workforce in China's cities and towns (RBZ, 2006). They are responsible for creating most new urban jobs, and they are the main destination for

workers laid-off mainly from state-owned enterprises (SOEs) undergoing restructuring. Many of the SMEs are private firms, started by enterprising individuals with some moving into market segments once dominated by state firms (see Annex 1 for characteristics of SMEs in Asia).

In India, SMEs have been a major contributor to exports. SMEs constitute an important segment of India's industrial production, with a contribution to 33% to its exports. During fiscal years 2003 to 2006, India's total merchandise exports in US dollar terms witnessed a growth of 25%, while in the same period SME exports grew by 24% (Government of India (2008)). The remarkable contribution of SMEs in generating employment in the country has been instrumental in addressing issues pertaining to poverty and inequality of income. Below is an outline of the total value of exports by SMEs and SMEs exports as a share of total exports for the years 2003 to 2006.

**Figure 1: SME Contribution to Exports in India, 2003 - 2006**



Source: Ministry of Micro, Small and Medium Enterprises, 2007, Government of India

In New Zealand, SMEs (businesses with fewer than twenty employees) accounted for 39% of total value-added output in 2004. They account for 96% of all enterprises in the country (Dalziel, 2006). The country has recognized that SMEs are one of the drivers of the economic transformation in the modern era. Reflecting this significance, SMEs accounted for 29.7% of total employment in February 2005, with the number of people employed by SMEs increasing by 7% between 2004 and 2005 (Longly, 2006). New Zealand's SME sector also accounts for quite a significant proportion of the country's output. The SME contribution to output increased from 37.2 % in 2003 to 39% in 2004 accounting for 23.8% in value added output.

SMEs in New Zealand appear to be relatively most important in the manufacturing sector. In 1963, SMEs comprised 99.6% of the total manufacturing establishments. In 1968, they represented 99.0% of the total manufacturing establishments. Further, the figures indicated that they constituted 97.7% of the total establishments and also accounted for 41.2% of the total employment opportunities in 1981.

In Malaysia, SMEs represented 64% of the total manufacturing establishments in 1985 (Chee, 1986). The figures in 1995 indicate that they accounted for 84% of the total manufacturing establishments. In the same year, their contributions to total output and employment amounted to 14.7% and 17.9 %, respectively (Chee, 1986).

According to the Small and Medium Enterprises Development Authority (SMEDA), "SMEs constitute nearly 90% of all the enterprises in Pakistan; employ 80% of the non-agricultural labor force; and their share in the annual GDP is about 40%. (Neumarket al, 2008). The Pakistan economy can be said to be an SME economy. However their role has been neglected over the years with establishments meant to support business mainly focusing on large corporations. This notwithstanding SMEs have bolstered an entrepreneurial spirit and put forward suppleness in the entire Pakistan economy. They have emanated as the fastest growing export sub-sectors in ventures like cotton weaving and the manufacture of surgical instruments (Neumark et al, 2008). In addition they have assisted in poverty alleviation endeavors through employment creation.

In South Africa, policies and programmes to support small business development have become an integral part of the development process. In 1996, the country promulgated the National Small Business Act which provided for the institutions to co-ordinate efforts meant to enhance the contribution of SMEs to economic development. This was against the restricting process that had taken place in the major companies. At that time of the restructuring process, only 19% of the people employed were in the informal and SME sector. The figure increased to about 26% in 1999 (DTI<sup>4</sup>, 2002). At the same time the government targeted the small business sector as an economic empowerment vehicle for previously disadvantaged South Africans. To this day, SMEs now represent a vast portion of businesses in South Africa. They account for about 91% of the formal business entities, contributing to about 51 and 57% of GDP and providing almost 60% of employment (Berry et al, 2002). In 2005, SMEs absorbed nearly 57% of the people employed in the private sector. In addition, a partnership between ABSA<sup>5</sup>, First National Bank, Nedbank Group and Standard Bank and the Government was initiated in 2003 to develop low cost transaction accounts, enabling the banks to cover at least 70% of the un-banked market (low income group) in a relatively short time.

SMEs have become a major economic anchor in Nigeria. In recognition of this, the Central Bank has over the years been at the forefront on influential programs such as the Small and Medium Industry Equity Investment Scheme (SMIEIS) aimed at boosting equity investment in SMEs. Under the scheme, all Nigerian based banks have been mandated by the SMIEIS to set aside 10% of the pre-tax profits to finance SMEs beginning 2001 (Kongolo, 2010). Funds are invested as equity, either as a cash injection or conversion of existing debts owed to participating banks.

In Zambia, through the Fifth National Development Plan (FNDP), the Vision 2030, the Private Sector Development (PSD) Reform Action Plan of 2004, and the Financial Sector Development

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<sup>4</sup>Department of Trade and Industry

<sup>5</sup>Associated banks of South Africa

Programme (FSDP), among other guiding instruments, the country plans to become a middle income country by 2030, but with the key message that the SMEs sector plays its full role<sup>6</sup>. It is against this background that the Lusaka Stock Exchange (LuSE) planned to introduce a second tier on the stock market which will accommodate the SMEs, an initiative that is seen as an alternative market place from which the SMEs would be able to attract equity investment and capital fundraising.

From the empirical case studies explored above, it is clear that the following ingredients were critical for the growth and development of the SMEs sector to become a pillar of the economy:

- The financial sector has a major role to play in the creation and delivery of practical solutions to the challenges of sustainable development.
- The SME and microfinance sectors have to be supported – financially and technically - to become part of the formal economy which will play a crucial role in the deepening of the financial sector and mobilization of financial resources.
- Access to financial services is necessary to address problems faced by SMEs.
- Capacity building in the SME sector by banks is necessary to ensure long term business planning and management.

### 3. METHODOLOGY

This study investigates the role of SMEs in contributing to economic development by analyzing both primary and secondary data sources. The paper will primarily involve desk research. It covers the small and medium size categories, scaling down the focus on the role of micro enterprises. The research benchmarks the SMEs sector of Zimbabwe against best practices from across the world and proposes policy action and strategies to enhance its contribution to economic development. Interviews with key stakeholders were conducted.

