

## **Factors Influencing Growth and Development of Small and Medium Enterprises in Zimbabwe**



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**ABSTRACT:** There is evidence that Small and Medium Scale Enterprises (SMEs) drive a close to 9 billion dollar economy in Zimbabwe. Despite this, businesses remain stunted and unregistered, contributing between nothing and less to the national fiscus. While the broad assumption that SMEs generally have positive effects on country economic growth has been established, the notion of economic imperatives for SMEs remains largely untested. Again, sector benefits accrue to a small portion of the population, with allegations of nepotism and partisanship in allocation of funds. The national infrastructure for SMEs remains robust at paper and policy levels, without political willingness for operationalisation. Situation is worse for women entrepreneurs. What can be done to ensure effective operation of SMEs sector? This paper examines development of SMEs in Zimbabwe over five historical cycles from the pre-independence era to date. Analysis addresses the following questions: What kind of SMEs infrastructure has Government of Zimbabwe put in place and how effective has it been in addressing SMEs challenges? What are the main challenges the sector faces? How are women's specific gender needs addressed in SMEs policy formulation and practice? How can Zimbabwean SMEs be sources of innovation to provide best practice globally? Analysis thrives on a desk review of available data on SMEs in Zimbabwe and globally. The paper concludes that Government of Zimbabwe needs to strengthen its political willingness by bridging the gap between policy and practice in order to effectively support SMEs growth in the country.

**KEYWORDS:** SMEs, GDP, Zimbabwe, Globally, development, employment, women.

### **INTRODUCTION**

Globally, small and medium scale enterprises (SMEs) are recognized as valuable instruments of economic growth (Chingwaru, 2014). In the OECD area, they account for approximately 99% of all enterprises and 70% of jobs, generating on average between 50% and 60% of value added tax, up to 45% of total employment and 33% of GDP (OECD, 2017). They further enhance economic diversification, in turn increasing participation of women and youths in economic activities. Notwithstanding the projected achievements, SMEs in developed and developing countries face significant challenges that compromise their ability to function and despite governments' efforts to support their operations, and as such, most of them still fall short of expectations (Mwangi, 2011).

In Zimbabwe, the year 2016 recorded an estimated 2, 8 million SMEs (registered and unregistered) went on record for contributing an estimated \$8.58 billion to GDP (OECD, 2017). Before the semi closure of most SMEs industries in response to the COVID-19 lockdown requirements, the informal industry employed more than 5.9 million people (Over 75% of the total workforce of 7.8 million people), over 70% of the Zimbabwe Revenue Authority (ZIMRA)'s database of registered tax payers (OECD, 2017). In the absence of a formal production industry, SMEs in Zimbabwe have risen up as a viable alternative production industry, creating employment and alleviating poverty in the country. At the height of near economic collapse in 2008, this informal industry sustained the furniture, steel, clothing, food and agriculture value chain to date. Jobs in these sectors have kept many people occupied, helping the, to avoid high open unemployment despite adverse economic conditions. Most informal traders are not registered, lack required licenses that can keep them above the requirements of the State to obtain capital incentives from banks. In most cases these informal traders violate zoning by-laws that ban commercial activity from residential areas. Ironically, in the current COVID-19 situation most informal traders have shifted their businesses to their places of residents in line with the concept of social distancing. This again is a wakeup call to the government in terms of the need to redefine national by-laws and couch strategies that assist informal businesses thrive both inside and outside the national disaster frameworks.

The SMEs sector represents an important channel for inclusive economic and social upward mobility. They allow marginalized groups such as women and the youths to participate in economic activities and contribute to wealth creation. In a country with a youth bulge and with a higher percentage of female headed households such as Zimbabwe, SMEs can be conceptualised as transformative economic initiative for strengthening safety nets, e contributing to national peace and security. Poverty in Zimbabwe

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is concentrated in the rural areas where the majority of women live, engaging in unpaid agricultural work. Migration policies post-independence support marginalised women and youths to migrate to cities and across the borders for informal business activities. This paper tracks development of SMEs in Zimbabwe. Analysis is done alongside a critique of the national infrastructure for SMEs that GoZ has put in place to facilitate growth of the sector from independence in 1980 to date. Effectiveness of the institutional framework to support SMEs entrepreneurship is measured. Munyoro (Munyoro et al, 2016) proposes analyzing rise of entrepreneurship in Zimbabwe along historic timelines, namely pre-independence entrepreneurship (1950-1980); First Decade after independence entrepreneurship (1980- 1990); Second Decade entrepreneurship (1990-2000); Third Decade entrepreneurship (2000-2010) and Zimbabwean entrepreneurship (2010 – 2017). It is imperative to add another timeline, the New Dispensation entrepreneurship (2017 – 2018), owing to operating political dynamics. Although this timeline is the shortest, it is still worth analyzing as it presents interesting socio-political, economic and gender dynamics and ramifications crucial to the narrative of SMEs development. Such dynamics include the historic establishment of the first women's bank locally and in the SADC region. In this paper the pre-independence era epoch is a control factor on which to set benchmarks for measuring development and success of SMEs post-independence.

### Theoretical framework and literature review

This paper enriches the SMEs discourse by applying a gender lens, showing how sociological factors determine growth of SMEs. The analysis also locates the SMEs discourse within the larger human security paradigm, arguing that marginalization and exclusion of the majority of Zimbabweans from development processes is a structural issue. A government's ability to support growth of employment and livelihoods opportunities is the litmus test for its sovereignty and responsibility to protect citizens from social and economic threats. The paper further emphasizes economic empowerment of the informal sector as a prerogative for the state to fulfill its obligation to protect citizens from economic, social and political threats. Economically empowered citizens are peaceful and free to defy poverty and disease, as well as make informed political choices that can cushion them from being victims of violence and from perpetrating same on others. Peaceful citizens also enable democracy when profit quotas are distributed among different groups of society to avoid monopoly of profits and benefits that occur when only a few monopolize economic activities. Proponents of the human needs theory opines that social deprivation causes the poor in society to violently agitate for inclusion (Khawaja, 2006; Lee, 2011). While the theory is contentious in that it does not explain why other sections of the poor never stand up in violence, cases of violence and destruction that took place in Zimbabwe following an upsurge of prices against dwindling incomes in 1999 is proof of this fact. A sound economy determines sound political policies and practice, economic development and social equilibrium, liberating citizens from both fear and want. Zimbabwe has a goal to become a middle class economy by 2030, and realistic economic progress for a country that currently does not have a viable industry can largely depend on gains from the informal sector. SMEs thus present a good opportunity to transform Zimbabwe into a viable industrial economy once again, depending on how GoZ supports these initiatives. Insights gained from the study are likely to contribute to development of new and relevant policies by the Government, development partners and other stakeholders in the country.

Any business with less than 100 employees fits into this paper's categorisation of an SME (GoZ, 2016). As such all informal traders, registered sole traders, vendors, cross boarder traders, small registered enterprises and medium registered enterprises across the whole economic spectrum of the Zimbabwean economy are defined as SMEs. The terms 'SMEs' and 'informal sector' as well as 'entrepreneurs' and 'informal traders' are used interchangeably.

The paper refers to a number of theoretical underpinnings identified as important and relevant in understanding factors that contribute to SMEs growth. The internal locus of control is a personality trait that predisposes individuals to believe that they can determine the outcome of their efforts while in contrast individuals with an external locus of control believe that their life depends on forces outside their control Locus of Control (Lopez-Garrido, 2020 ). While the individual can have personal will power and creativity to excel in business, the social, political, economic and environmental conditions play a major role in catapulting individual effort towards realization of set goals and outcomes.

Zahra, a proponent of the opportunity-based entrepreneurship theory argues that the operational environment is the starting point for entrepreneurs to conceptualize their economic strategies (Zahra, 1991). Entrepreneurs spot potential opportunities and resources then implement practical actions based on how permitting the political, social, economic and environmental context is (Zahra, 1991). This theory positions entrepreneurs not only as passive recipients of business capital from government and other financiers, but as active agents in creating and managing business resources.

The Resource Based Entrepreneurship Theory opines that a firm with potentially sustainable competitive advantage in the industry must possess rare resources better than its competitors (Kraaijenbrink et al, 2009). Firms with such resources implement certain strategies that firms without such resources cannot implement. SMEs thus require human capital, financial resources and highly qualified management to succeed. Relationships, alliances and networks are also key determinants for success of business enterprises.

The social network entrepreneurship' theory views enterprises as capable of evolving on the basis of homophily, purposive choice and context or opportunity structure. Homophily is created when actors have one or more social attributes, or the same social class. Homophilous actors thus share matching characteristics in a greater proportion than expected in the population from which they are

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drawn (Shalizi & Thomas, 2011). Common norms may bring nodes with common attributes together, or on the contrary, common attributes and contact may lead to common norms, both for individuals and for collectives (Shalizi & Thomas, 2011). Networks are not only caused by social conditions because actors also have agency to influence social networks of their choice and benefit.

The 'social capital' theory also holds it that to a greater extent, access to larger social ties help in business start-ups. Talent and the capability to realize business potential alone without the social connections to transform opportunity into business start-up may not help bring success. Furthermore, entrepreneurs are surrounded by a larger social network structure that constitutes a significant proportion of their opportunity structure (Claussen et al., 2014).

Feminist epistemology opines that exclusion of women from development theory and practice is not only detrimental to women at the micro levels, but debilitates against the state at macro levels. This is so because horizontal inequalities between women and men often lead to dependency patterns that ignite and perpetuate gender based violence (GBV) for example. SGBV has negative ramifications not only for women, but for the human security of all citizens, the relevance and strength of institutions and the stability of the State. When women are violated sexually, physically and emotionally, their potential for self-actualisation and self-determination deteriorates, they cease to participate in development programmes, while a lot of resources get expended in attempts to mitigate the effects of violence. In 2009, gender-based violence (GBV) cost Zimbabwe an estimated USD 2 billion. Thus gender does not only shape one's life chances and one's role in the home, in society, and in the economy but often translates into inequalities in human capital, economic opportunities, and political participation. Feminist epistemology further buttresses that when women and men are relatively equal, economies tend to grow faster, the poor move more quickly out of poverty, and the well-being of women, men and children is enhanced.

Frances Stewart (Stewart, 2011), theorizing about group inequalities as causes of security threats, argues that capabilities of individual women and men and the measure of their human security depends on institutional arrangements in economic, social and political spheres that influence the process of development and requires a plurality of institutions. Human development should thus focus on enhancement of individuals' capabilities and freedoms. Horizontal inequalities (HIs) are differences among culturally determined groups that have salience for their members and/or others in society (Stewart, 2011). Group inequality is easy to become entrenched in the long term because it overtime evolves as cultural or social capital inequality which is by nature more difficult to eliminate than individual inequality because of asymmetries in social and cultural capital, as well as discrimination (Stewart, 2011). In such situations, gender sensitive social, economic and political reforms call for comprehensive policies that extend beyond the mainstream 'equal opportunities.' Economic policies should create a level playing field in which all differences in circumstances among individuals are eliminated except those for which the individuals are directly responsible.

All the theories of entrepreneurship discussed above concur that both internal and external conditions alike affect growth and success of business ventures.