## 4. SMES IN ZIMBABWE

### 4.1 Evolution Of SMEs In Post Independence Zimbabwe

During the first decade after independence in 1980, Zimbabwe's economy was characterized by wholesome control of the economy by the government. This included policy restrictions on foreign trade, foreign currency sources and applications as well as controls on imports and exports. There were also some controls on wages and domestic prices of major consumer products. Prices of goods and services were artificially high as a result of excess demand over supply. The tight foreign exchange controls and general market protection measures made it difficult for companies to import key raw materials, machinery, spare parts and finished consumer and industrial goods, thus stagnating the entire economy (ZIMPREST<sup>7</sup>, 1996).

<sup>6</sup><http://zamcom.smetoolkit.org/zambia/en/content/en/6195/SMEs-to-be-accommodated-on-LuSE>

<sup>7</sup>Zimbabwe Programme for Economic and Social Transformation

The above conditions then led to the government adopting the Bretton Woods sponsored Economic Structural Adjustment Programme (ESAP) in 1990. The programme was meant to redress the economic situation that had prevailed during the 1980s (MoFEP<sup>8</sup>, 1991). Its focus was to bring about market oriented reforms by removing government grip on the economy with specific focus on public finance management, trade liberalization, economic regulation, investment promotion and financial sector reforms (MoFEP, 1991). However, much of the targets were not met, with the exception of the reduction in the budget deficit (EIU<sup>9</sup>, 1996).

The net result of ESAP was an increase in unemployment arising from the closure of industries. Coupled with the 1992 drought, the effects on the welfare on the general populous were negative. In the face of this, the government started focusing on employment creation strategies, mainly by providing tax concessions to large mining investments. Special attention turned to SMEs, indigenization and the informal sectors which had largely been neglected over the years. The socialist ideology that the government had adopted had the thrust of promoting cooperatives at the expense of SMEs, and, in some instances, was meant to replace them. The Government of Zimbabwe then introduced a fund for retrenched through the Ministry of Labour and Social Welfare as a mitigation measure for employment creation by the retrenched to complement efforts by SEDCO. However, on the other hand, the financial sector also did not take emerging small entrepreneurs seriously. Only Barclays Bank and the then Zimbank provided small windows for SME borrowing. Much focus by the financial institutions and some donors was on microfinance programs.

At the realization that small enterprises could play a key role in the economic development process, the government and non-governmental organizations (NGOs) began to create institutions and agencies to serve SMEs and the informal sector. In the mid-1990s, a lot of banks started creating windows for small business to borrow, mainly in the face of competition from sprouting new local banks. Funding arrangements were also augmented by government, but they remained beyond the reach of many as the loans were priced high due to the perception of the risk associated with such loans. Due to these conditions, SMEs did not perform well and entry barriers were very high. This was against the background that most of these SMEs were start-ups and being led by individuals who had little experience in business.

In 1998, there were some 860,000 manufacturing, commercial, and service SMEs in Zimbabwe employing approximately 1.65 million persons<sup>10</sup>. An additional 442,000 agricultural and mining MSEs also existed, employing about 2.2 million Zimbabweans. During the same period, there were 2,100 agricultural co-operatives in Zimbabwe, employing about 350,000 people (owners and employees) and supporting about 1.5 million family members. Thus SMEs and micro-enterprises began to play a critical role in respect of both output and employment. Towards the end of the century, the small scale sector employed about half a million out of the total of 1.6 million workers (Bhalla et al, 1999). Bhalla et al (1999) noted that SMEs had

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<sup>8</sup>Ministry of Finance and Economic Planning

<sup>9</sup>Economist Intelligence Unit

<sup>10</sup>Ministry of Small and Medium Enterprise Development, 2004

grown since the introduction of ESAP, representing annual growth in turnover of 28% between 1991 and 1995. Small enterprises (employing fewer than 10 workers) grew faster than the medium and large enterprises, which may be partly because they were less affected by volatility emanating from structural changes from ESAP. At that time, SMEs were playing a bigger role in the manufacturing sector where they contributed about 10.1% to gross output, 10.9% to net output, about 13% to employment and 11% to wages and salaries. In the mining sector, SMEs contributed 2.2%, 3.1%, 3.1% and 1.7% to gross output, net output, employment and wages and salaries respectively (Bhalla et al, 1999).

During the ESAP period, an average of 18% of SME turnover was destined for export markets compared with 30% for large enterprises (Bhalla et al, 1999). This was mainly a result of the poor quality of local supplies and output, failure to meet delivery deadlines, low technology levels due in part to the lack of any subcontracting arrangements between large and small enterprises, limited new investment in SMEs as well as the then prevailing unfavourable policy environment.

According to the 2004 Labour Force Survey, the informal sector, contributes 13.3% to total employment (ZEPARU, 2007). Of the 5.1 million employed in 2004 in the whole economy, 681 000 were in the informal sector. The same study established that the majority of informal sector players were women constituting 53%. This notwithstanding, we can thus infer that the informal sector is an integral part of the Zimbabwean economy.

From the above discussion, it can be realized that SMEs have a long history of meaningful, though unappreciated, contribution to the Zimbabwean economy dating back to the first decade after independence to this day.

#### **4.2 Overview of The SMEs Sector in Zimbabwe**

Whilst the Government has made commitment to support the SME sector over the years, there has not been a comprehensive intervention programme that recognizes the need to support SMEs for meaningful contribution to the economic development of the country. This has mainly been a result of lack of resources which have continued to affect the sector for many years. However, it is worth noting that there is no shortage of institutions supporting SMEs. The most notable ones are the Small Enterprise Development Corporation (SEDCO), Empretec, Chamber of Commerce Small Business Support Unit and Zimbabwe Enterprise Development Programme. The Ministry of SMEs co-ordinates these organisations mainly through collaboration with Empretec and the Chamber of Commerce, and supervising SEDCO. The turnaround of the Zimbabwean economy calls for a more vibrant holistic approach building on these existing institutions so as to realize sustained growth and overall economic performance across the board.

According to RBZ (2011), SMEs contribute approximately 70% of the country's GDP and are capable of uplifting the livelihoods of more than 70% of the population. They occupy 75 – 80% of business space and this includes the informal sector, providing 80 – 85% of jobs across all sectors of the economy



The table below shows the major characteristics of microenterprises and SMEs in Zimbabwe.