## METHODOLOGICAL CONSIDERATIONS

### Problem statement

GoZ has contributed immensely towards development of SMEs, drawing finances from the national budget yearly, and partnering with various countries and organisations for same. There is notable progress, with evidence that SMEs drive a close to 9 billion dollar economy as noted above. However, the sector remains largely informal, with many unregistered businesses that do not practically contribute to the national fiscus as claimed. Unemployment and poverty levels remain high in the country and benefits of the sector accrue to a small portion of the population, with allegations of nepotism, corruption and partisan based allocation of funds. The national infrastructure for SMEs development remains robust at paper and policy levels, without political willingness for operationalisation.

### Study questions

The following questions are important to this study: What can be done to ensure effective operation of the SMEs sector for national development? To what extent has GoZ adequately facilitated, coordinated and monitored activities within the SMEs sector to ensure that entrepreneurs' rights are safeguarded and promoted and that the objective of SMEs development is achieved? How have the continuous changes within the SMEs sector affected performance therein? How can the legislative and policy framework be strengthened to ensure that the rights of SME workers are safeguarded and promoted?

### Study objectives

The study broadly aims to evaluate effectiveness of GoZ's efforts in promoting and advancing growth of the SMEs sector. The study emphasises the need for effective institutional mechanisms to enable practical translation of policy and legislative commitments into practice. To measure this, the national infrastructure for SMEs since independence to date was examined, focusing mostly on its adequacies to deliver for economic empowerment and sector growth. A further objective was to unravel what needs to be done beyond the existing national normative framework to ensure effective implementation and monitoring of laid down legislative and policy instruments, as well as institutional mechanisms for SMEs development. While the broad assumption that SMEs generally have positive effects on country economic growth has been established, the notion of economic imperatives for

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SMEs remains largely untested. As such this analysis also aims to investigate challenges faced by SMEs, emphasising the need to understand challenges as a fundamental solution to strategize, expand and catapult SME's to future progress and growth. The study was guided by the assumptions that the GoZ is not adequately playing its 'facilitator', coordinating and monitoring role to ensure that entrepreneurs' rights are safeguarded and promoted. Continuous interferences with the ministry of SME's work has yielded retrogressive results over the years and that there is a lack of effective regulatory and accountability mechanisms to ensure that SME worker and business rights are safeguarded and promoted.

### Limitations of the study

The study largely depended on a review of the scanty literature that exists on SMEs in Zimbabwe and globally. Attempts to validate desk review findings with factual information from key informants from the informal markets and government were futile. Ethical considerations required a letter of permission from the responsible ministry in order to carry out interviews in various markets. Attempts to get the clearance letter on time were unsuccessful and it was only practical to proceed with desk review and leave out the interviews.

### Research methods

A desk review of primary and secondary sources of literature on development and growth of SMEs in general, both globally and in Zimbabwe. Additionally, it made a qualitative comparative impact assessment of GoZ's interventions to support growth of SMEs in each of the identified historical epochs, noting how such interventions have affected factors likely to accelerate or slow growth of SMEs. Impact assessment was done at two levels. Level I was a qualitative analysis of available desk literature on the development of SMEs in Zimbabwe, with objective of assessing and measuring effectiveness of government efforts to facilitate development of SMEs. A robust institutional framework was laid out, weighing progress against impediments in the operationalisation of institutions for equity and growth. Indicators for both success and failure were discussed as key themes, and used to score for success and failure in Level II analysis as shall be demonstrated. Key themes were selected using grounded theory, a systematic social science tool involving construction of theories through methodical gathering and analysis of data (Noble & Mitchell, 2016). It operates inductively, in contrast to the hypothetico-deductive approaches (Ibid). Thus data collected qualitatively through a desk review of available literature was reviewed, taking note of key themes, repeated ideas, concepts or elements, which were tagged with codes or dominant themes. Through continuous data re-reviewing, codes were grouped into concepts, and then into categories, which were later used as the basis for new theory formulation, based on historical experiences, material conditions and experiences on the ground (Noble & Mitchell, 2016). The following themes were identified as relevant criteria for tracking GoZ support for SMEs, and were used to generate scoring sheets and a scoring tool for Level II analysis: (i) facilitating access to capital: Improving the infrastructural and policy regulatory environment;(ii) Developing and adhering to gender sensitive policy formulation and practice (iii) Development of knowledge and entrepreneurial skills of common indigenous people (iv) strengthening the economic environment and (iv) facilitating favorable lending interest rates and resource mobilisation; (v) Mobilizing enough resources for indigenous SMEs business people.

A time series from the pre-colonial era to date was chosen with the objective of making a feasible comparative analysis firstly between the colonial epoch and the post-colonial epoch, and finally between and among the different highlighted historical epochs. Looking for findings along historical epochs enables location of the dynamics in the proper material and historical context and conditions of Zimbabwe, giving validity and historical weight to findings. Each chosen historical epoch was regarded as a data set, thus a total of six sub-sets of data were analyzed as represented in the matrix in Table1 below. The pre-independence entrepreneurship (1950-1980) data set was used as a control data subset which is important in setting the baseline on which analysis for development efforts post independence hinges. Positive indicators for development were taken as any efforts GoZ did to transcend the racial mode of SMEs post-independence, while negative indicators were any actions that remained within the colonial command mode of business development.

**Table 1. Case study SMEs development matrix time series**

	Time frame	Subset value
Pre-independence entrepreneurship	1950 – 1980	Subset 1 (control)
First decade entrepreneurship	1980 – 1990	Subset 1 comparison
Second Decade entrepreneurship	1990 – 2000	Subset 2 comparison
Third Decade entrepreneurship	2000 – 2010	Subset 3 comparison
Zimbabwe entrepreneurship	2010 – 2017	Subset4 comparison
New dispensation entrepreneurship	2017 – 2018	Subset 5 comparison

Level II impact assessment was a comparative analysis (QQCA) of the impact of each intervention strategy based on a proposed five dimensional determinant tool that measures positive transition from a command economic model to a free market model.

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Scoring of points ranged from 0-5 on a continuum, using a scoring tool designed specifically for this purpose. Scores were based on a five criteria plan also deduced along the main themes selected in the literature, and five anonymous independent experts in the area of SMEs and Economics were selected and entered into agreement with on condition of anonymity to perform the scoring separately, unknown to each other and in their separate work settings. Results from their scoring sheets were consolidated and adopted as valid reflection of reality on the ground.

**Table 2. Qualitative Comparative Analysis Impact assessment tool**

<b>A</b>	Facilitating access to capital and creating conducive policy environment to suit needs of the marginalized
<b>B</b>	Developing and adhering to gender sensitive policy formulation and practice
<b>C</b>	Development of knowledge and entrepreneurial skills of common indigenous people
<b>D</b>	Strengthening the economic environment and facilitating favourable lending interest rates for local people in a gender sensitive manner
<b>E</b>	Mobilizing enough resources for indigenous SMEs business people

**Null hypothesis:** GoZ's efforts to develop the SMEs sector in Zimbabwe have been effective.

**Hypothesis 1:** GoZ's efforts to develop SMEs sector in Zimbabwe have been ineffective.

### FINDINGS

#### Level 1 Impact Assessment

##### a) Evolvement of the SMEs infrastructure in Zimbabwe

The SMEs infrastructure for Zimbabwe since independence has been strong normatively, but not very effective practically. The Pre independence entrepreneurship wave was characterised by various socio-economic and political ills that led to gross marginalization of indigenous people (Ibid). The Credit Guarantee Company (CGC) established in 1977 to promote SME access to finance in the main supported the white community and a few black elite (Chivasa, 2014). Zimbabweans became entrepreneurs in protest against marginalization and a measure to redress racial horizontal inequalities through economic creativity (Munyoro etal, 2016). Operating migration policies and regulations restricted the blacks from migrating to the urban areas from the rural areas for informal business activities.

Post independence in 1980, foreign settlers who constituted 4% of the country's population controlled over 90% of economy while blacks accounting for 96% of the population controlled 10% of economy (Mazingi & Kamidza, 2011). GoZ inherited a banking system considered to be sound and second from the best after the Apartheid South Africa (Chitokwindo etal, 2014). In reality banking system was only sound for a few while racially excluding the majority, operating as an oligopoly of a few foreign banks (Kadenge & Tafirei, 2014). Inheritance of minority-focused policies and regulations greatly affected economic performance and blacks continued to seek for redress of existing inequalities through venturing into entrepreneurial activities (Munyoro, 2016). The Riddel Commission of 1981 reviewed close to 28 colonial Acts which prohibited informal activities, recommending for their repeal. This development opened up opportunities for entrepreneurs (Munyoro etal, 2016). SMEs thus took off under responsibility of the Ministry of Industry and Commerce (MIC) and the Zimbabwe Parliament Portfolio Committee on SMEs (ZPPCSMEs) (Chivasa, 2014).

ESAP came with liberalisation of the finance sector, providing an opportunity for opening of the Zimbabwe Development Bank (ZDB) in 1984 to provide debt finance to SMEs against a background of crippling financial support from the state (Nyangara, 2013). Debt finance was conditioned on collateral which the majority did not have, and most borrowers defaulted on payments. The Small and Medium Enterprise Development Corporation (SEDCO) was established in 1984 under the MIC to assist with financial support, management counseling, training and provision of information and advice on business issues (GoZ, 2012). SEDCO loans were likewise backed up by collateral, which naturally predicted that not every businessperson could access them (Chikomba, `2013) while the few who were able to get loans faced challenges of high interest rates (Maunganidze, 2013) leading to failure to repay. The sum total of these highlighted factors suppressed potential for growth of SME initiatives and situation was worse off for women who own(Ed) little or no assets compared to men, a legacy of hundred years of patriarchy and colonial capitalism that conferred minor status on women.

In 2010, SEDCO had no allocation from the National Budget, and the little injection of funds from government was not enough to effectively support SMEs (Maunganidze, 2013). In 2013 the budget allocation decreased by 3.6 percent (GoZ, National Social Protection Policy, 2016). Regardless of high interest rates and collateral demands, SEDCO managed to advance loans to 4,900 SMEs in 2010 (Moyo etal, 2017), a huge success against constraining factors already highlighted. Assumption is that those who accessed the loans were the marginalized who somewhat managed to rise from their levels of dire poverty to where they could generate income for livelihoods and expand their businesses.

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Second Decade entrepreneurship (1990-2000) wave was a direct response to harsh effects of the World Bank and the International Monetary Fund (IMF)'s Economic Structural Adjustment Program (ESAP). Success of ESAP depended on removal of government subsidies on social services, trade liberalization, reduction of government expenditure, scrapping of price controls and privatization of state enterprises (Madzivire, 2011). ESAP led to loss of jobs (Ibid), poverty, and deeper debt crisis as GDP declined (Ibid). This dire situation was further exacerbated by the severe drought that hit the country in the first half of the 1990s. Further economic and social horizontal inequalities created by this situation forced both citizens and GoZ to think of alternative ways to meet their everyday needs (Muhande & Matonhodze, 2008). Citizens broke out into the informal sector in large numbers to compensate for lost sources of livelihoods. Post-independence the Zimbabwean state failed to transform itself from the colonial state centric mode towards securing the livelihoods of citizens. Funds borrowed from the World Bank and IMF were both abused by the elite and spent on securing the comfort of state administrators while human security needs were neglected. In this era expansion of the SME sector was to cater for the poor (RBZ, 2006), complement household incomes, create income for retrenched workers and also provide employment for graduates from higher education institutions who could not be absorbed into the formal sector (Chipangura & Kaseke, 2012). SMEs became major source of livelihood for eighty percent of the Zimbabwean population (Muhande & Matonhodze, 2008).