**Table 1: SME Characteristics in Zimbabwe**

Criterion	Livelihood enterprises (Micro enterprises)	Growth oriented small enterprises (SMES)
• Capitalization	Relatively low	Relatively higher, but initial capitalization is usually low.
• Owner's Education	Usually basic formal education	Usually at least secondary schooling.
• Skills and experience	Relatively low, except for skills acquired traditionally e.g handicrafts	Higher, more often acquired through vocational training and/or previous wage employment or technical colleges.
• Gender disaggregation	High participation of women.	Lower participation of women.
• Sectoral concentration	Higher proportion in basic activities like food processing and petty trading.	Mainly concentrated in manufacturing and services sectors requiring more skills.
• Level of Competition	The market is usually perfectly competitive with low barriers to entry and little scope for cutting costs.	Often occupy "niche" markets with more scope for specialization and product differentiation.
• Impact of changes in seasons	More often seasonal and tied to crop cycle, school year, major festivals.	They are less affected by seasonality and function throughout the year.
• Contribution to household income	Usually a secondary source	Often primary source of income.
• Number of outlets	Usually several "multiple" enterprises	Normally the one.
• Primary labour source	Mostly use family labour.	Common use of hired labour, often relatives or children.
• Reinvestment	Very limited surpluses that are spent for family upkeep	Income generated is often re-invested.
• Use of credit	Trading activities often started on a consignment basis to meet a particular need.	Credit available from a wider range.
• Potential for growth	Limited in terms of new employment generation	Have growth potential; number of workers higher, with more paid employees with employment usually of "higher quality".

Source: Author's field study

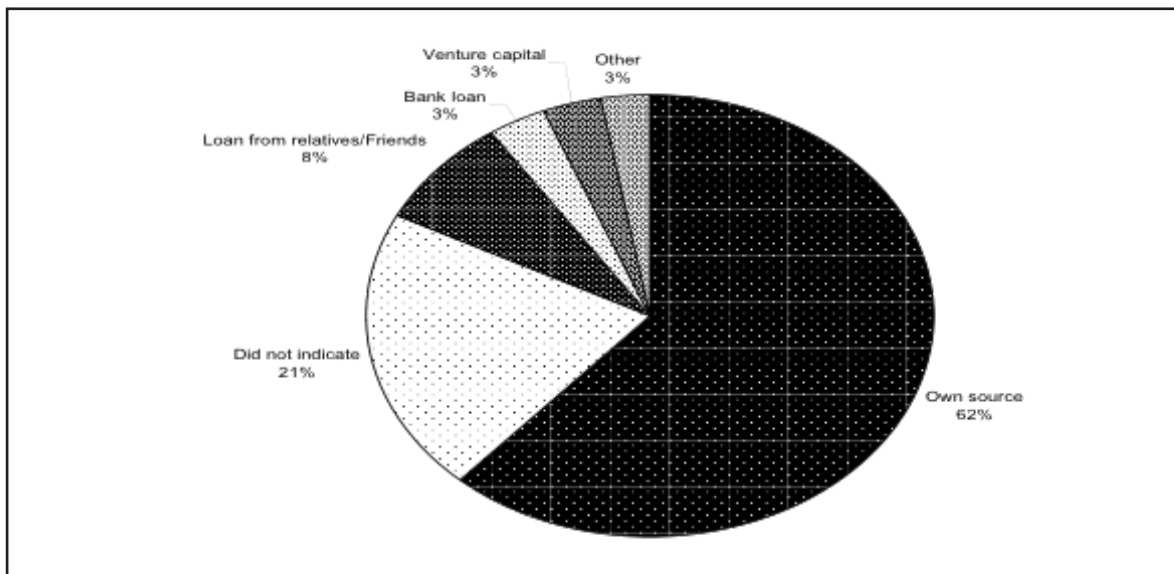
Zimbabwe's SMEs are less outward-looking than large enterprises, importing fewer raw materials and exporting fewer products. In addition they are less active in investing in new productive capacity, making limited use of existing technical and other support institutions (Lallet al,1999). The explanation for this could be the lack of information and inadequate skills at both managerial and technical levels to source markets outside their vicinity. This is further exacerbated by the policy environment which is characterized by policy uncertainty, cumbersome bureaucratic procedures, high interest rates, lack of access to finance, distorted tax structure as well as poor quality of local supplies. More-so, there are other such supply factors as unreliable electricity supply, transport bottlenecks, and inadequate technological support partly due to lack of subcontracting relationships between small and large enterprises.

There is also the challenge of limited foreign investment in technology imports in SMEs. Lall et al. (1999), in their survey on SMEs, showed that only seven SMEs made substantial investments in production technology compared to 21 large enterprises during the ESAP period. In addition, only a single SME obtained a foreign license compared to large enterprises, and only seven SMEs used foreign consultants compared to twenty eight large enterprises (Lall et al., 1999).

Although in general FDI is considered as a means of stimulating growth of SMEs through supplier relationships with multinationals, such relationships are not well developed in Zimbabwe (Bhalla et al, 1999). This is partly explained by the fact that most of the FDI inflows are concentrated in the large enterprises in the mining, agriculture and tourism sectors. In addition, ability to compete on the export market requires a competitive edge on both price and quality considerations. In this regard, global sourcing of inputs can help raise quality though cost competitiveness through accessing cheaper finance and credit as well as better quality inputs. The overseas marketing capabilities of SMEs in Zimbabwe are limited, which constrains their export competitiveness (Bhalla et al, 1999). However, growth oriented SMEs also have the potential to generate new SMEs from their employees, a situation that has been the case in Glenview and Siyaso SME complexes.