ESAP further coincided with rise of HIV/AIDS infections and many people, especially women and children joined the sector following deaths of household heads, the man, who was in the main the breadwinner (Chipangura & Kaseke, 2012). Reason why full-blown AIDS targeted mostly men than women in Zimbabwe during this era remains open area for research. Against this background, SMEs faced a multiplicity of challenges, especially inadequate finances and poor management skills. GoZ responded by establishing the Ministry of SMEs and the emphasis on women and SMEs development also through the Ministry of Women's Affairs, Gender and Community Development (MWAGCD).

Despite highlighted challenges in this era success of GoZ in responding to the social and economic threats wrought by ESAP lied in ability to formulate and implement multiple strategies to address key challenges confronting the SME sector and promote its survival, growth and development (Maunganidze, 2013). Success is further attributed to the manner in which the marginalized members of society, including women, joined the informal sector in large numbers unlike in the colonial era, and GoZ's ability to allocate expanded spaces for informal business to operate from, place the welfare of the informal sector under the MIC, establish partnerships with China and other external partners for financial and technical support, establish relations with the NGO sector and other development agencies. The success watered down by cases of nepotism, corruption and abuse of funds meant for entrepreneurs were noted. Furthermore, GoZ could have considered increasing affirmative action policies to uplift the status of women in business to curb horizontal inequalities. Existing policies mainly privileged men over women.

Third Decade entrepreneurship (2000-2010) coincided with period of technological advancement with large businesses outdoing small ones who had no or little capability to acquire cutting age technological. Unemployment reached about 94% coupled with investment and donor fatigue as the Western community protested against land reform and other political and social changes in the country (Zindiye et al, 2012). Problem was reinforced by the youth bulge, with an estimated 50% of school leavers remaining unemployed formally (Dube, 2011). The informal sector became vital source for alleviating the unemployment challenge. Formation of key ministries, the Ministry of Youth, Culture and Employment Creation and the Ministry of SMEs in 2002 is evidence of Goz's efforts to support self-employment initiatives among both the youth and the elderly (Chivasa, 2014).

ZDB was transformed into the Infrastructure Development Bank of Zimbabwe (IDBZ) in 2005 through the IDBZ Act (Chapter 24:14). This broadened the mandate of IDBZ to further provide financial support to businesses in the transport and construction industries (GoZ, 2016) and lease out equipment and other assets to businesses (ZAMFI, 2016). The MWAGCD also increased efforts on supporting women entrepreneurship, working with development agencies and NGOs. RBZ further funded SMEs in the agricultural sector from 2004 advancing loan facilities for livestock production, irrigation, mechanization, crop production and tobacco ban rehabilitation (Ibid). Key challenge was that many informal businesses remained unregistered, operating outside economic margins of the state and drawing without giving back to the state (ZAMFI, 2016).

In 2007, MSMECD purported to have done a lot of activities including marketing and trade promotions, capacity building and infrastructural development, though most of the achievements were on paper with no evidence on the ground (ZAMFI, 2016). SMEs in the rural areas lacked access to the services of the MSMECD which was centralised in towns (ZIMSTATS, 2013). Although the MSMECD had officers stationed in every district to assist development of SMEs, it was established that a district is too big for a single officer to effectively attend to all the SMEs that needed assistance (ZIMSTATS, 2013). Lack of sustainability of such ventures was witnessed in 2008 through inflation and collapse of government operations. The internal informal sector likewise collapsed, serve for the women's cross-border initiatives which remained stable and key in sustaining both the food and financial market in the country.

Operations of the MSMECD were further crippled by inadequate funding from the national budget at various stages. In 2013 for example, the MSMECD which had budgeted for USD 9,479,000 only got a USD3, 605,977 budget allocations (GoZ, 2016). Again, in the National Budget Statement of 2014, the MSMECD needed USD 81,269,937 but was allocated USD8, 695,000 (Fields, 2020). Positively, although the funding from the National Budget was inadequate, the MSMECD managed to make significant

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achievements in 2013 by providing shelter to 6,363 SMEs, training 11,936 SMEs, acquiring buildings for business incubation, and mobilizing USD4 million from development partners (GoZ, National Social Protection Policy, 2016).

Key highlights in the Zimbabwe Entrepreneurship wave (2010 to 2016) was introduction of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim-Asset) policy, with clauses on resource beneficiation, local processing of resources, support to local business initiatives and women's empowerment. The policy was motivated by the deteriorating economic and social environment that started in 2000, caused by various factors such as land reform, declining economic growth, hyperinflation, poor performance of revenue inflows, high debt among others (Munyoro, 2016). Collapse of the formal sector also contributed to growth of entrepreneurial initiatives. As a result of the economic meltdown, industrial capacity utilization declined dismally and companies closed, giving birth to a thriving informal sector (Matsvai et al, 2014).

Further government efforts include partnerships with other governments and non-governmental organizations for assistance in the form of equipment, finance and training. India and Zimbabwe (Indo-Zimbabwe project) promotes technology transfer to SMEs into carpentry and metal fabrication (Kangondo, 2015). Technology centers were established at various academic and tertiary centres for purposes of assisting SMEs in product to inculcate a culture of business entrepreneurship at that level (Kangondo, 2015). The Indian National Small Industries Corporation also established an SMEs technological transfer incubation center (Mandizha, 2014) worth USD2 million (Maromo, 2015) while China Development Bank, extended a credit facility of USD30 million to the IDBZ for the support of SMEs in Zimbabwe (Dube, 2011). In developed economies providing cheap facilities for small businesses or startups in strategic sectors has supported transition of SMEs to bigger businesses, and technological hubs in the USA, India and China are a case in point, while Ethiopia's Hawassa Industrial Park stands out as a classic African model. In Zimbabwe the incubation center and technology transfers did not succeed enough to help enhance the sector as expected.

GoZ also partnered non-governmental organizations to address challenges negatively impacting the sector. Techno-Serve assisted small-scale farmers and agro-businesses with credit finance as well as training. Empretec Zimbabwe, established by the United Nation Development Program rendered similar services (EMPRETEC, 2011). A French financial development institution, PROPARGO, also provided finances through the National Merchant Bank of Zimbabwe Limited and Central African Building Society worth USD20 million for support of SMEs in 2014 (GoZ, 2016). The Arab Bank for Economic Development in Africa owned by eighteen Arab countries in the League of Arab States provided credit finance to SMEs in Zimbabwe and by September 2014, SMEs received a total of USD7, 884, 204 from the loan facility (Fields, 2020). As usual, the loans required collateral and the interest rates were too high for SMEs. Despite all these foreign partnerships, Zimbabwean SMEs have not transcended the digital barrier, and have not improved their market intelligence enough to exploit global markets and knowledge network to their maximum benefit. Networking initiatives with global partners remain elitist and a preserve for a privileged few.

This epoch also witnessed introduction of the Zimbabwe Financial Inclusion Strategy (2016-2020), a set of strategies introducing better resourced and evidence based approach to enhance access and usage of financial services in turn stimulating savings, investment and loanable funds. Expected outcome is poverty reduction, enhancement of economic growth and reduced financial instability and systemic risk. The strategy defines financial inclusion as the effective usage of a range of affordable accessible and quality financial services which should be provided in a transparent and fair manner through regulated/formal entities to all citizens. The New Dispensation Entrepreneurship (2017 – 2019) witnessed high levels of unemployment, coupled with a serious youth bulge. Obtaining political, social and economic inequalities continue through the hegemonic tendencies of the ruling elite which have in turn facilitated a conflation of the state and the market. This behaviour promotes a political economy and social capital of massive corruption and rent seeking behavior where few individuals have monopoly of businesses and access to government capital resources, resulting in tax regression, manipulation of public goods for personal benefit and a widening rift between the rich and the poor. Shortages of foreign currency have facilitated growth of an informal banking sector, the 'black market', where the majority of unemployed women and men find sources of livelihood. The informal money changing market in turn facilitates a street vending system where informal traders sell food and other wares in open undesignated spaces. Attempts by GoZ to suppress informal money laundering and vending activities through force have witnessed running skirmishes between the police and vendors since August 2018 to date, with huge costs falling on the state in terms of fuel and related expenses. The period also witnessed massive destruction of the informal traders markets when the Harare Siyaso Market was razed down by fire twice and the Glenview informal traders market and Gulf complex in town were also razed down by fire. Citizens bear the brunt of all highlighted problems. Some of the informal businesses are not registered and insured, and compensation is impossible against a background of financial hardships and inflation.

The new dispensation on the other hand positively witnessed setting up of a women's bank whose operations fraught with contradictions emanating from allegations of nepotism and corruption along partisanship lines. Top management of this women's bank comprises of ruling party stalwarts, all from the same ethnic group. The bank requires collateral for meaningful loans, and allegations are that working men and women who can front pay slips as collateral get loans. There are also allegations of distribution of funding on partisanship basis, and all these anecdotal evidences militate against the ordinary woman. Placing a women's bank under the Ministry of women without tight policies to ensure equitable distribution of funds is not a guarantee that women will benefit. Again given that women are not a homogenous entity, where collateral is required to back up a loan scheme, married women

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will have advantage over single unemployed women as they can front their husbands' assets as collateral. In the long run, such arrangement are sources of deprivation for those married women given the unbalanced power dynamics operating in our society as the husband may in the long run claim ownership of the venture.

The Zimbabwe Women's Bank model can benefit from best practices on the globe, for example from the Indian National Bank for Agriculture and Rural Development (Nabard) experience which present a best practice in micro-financing group entrepreneurship in Sri Lanka (Ibid). The core strategy of Nabard is its model designed to increase its outreach to the poorest. The strategy involves forming small, cohesive and participative groups of the poor, encouraging them to pool their thrift regularly to make small interest-bearing loans to members and, in the process, learning the nuances of financial discipline. The bank subsequently extends credit to the group to augment its resources for lending to its members. The microfinance experience proposes three models of bank linkages that have evolved over time. Model I is where the bank, acting as the SHGPI itself takes up the work of forming and nurturing groups, opening their bank accounts and providing them with bank loans after satisfying itself as to their ability to handle credit facilities (Ibid). In Model II NGOs and formal organizations take the lead to nurture groups for financing by the banks. The bank provides credit directly to the groups after observing their operations and maturity to absorb credit, while the NGOs and relevant organisations continue their interactions with the groups (GKR, 2007). In Model III groups are financed by banks using NGOs and other agencies as financial intermediaries. In such cases, the NGOs act as both facilitators and microfinance intermediaries. They nurture and train the groups and then approach banks for bulk loans for on lending to the groups (GKR, 2007). The following factors were highlighted as major impediments to growth of SMEs.