### **4.3 SME Financing**

There have been several financing schemes in Zimbabwe before. Most of them were by the government. However, during the crisis period between 2005 and 2008, the Reserve Bank of Zimbabwe availed some funding schemes that were meant to improve the financial position of SMEs in the country. On the other hand, the bulk of SMEs were funded from own resources (ZEPARU (2007)). This is mainly against the background that most of the SMEs did not have collateral to access funding from formal banking institutions. Figure 2 below shows the distribution of funding sources for SMEs in Zimbabwe after dollarisation:

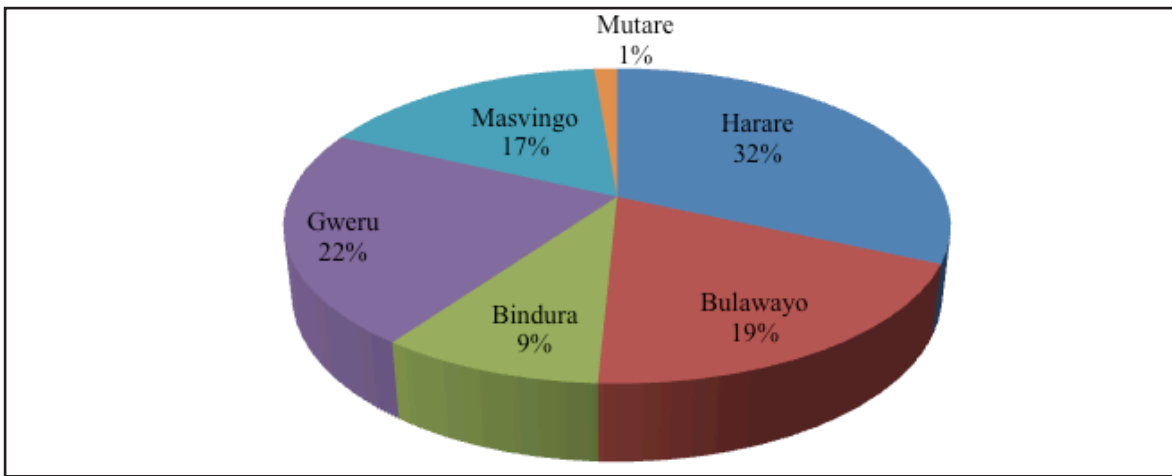
**Figure 2: SME Sources of Funding in Zimbabwe in 2010**

Source: SEDCO, 2010

The above figure shows Bank loans and Venture capital are not so popular sources of funding for SMEs in Zimbabwe, mainly due to collateral requirements for the loans. Relatives play a better role in SMEs funding than formal commercial loans as these semi-formal networks guarantee livelihoods even for the family members in times of crisis.

#### 4.3.1 SME Lending

SME financing has been suppressed over the years mainly due to lack of financing arrangements, both from public and private sources. However, there has been a marked improvement in the availability and uptake of SME financing since the adoption of the multicurrency system in 2009. Figure 3 shows the regional spread of applications approved and disbursed by the SEDCO in 2009.

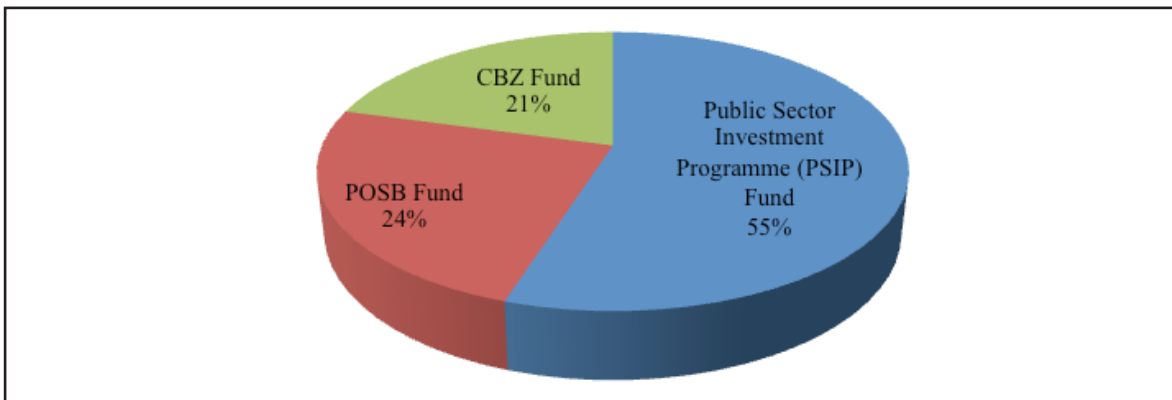
**Figure 3: Regional Spread of Applications Approved and Disbursed by SEDCO, 2009**

Source: SEDCO 2010

The figure shows that Harare has the biggest share of loans from SEDCO, followed by Gweru, with Mutare being the least. However, the Harare SEDCO office caters for three geopolitical provinces, namely Mashonaland East, Mashonaland West, Mashonaland Central and Harare Metropolitan Province. In addition, the Bulawayo office also caters for matebeleland North and South. The huge market for SME products, especially in Harare and Bulawayo and their surrounding provinces, is also translating into increased demands for loans due to their relatively higher incomes from other economic activities.

#### 4.3.2 Loan Demand

In 2009, SEDCO approved 111 applications to SMEs worth US\$323 349.04, from three main sources, namely treasury, CBZ Bank and POSB. However these are not entirely representative of the funds available for SMEs as some of the funds were being allocated from the SME revolving fund. Below is a disaggregation of the facilities that were loaned in 2009

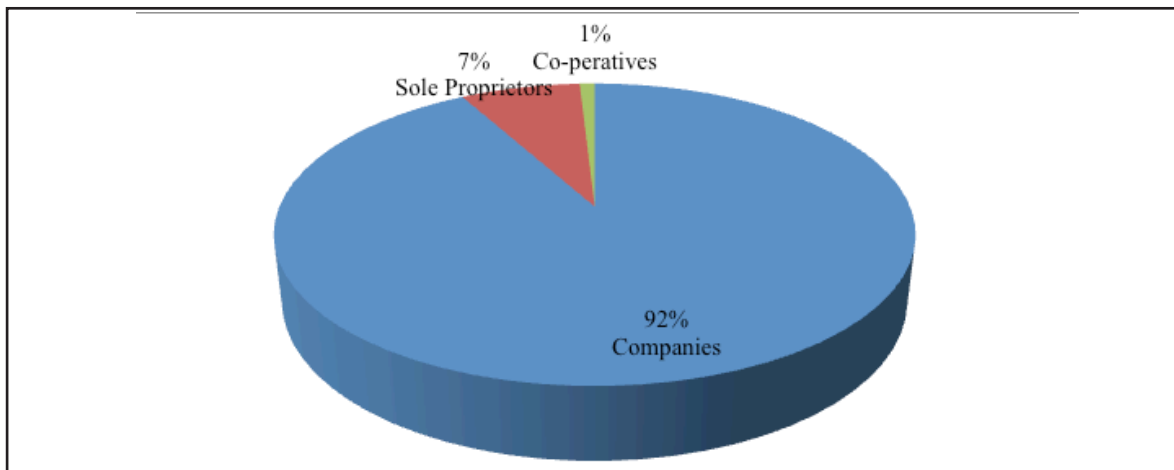
**Figure 4: Types of Loan Facilities for SMEs in Zimbabwe, 2009**