### **Lack of capital**

Two major causes of underdevelopment of SMEs are lack of access to financial resources, as well as hindrances to loans caused by lack of collateral, institutional racism and gender discrimination (Nyamwanza et al, 2014). Lack of access to business capital has historical fore-bearings. In colonial Zimbabwe most indigenous people were excluded from participation in business activities and from ownership of the means of production (Nyamwanza et al, 2014). This problem persists currently, no longer on racial grounds but on class basis. In a case study carried out by Maphosa that sought to establish patterns for access to credit by SMEs, 80 percent of business-people interviewed indicated that at one time or another, they tried to borrow money from a financial institution for business expansion or for capital injection and only half (forty percent) of these were successful while the other half were denied access because of lack of collateral security. Other studies have however argued that an uncritical acceptance of institutional racism as the prime cause of lack of access to business finance by indigenous people would be simplistic. Conditioning business loans on collateral security and project proposals may not in themselves imply unfairness or any form of discrimination. They are indeed a set of necessary checks and balances to ascertain probability for success, and these are standard operational practice globally (Nyamwanza et al, 2014). All banks have responsibility to ensure safe lending of depositors' funds and should demand not only collateral and good business proposals, but evidence of reasonably efficient business operations, including up-to-date and properly kept accounts, especially when the money needed by the borrower is substantial as well (Nyamwanza et al, 2014). These checks and balances should however not negate people's needs.

### **Institutional racism**

Maphosa describes 'institutional racism' (Ibid) as an alleged tendency to deny membership of, and benefits from certain organisations or institutions on racial grounds. The irony is that what existed as institutional racism in colonial Zimbabwe now thrives as institutional discrimination, characterised by segregation along gender, ethnicity and political partisanship lines.

### **Gender blind business policies**

Gender discrimination constructs a global image of rural women which is eventually reproduced and perpetuated in academic literature, backgrounds of government rural development plans and policies, and project justifications of development workers. 70% of the African poor population lives in rural areas and of these, 51% are women (Schoch & Lakner, 2020). Feminization of poverty is higher in rural areas with a percentage of 60% and living on less than a dollar a day (Marcoux, 1998). These women are overly portrayed as powerless, devoid of skill and knowledge and are often reduced to a common essence while key facts of their heterogeneity, capabilities and special needs are neglected. Often times rural women are excluded from benefiting in programmes that ought to enhance their economic prowess while their enterprising characteristics, potential, skills, capabilities and the role that they play in economic development through entrepreneurship is further negated in documentation for policy processes (Marcoux, 1998).

To date, farming investments and technological innovation are concentrated in cash crops such as tobacco, wheat and maize production, while women in vegetable farming remain trapped in traditional productivity methods. The Agricultural Mechanization Policy launched in 2007 is mainly benefiting A1 and A2 farms where men are in the majority, a development that has enhanced the prestige of men's activities while lowering women's farming activities (Emami et al, 2018). Exclusion of women from development theory and practice is not detrimental only to women, but debilitates against the state itself as horizontal inequalities between women and men often lead to dependency patterns that ignite and perpetuate gender based violence, which has a huge bearing on state budgets. As noted, gender does not only shape one's life chances and one's role in the home, in society, and in the economy but often translates into inequalities in human capital, economic opportunities, and political participation.



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### Poor infrastructure and hostile SMEs regulatory environment

Maphosa (MhIzha, 2014) argues that the present state of underdevelopment of the indigenous private sector is as much attributable to colonial policies as to post-colonial ones, noting that the much needed shift from a command to a free market economy was not successful because of government's general lack of enthusiasm to deregulate those areas that have been constrained by restrictive policies. Attempts by GoZ to explore ways of relaxing various laws and regulations which inhibit development of SMEs in 1991 to 1993 culminated in establishment of a Deregulation Committee with a Deregulation Project Team set up to identify among other things, all legislation affecting the entry and growth of businesses in the private sector and to make recommendations to the Deregulation Committee for either amendment, outright repeal, tightening up or improvement of such legislation (MhIzha, 2014). Findings exposed 28 Acts presenting obstacles to the entry of indigenous business-people into private business. The *Land Apportionment Act* of 1930 for example, was identified as the most oppressive and discriminatory Act passed by the colonial Government, and is often cited as largely responsible for the underdevelopment of indigenous entrepreneurs. The Act pushed indigenous people into the ecologically marginal areas of the country, prohibiting them from owning or leasing property in the lucrative 'European' areas and in the overpopulated 'native reserves' (Tribal Trust Lands). As a result very few indigenous people acquired title to land in the urban and commercial farming areas, while in the communal areas land is still largely under communal tenure. The situation has not changed much as already discussed, and women remain among the majority of the class of poor people who lack title deeds for access to finance and capital. There is need to further implement policy revisions to be more inclusive.

### Insufficient Knowledge and lack of entrepreneurship skills

Several SMEs have insufficient knowledge of the market conditions, causing them to fail to efficiently satisfy customer needs and many entrepreneurs have little or no resources to invest in qualified personnel (Nyoni, 2004).

### Level II Impact Assessment: results and discussions

Data generated in the above Level I impact assessment analysis was used to determine scores for success for each epoch for level II impact assessment based on highlighted variables.