Source: SEDCO 2010

From the above disaggregation, it can be seen that the bulk of SME funding is coming from the fiscus. Private players are a bit skeptical about lending to SMEs due to perceived risks with such kinds of loans. Government has thus taken a major role in supporting SMEs as a way of showing commitment to their role in the development process. However, there is need to increase the number of private entities involved in SME financing in order to multiply their impact on the entire economy. In addition, those financial institutions that have windows for SME borrowing need to relax the conditions attached to such loans in order to make them more accessible.

In terms of ownership, a huge amount of the loans advanced were to private limited companies, with the least going to co-operatives. In line with this, it shows that more of the funds are going to more formal business (99%) whose output can be accounted for and thus aggregated to the formal statistics. This goes to show that that co-operatives and partnerships are no longer popular forms of business ownership, a huge shift from the first decade after independence. The impact on these establishments can also be evaluated. The figure below shows the breakdown of the loans to SMEs from SEDCO for the 2009 financial year by ownership profiles.

**Figure 5: Ownership of SME Recipients of Loans by SEDCO in 2009**



Source: SEDCO 2010

#### 4.4 Common Challenges Faced By SMEs in Zimbabwe

The SMEs sector, while playing a critical role in economic growth and development is confronted with a number of challenges. These challenges are diverse and relate to the policy, regulatory, institutional and capacity issues and are stifling their development and growth. At the Ottawa meeting of Asia-Pacific Economic Cooperation (APEC) in September 1997, five key challenges for SMEs were identified, and these are also applicable to the Zimbabwe situation. Broadly, these include limitations in access to markets, technology, human resources skills, financing and information. From the interviews conducted, SMEs in Zimbabwe face the following challenges:

- i. Accessibility and availability of finance is very limited mainly because they solely rely on the owner for finance. Their inherent higher perceived risk and lack of collateral make financial institutions reluctant to lend them;
- ii. They face high transaction costs in accessing transport infrastructure and achieving quality accreditation
- iii. They experience a lack of business infrastructure support and in some instances may be discriminated against relative to large firms.
- iv. They lack capacity to conduct research and development needed to commercialize ideas and grow businesses;
- v. The specialized organizations in science, technology, and training that exist are not strong enough to provide the supporting and consulting services required for SMEs;
- vi. They face entrepreneurial, managerial, accounting and marketing skill deficiencies,
- vii. They have high relative costs in accessing and utilizing information technology
- viii. They lack information on market opportunities
- ix. They are normally affected by weak business structures;
- x. The legal and regulatory framework guiding their operations is poorly defined;
- xi. Their marketing channels are very poor, restricting their efforts only to customers within their locality
- xii. They face difficulties in adapting to environmental changes;
- xiii. They suffer from information gaps, thus restricting their ability to adapt to new dynamics in the world order;
- xiv. No research and development organization has been created specifically for SMEs;
- xv. They lack economies of scale,
- xvi. They lack skills in dealing with customers both in the domestic and in the export markets,
- xvii. They have limited knowledge about language and culture as well as the legal and bureaucratic issues involved in exporting,
- xviii. The existing investment promotion centres are mainly aimed at promoting international investment projects rather than to satisfy the need to support SMEs;
- xix. There is still no master plan or national strategy for the development of SMEs in the country

#### **4.5 The Role Of SMEs In The Economic Development In Zimbabwe**

Many countries recognize SMEs' contributions to their economies, especially in terms of their substantial portion of the total production of goods and services. In Zimbabwe, it is generally accepted that SMEs have played a significant role in the economic development process. It has been realized that they are more responsive to changes in market opportunities as they require relatively less capital and have the potential to generate significant levels of sustainable employment for skilled and semi-skilled labour. Their development is also regarded as crucial for the achievement of broader development objectives, including poverty alleviation, spreading employment to rural areas as well as improving the situation of disadvantaged groups such as women, youth and people with disabilities. Although SMEs may not match the resources of larger companies, they are known to provide new jobs, introduce innovations, stimulate competition, assist big companies and produce goods and services efficiently. They assist in increasing the nation's wealth through fuller utilization of all

the country's human resource capabilities as well as developing an economic structure that is self-sustaining with a high degree of sectoral linkages.

In the Zimbabwean context, the impact of SMEs on the economy can be seen from their contribution to the provision of goods and services, employment enhancement, income generated, and the increase in the amount of exports of SME-manufactured products. In addition to this, they have also been noted to contribute to the total savings in the economy, with a favourable impact on income distribution and also serve as a training ground (Chee, 1986).

Like in many other countries, SMEs in Zimbabwe operate in different industries. They can be divided into three categories, namely general businesses, manufacturing and agriculture. General Business SMEs comprise those involved in construction, wholesale and retail trade, restaurant and transport business activities, among others. These normally concentrate on the secondary type of industries, and have no general areas of specialization. Manufacturing sector SMEs are those that are engaged in the production and processing materials such as food, beverage, textile, wood and furniture, chemicals, petroleum, rubber and plastic. Those SMEs in the agricultural sector are involved in the production of agricultural commodities such as pepper, tobacco, cereals, livestock, timber and fish.

The contribution of SMEs to the economic development process in Zimbabwe can be summarized as follows:

#### **4.5.1 Breeding Ground for New Business Ventures and Entrepreneurs**

SMEs form the basis of any opportunity for the encouragement of new business ventures, including the attraction of more entrepreneurs. They are known to be a means of entry for new entrepreneurs. This is mainly necessitated by the following conditions

- Funding or capital requirements are relatively low.
- Technology requirements are not too demanding.
- There is little need for substantial managerial experience.
- There are very little marketing costs as the market for the goods produced or resold is local.

#### **4.5.2 As Seed-bed from which Large Companies Grow**

In Zimbabwe, SMEs have been acting as the seed-bed from which larger companies have been growing over the years. This is not only peculiar to Zimbabwe but many other countries, including the USA, Japan and United Kingdom. Despite lack of studies to indicate that SMEs act as the seed-bed from which larger companies can grow, there is evidence that indicates some large companies grew from smaller companies. Evidence shows that the companies started from very small, some by only one person, but they managed to survive and grow big.

### **4.5.3 Encourage Innovation and Flexibility**

Despite the lack of overwhelming evidence on SMEs as a source of innovation in Zimbabwe, studies in other countries indicate that SMEs do contribute as a source of innovation at an aggregate level. This is on the basis that they are more flexible, more dynamic, and more sensitive to shifts in demand than larger firms. They are sources of new ideas, materials, processes, and services. Their flexibility enables them to switch their production readily in the face of changing demands within their field and capacity. In addition SMEs are a potential source to provide innovation because they have been realized to be capable to produce two and half times as many innovations as large firms relative to the number of persons employed (Hodgetts and Kuratko, 1995).

### **4.5.4 Aid to Large Companies**

Another way in which SMEs contribute to local and regional economic development is through their complementary supplier and customer relationships with other businesses. A role that SMEs can play is as suppliers to large companies, thus contributing to the external competitiveness of these firms. In Zimbabwe, more small firms are acting as specialist suppliers to large companies. This can be seen from the increasing number of small firms becoming more and more involved, especially in the importation of specialised equipment for supplying to large corporations. There is indication of linkages between transnational corporations and local SMEs, providing more business for local firms through local sourcing of their component parts, tools, equipment, and sub-contracting jobs of general services, as well as assisting in the upgrading of the technical capabilities of the SMEs. Many large firms rely extensively on SMEs to provide many of their needs that include component parts and auxiliary services. These large companies also often rely on SMEs for the distribution of their products to consumers.

### **4.5.5 Stimulate Competition**

Despite the lack of official information reflecting that SMEs help stimulate competition, evidence has shown that this is indeed the case. SMEs do stimulate competition in the industry they are operating in. An example is the furniture industry where there is a huge presence of SMEs, particularly in Harare's Glenview suburb. The huge numbers of the SMEs has seen an improvement in the quality of the furniture that is being made in the area. Prices have also declined over the years mainly driven by the availability of substitutes in the area. Their nature of being more flexible, more dynamic, and more sensitive to shifts in demand than larger firms makes SMEs able to stimulate competition both among themselves as well as larger firms that rely on them, thus improving overall country efficiency. The competition acts as the regulator that transforms the selfishness of firms into providing better service to customers. The SMEs have become a controlling factor in Zimbabwe by keeping the bigger companies on their toes. They have introduced new products and services which have helped check the development of monopolies and encourage competition in price, design and efficiency.



#### **4.5.6 Training**

SMEs also serve as an avenue for developing skills and knowledge of industrial workers and entrepreneurs. As the SME is established and begins to grow, the demands to be able to run the organization for continuous success also grow. In Zimbabwe, SMEs have been serving as a training ground for the semi-skilled workers and individuals with no prior work experience, and also, those that are laid off in other industries. SMEs are training employees to handle different activities simultaneously, resulting in them having more varied learning experience than they could have had they been working for a big firm. The experience of running around and dealing with suppliers, developing strategic alliances with customers and suppliers as well as book keeping are valuable skills that individuals develop easily working for an SME than in a large organisation in larger organizations. The freedom to make decisions and the varieties of functions lend zest and interest to employees' work experience thus better developing their talents more effectively. This can be evidenced from what has happened in the Glenview area where the original numbers of carpenters was very small, but with time this has grown to overwhelm the carrying capacity of the SME complex

#### **4.5.7 Empowerment of women**

Interviews with key informants revealed that SMEs can lead to empowerment in its social as well as economic dimensions. As women participate in SMEs, their access to information is strengthened by the process of participation in their enterprise daily activities, including attending meetings and other interactions in the public sphere that come about as a result of economic activities. Empowerment leads, in turn, to such social benefits as more education and lower fertility rates for women. This contributes to the role of women in decision-making both in and outside the family setup.

#### **4.5.8 Savings mobilisation**

SMEs also help to increase savings in two ways. First, the initial financing for SMEs are in most cases from individual own sources. Second, SMEs are most likely to spend less on fixed assets such as building, machinery and equipment when operating their businesses. Although they spend less, SMEs tend to maximize the utilization of these assets. In addition, small firms purchase, use, and often revitalize used capital equipment (recycling) to reduce the risks and long-run costs of entry and expansion for all firms. Further, the use of capital equipment that might otherwise lie idle helps to maintain higher output levels, which in turn adds jobs to the economy.

#### **4.5.9 Employment generation**

Available evidence suggests that SMEs have been a major source of employment for the majority of people that are laid off from large enterprises in the formal sector. The major employment opportunities are generated from new enterprises in the start-up phase, existing

enterprises that had survived the perils of start-up but had not grown, existing enterprises that had shown small growth as well as existing enterprises that had graduated and become “small” enterprises with ten or more workers.

## 5 POLICY CONSIDERATIONS

It has become widely recognized that nations' need for growth can be effectively and sustainably met through immediate attention being given to investment in the small scale enterprise sector. This calls for an appropriate framework within which the SMEs can emerge, operate and display dynamism through innovation, best practice and specialization. SMEs, like large business, are seriously affected by policy factors. In this regard, therefore, there is need to come up with programmes and projects to support SMEs. Support activities ought to range from policy initiatives, technical capacity building, and financing among other numerous and significant interventions. Business support mechanisms including networks, subcontracting and franchising, technology transfer, counseling, consultancies, business incubators and referral centers, among others, form the core of support for SME development.

The role of government is crucial in supporting the further development of the SME sector in any economy, and Zimbabwe is no exception. The primary objective of government should be to provide an enabling environment for this sector that will facilitate its capacity building. Such a role will need to be focused upon establishing a conducive macroeconomic environment, and enhance the micro-environment within which the private sector, and specifically SMEs, will operate in. Support for SMEs is generally based on the premise that there are benefits for the country as a whole from having a strong SME sector, especially in sustaining a broad and diversified private sector and creates employment. In addition, programs aimed at the smallest enterprises have been justified more in terms of their welfare impact than their economic efficiency.