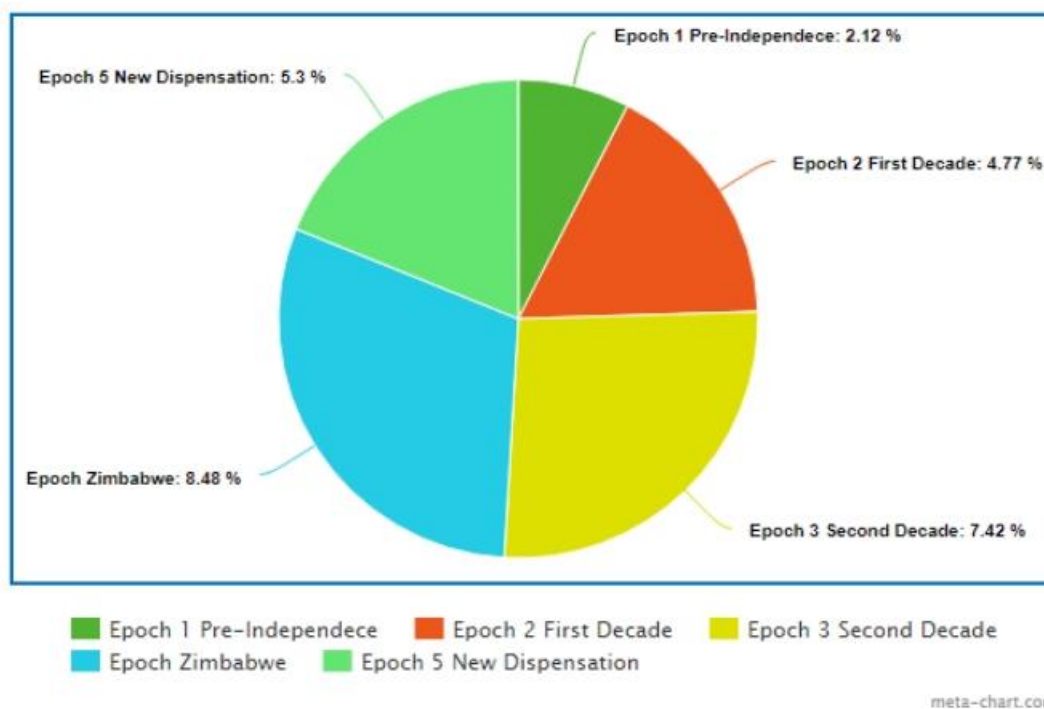
The pre-independence era was used the control data set to give baseline indications in both Level I and Level II:

**Table 3. Results and discussions**

	A	B	C	D	E	Total	Discussions
1	1	0	1	1	1	4	Era characterised by narrow racial policies. 4 points out of 20.
2	3	1	2	1	2	9	Sincere efforts to develop SMEs, with introduction of Indigenous empowerment policies that recognised the need to lift horizontal inequalities through affirmative action. Debilitating factors were firstly insecure environment that supported efforts of a few black elite while neglecting those at the peripheries. Secondly, the era was affected by ESAP, the global recession and fall of oil prices in the Global South.
3	3	3	3	2	3	14	Corruption and other social ills increased. Sharp rise in the efforts of local SME actors to curve a suitable terrain for growth. Donors, NGOs and development agencies were supportive and the sector sustained the economy and livelihoods despite the bad political, social and economic environment that prevailed.
4	4	3	4	1	4	16	GoZ worked hard to acquire resources and develop SMEs. Key issues of corruption, misuse and diversion of funds meant for local businesses, gender discrimination and nepotism remained unaddressed. Resilience of SMEs sector and its contribution to livelihoods scores it high marks despite other negative factors. A regression in point D is noted, yet this is a key point for business development and investor attraction.
5	3	3	3	1	5	10	Major development – the women's bank happens. However, funding to finance the bank is unavailable and corruption and nepotism prevail.
Overall, the Zimbabwe SMEs sector has potential to transform and grow as well as serve the needs of intended beneficiaries. This however requires commitment and political willingness of policy makers to shun corruption, partisanship and nepotism, observe rule of law and human rights, and inculcate a culture of professionalism. The issue of women also needs sincere attention.							

### Pie chart data representation: Impact of GoZ's efforts to develop the SMEs sector in the country

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### CONCLUSION

This paper has provided an analysis of GoZ's efforts to support development and growth of the informal sector in Zimbabwe since independence to date. Findings have established existence of a vibrant institutional and policy framework for SMEs, which however is not matched by a practice that ensures equitable distribution and services to all business people alike. Commitment from entrepreneurs has brought gains on the economic front although most of the businesses are not registered for revenue collection. The SMEs sector has sustained both the livelihoods and financial sector during times of difficulty like in 2008 and in the current dispensation. The paper further established that corruption, nepotism and partisanship have eroded the gains of the sector since independence. The paper concludes that GoZ still has a chance to refocus its commitment on SMEs development, banking on its committed and resilient workforce. With availability of resources and a supportive environment the SMEs sector can sustain the economy and contribute to GDP more meaningfully.

### RECOMMENDATIONS

There is need for the government of Zimbabwe to foster financial inclusion as a policy strategy to capacitate the economically and socially excluded populations by creating equal opportunities. Enhancing stability in the banking sector (including markets, infrastructure and institutions) is also a prerequisite for financial inclusion, and this can be achieved through increasing share of lending to small and medium-sized enterprises mainly by reducing non-performing loans and the probability of default by financial institutions. A further recommendation is the prioritisation of capacity building and training of SMEs members and all personnel who provide support to these entrepreneurs. Increasing the limits for bank loans to all aspiring entrepreneurs will also make their venture more viable, while removing barriers to access to bank loans especially to women will be an added incentive for growth. There is also need for the government to formalise the informal sector, including registering businesses with a relevant government agency, and organising workers into unions and related organisation so that they become a legally recognised composition of the formal workforce. It is an economic assumption that formalisation increases the potential for growth for all business people with a willingness to grow beyond the survivalist mode as well as significantly improve revenue inflows through taxation on employees salaries, import duty. Finally property fees and other forms of taxes should be introduced in the SMEs sector. Currently informal traders are raping the state by not giving back in the form of tax.

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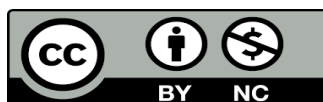
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