SME growth in Zimbabwe requires a concerted effort by government and policy makers to remove barriers like government regulations and policies and to put in place support mechanisms to support the growth of SMEs, including support for their input requirements and market information.

For SMEs to develop and form a basis for meaningful economic development, it is necessary first and foremost, to remove bureaucratic impediments currently prevailing in the SME sector. These include, but are not limited to, registration requirements that SMEs have to endure to legalise their operations. A simple procedure taking limited time to complete will minimize the chances of illegal operations that will not be able to be accounted for in national statistics. State intervention in the operations of SMEs also needs to be minimized in order to alleviate creating confusion in the sector. Thus a minimalist state is better for the SMEs sector. This restricts the main role of policy to removing market trade and administrative barriers, facilitating business operations, and providing a general enhancing environment in which SMEs may thrive.

The option of creating linkages between SMEs and large businesses can also enhance the contribution of SMEs to the economic development of Zimbabwe. In the new global order of globalization, inter-firm networks create the advantage of allowing small firms to compete at the same level with larger companies. Networks can allow firms to engage in accelerated and peer based learning. They can facilitate the reconfiguration of relationships with suppliers, and offer scope for increased efficiency through collective action. Networks can also pave the way for greater specialization amongst small firms, opening opportunities for economies of scope and scale. It may thus be worthwhile to favour the growth of networks and industrial associations instead of the creation of gigantic firms. In this regard, what is important is to focus economic policy on the fundamental economic and industrial capabilities to create, manage and develop SME networks and linkages.

Also to be considered is the issue of clustering. SME clustering has been started in Zimbabwe but has been lagging behind the demands of the entrepreneurs. Membership to clusters can enhance productivity as well as the rate of innovation and competitive performance of firms. Clusters, just like networks, can allow small firms to combine the advantages of small scale with the benefits of large scale. A clusters policy provides a framework for dialogue and cooperation between firms, the public sector and non-governmental organizations. This dialogue can lead to efficiency by enhancing collaboration amongst firms, such as in joint marketing initiatives, the creation of mutual credit guarantee associations, joint design and sponsorship of training, and a more efficient division of labour amongst firms. A success story of SMEs clustering in North Eastern and Central Italy can be seen as a particular model of industrial development in which the emergence of linkages and cooperation between SMEs provides economies of scale and scope<sup>11</sup>.

There is also a great need for innovative means of financing SMEs. Considering situations in the past where money loaned to SMEs for working capital has been diverted for other non-core activities, there may be need to look into other options. An example would be direct payment to the suppliers of SMEs. This would ensure that the money is directed towards purchasing of inputs required solely for business purposes. Another option would be group lending schemes. This entails bringing together a certain number of SMEs, say five, and then lend to that group. This would create a situation where there is natural selection of group members mainly on the basis of trust for one another. This is against the background that repayment of funds meant to be revolving funds have been poor in the past. With such group lending, there is sharing of risks and thus selection of group members would be based on ability and reputation in order to avoid tarnishing the name of the group.

However, more important is the fact that credit and financing schemes will not be enough to see an emergence of SMEs as an anchor for economic development. Credit alone, unaccompanied by other inputs and support schemes, tends to be more relevant for very small livelihood enterprises, especially of a non-manufacturing nature like transportation services, retail and wholesale trade where working capital requirements are high and

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<sup>11</sup>Piore and Sabel (1984), Pyke, Becattini and Sengenberger (1990) and Pyke and Sengenberger (1992

skills demand is low. Credit is less relevant for enterprises where skills training, technology upgrading and marketing assistance are needed. Non-credit inputs such as design, product development, market information, and marketing assistance are usually much more important for a large number of manufacturing activities. This makes it more important for appropriate technology development and the provision of common facility centers to assist in manufacturing enterprises.

In that regard, it makes it apparent that training for SMEs be taken seriously. Training would help develop the human resource capacity of enterprises to ensure that they are efficiently and effectively managed. The most common types of training in SMEs include management oriented or business training skills such as cost accounting, bookkeeping and business plan preparation, production oriented technical skills training as well as entrepreneurial development training. Other types of training are credit oriented training and general community development or pre-entrepreneurship training which targets potential entrepreneurs rather than borrowers who have already been selected for programs, and which focuses on more general skills such as literacy or leadership. Entrepreneurship development training focusing on the motivational, attitudinal, and behavioral aspects of entrepreneurship is equally important, especially for new starts in order to enhance their chances of survival. This training would enable the entrepreneurs to appreciate the responsibility of running an enterprise and the legal obligations of a business and thus build human capacity to effectively run and manage business enterprises in Zimbabwe and to facilitate the emergence of viable and efficient business enterprises that will positively contribute towards economic growth and employment creation.

It is also worth noting that technical skills training is also important, especially for manufacturing, food processing, handicrafts and some service sector activities of SMEs. The majority of them face the main barrier of lack of skills. Skills-training is at least as important for ensuring the survival, if not growth of, existing enterprises.

SMEs in Zimbabwe face serious market failure challenges. Addressing market failure factors, market segmentation and information failure as well as failure in allocation of property rights such as in the case of public goods and externalities is crucial to promote SMEs. Policies aimed at providing access to markets, technology, information, finance, training and infrastructures become apparent in this case. Such policies should be demand driven and market conforming, such that they help, rather than substitute, the market mechanism. An example would be the staging of seminars and trade fairs to promote group marketing of SME output. Such trade fairs would also be essential for the provision of essential market information.

SMEs generally face difficulties in marketing their output. This results in them restricting their market to locals only. One way of overcoming this bottleneck is for arrangements by responsible authorities to pool SMEs and assist in marketing. Such efforts could be done through links with such trade-promoting agencies such as ZIMTRADE. Due to their small size,

SMEs are handicapped in marketing their products, especially in export markets. Twinning SMEs with such organisations as ZIMTRADE will help in promoting SMEs to access markets outside their locality. In addition, SEDCO needs to move away from the financial advisory and financial support role to supporting SMEs throughout the value chain, especially with regards to infrastructure provision, technology support as well as marketing of output outside their locality.

The other challenge related to SMEs in Zimbabwe is lack of space. Harare, the main hub of SMEs in Zimbabwe has run out of space for SMEs. Interviews and observations in the Siyaso and Glenview clusters revealed that there is a lot of congestion in the shells and many people are being sublet by the original beneficiaries who are charging exorbitant rates. Most of these cannot afford to rent shelter elsewhere in the industrial areas. Their inability to access finance makes it more difficult for them to build appropriate business premises. Government and other stakeholders should consider providing business premises on a rental or rent to buy basis. Eventual ownership of the premises may enhance their chances of bank financing in the long term and also provide an incentive for occupants to look after the structures in a responsible manner. Efforts by SEDCO in supporting the construction and provision of factory space for SMEs has gone a long way in addressing this challenge, especially at Nyika Growth Point, Mkoba in Gweru, Chitungwiza as well as Gazaland in Harare.

Information on SMEs also needs to be gathered and collated in a more formal and systematic manner. This is against the background that most local authorities do not have such information due to capacity issues, indicating the possibility that they may be losing a lot of revenue that would otherwise be accruing to them.

## **6 CONCLUSION**

This paper reviewed the strategic importance of SMEs to economic development, and the importance of building their capacity to grow. It traced the importance of the SMEs sector in both developed and developing countries. Some key lessons for Zimbabwe were observed. These include their importance to economic growth and more notably job creation. SMEs already contribute over half the private sector jobs in the East Asian region, and about 70% of new job creation seems to be coming from SMEs. In developing economies the contribution of SMEs to employment tends to be higher, around 70% of the workforce. In Zimbabwe, the SMEs sector is estimated to be contributing about 50% to GDP and 80% to total employment. In that regard, it is important for policymakers to understand and to foster the way the SMEs sector operates.

From the analysis, it has been established that key to the future success of SMEs in Zimbabwe will be capacity building which will enable them to take advantage of the market opportunities that arise from the process of economic development. In particular, SMEs and policy makers will need to focus on attaining greater access to: markets, technology, skilled human resources, finance and information. In addition, the capacity of SMEs to contribute

to meaningful economic development can be further enhanced through the nurturing of networks and clusters and becoming more innovative both in terms of new products and services as well as processes. These are important for the transfer of tacit knowledge, attaining economies of scale, pooling of resources and knowledge, accessing skilled labour, accessing business services and providing the basis for competition with larger enterprises. Such clustering can provide assistance in overcoming locational disadvantages. Closer regional economic integration presents numerous market opportunities, and the SME sector is in a good position to gain significantly from this. It is critical for the government to enhance SME access to finance, new technology and encouraging the take-up of ecommerce.

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Table 1: ANNEX: A Summary Profile of SMEs in East Asia/APEC

	<b>Key features</b>	<b>Regional differences and policy issues</b>
<b>Numbers of Enterprises</b>	<p>1. There are about 20 to 30 million SMEs in East Asia.</p> <p>2. They account for 98 per cent of all enterprises.</p> <p>3. Micro-enterprises account for about 73 per cent of all -private sector enterprises.</p> <p>4. On average there are about 85 people for every SME.</p>	<p>1. Most of the SMEs are in China (8 million) and Japan (5 million) and Korea (2.6 million) which together have 70 per cent of the SMEs in East Asia.</p> <p>2. In developed economies there are only about 20 people per SME, but the ratio is above 100 in the developing economies, especially in China, Vietnam, the Philippines and Indonesia.</p>
<b>Employment</b>	<p>5. SMEs employ about 60 per cent of the private sector workforce, and 30 per cent of the total workforce.</p> <p>6. Micro-enterprises employ about 21 per cent of total APEC wide employment.</p> <p>7. Over 95 per cent of enterprises employ less than 100 people, and over 80 per cent employ less than 5 people.</p> <p>8. SMEs contribute about 70 per cent of net employment growth.</p> <p>9. SMEs provide about 80 per cent of employment in the services sector, and about 15 per cent in the manufacturing sector.</p> <p>10. Women make up about 30 per cent of employers/self employed in APEC mainly in micro-enterprises.</p>	<p>3. In developing economies (below about US\$15,000 income per head) SMEs employ about 75 per cent of people, above US\$15,000 the level is closer to 50 per cent. Japan is a major exception - Japan's SMEs employ around 80 per cent of the workforce.</p> <p>4. More developed economies seem to have more medium sized SMEs and they play a greater role. Developing economies seem more likely to have a "missing middle".</p> <p>5. In developed economies most of this growth probably comes from fast growth firms, in developing economies a higher proportion probably comes from net start ups.</p>
<b>Output measures (sales, value added etc)</b>	<p>11. SMEs contribute about 50 per cent of sales, value added or output.</p>	<p>6. The contribution varies from lows of 15 per cent (Singapore) and 30 per cent (Australia) to about 60 per cent for most other economies.</p>
<b>Exports</b>	<p>12. SMEs generate about 30-35 per cent of direct exports (US\$930 billion in 2000), much less than the SME contribution to employment (about 60 to 70 per cent) or output (about 50 per cent).</p> <p>13. SMEs contribute indirectly to trade through supply chain relationships with other firms. SME contribution to total trade could rise to 50 per cent.</p>	<p>7. SME export figures are difficult to verify, but they range from about 5 per cent or less (Indonesia) to around 40 per cent (Korea) of total exports.</p> <p>8. Tariff cuts have increased total APEC member trade, but the SME contribution to direct exports has remained static or declined. Reductions in tariffs have not benefited SMEs, and more emphasis needs to be put on tackling non tariff barriers if they are to benefit from trade expansion.</p>
<b>FDI</b>	<p>14. SMEs generate about 50 per cent of the cases of FDI, but less than 10 per cent of FDI by value.</p>	<p>9. Korean, Japanese and Taiwan SMEs contribute most FDI originating in the East Asian region.</p>
<b>Entrepreneurial Engine, international</b>	<p>15. SMEs already contribute the bulk of growth, and SMEs could make a much bigger contribution to the Asian regional economy if efforts were made to address impediments to SME</p>	<p>10. The developing economies need to create about 50 to 70 million more SMEs if they are to achieve "benchmark" levels of SME activity.</p>

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