The Role of Government in the Establishment and Development of SMEs in Zimbabwe: Virtues and Vices.

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Abstract. The study focused on the role of the government on the establishment and development of small to medium enterprises. The study was conducted in Harare. Purposive sampling was used to sample the 42 respondents who participated in the study. Interviews were used with 40 SMEs managers as well as with 2 senior officials with the Ministry of Small to Medium Enterprises. Results have shown that the government acts both as a stumbling block and as facilitator to the growth of SMEs in Zimbabwe. It also emerged that most of the provisions offered by the government to facilitate the establishment and development of SMEs are mostly rhetoric and difficult to access. Participants have argued that the majority of provisions and policies concerning SMEs are conducted along political lines and seem to be talk shows, especially towards elections. Participants have also argued that corruption is rife with the Registrar of Companies Department forcing some SMEs to abandon the formalisation process, choosing to operate as informal traders or fail to renew their operating licenses. The existence of the Ministry of Small to Medium Enterprises and the Small Enterprises Development Company has been viewed by some participants as positive steps towards the recognition and development of SMEs in Zimbabwe. However, these institutions are usually underfunded by treasury. As the major solution to the ills bedevilling the existence of SMEs in Zimbabwe, the study has revealed that the government should review its policies and makes sure existing policies are being diligently and professionally executed.

Key Words: SMEs, Informal Trader, SEDCO, Registration, Ministry of Small to Medium Enterprise Development, SME Association of Zimbabwe

Introduction and Background

Zimbabwe has experienced its worst economic and social period from the mid 1990s up to the 2009-10 where the multi-currency regime took over. This period has seen companies retrenching due to viability reasons and basic goods
disappearing from the shelves of supermarkets. The economic and social ills which bedevilled the country saw formal employment dwindling and informal employment flourishing. Some people discovered some strengths which they never knew they had during this period of turmoil in a bid to fend for themselves and their families as well. Entrepreneurs flooded almost all economic activities. The government and the society at large discovered the potential of many people who embarked on personal businesses. Since then, most people have never looked back on entrepreneurial activities and many have also joined in, opting to deliberately leave formal employment. It is however important to note that SMEs operate within a specified legal, socio-political and economic environment and it is the duty of the government and other relevant stakeholders to provide a conducive environment for both the establishment and growth of SMEs in Zimbabwe.

Many economies the world over have since realised the importance of SMEs to their economic growth. Fan (2003) has it that different countries classify SMEs differently. The classification differs in relation to the number of employees, value of total assets and the value of total annual sales.

At this juncture it is important to note that small to medium enterprises are in most African countries viewed as informal traders, mainly due to their reluctance to formalise operations due to a variety of factors. The idea is usually to evade paying tax. Dewar (2005) has it that the development of informal traders, as they are regularly known has been controversial with some arguing that it is a symptom of backwardness which needs to be addressed while others indicated that it is a positive development which allows members of the community who would have failed to make it into formal employment to gain a foothold in the urban economies.

The performance of SMEs has among others attracted the interest of development economists, governments, entrepreneurs, financial institutions and venture capital firms (Mpofu 1998). Small to medium enterprises have been viewed as a perfect substitute to conventional formal employment. Fan (2003) and Fleetwood (2009) have it that the SME sector is the largest provider of
employment in many countries, especially the provision of new jobs. In China, 99.9% of the total firms are SMEs, 84% of total employees are form the SMEs and 71% of the country’s total sales come from SMEs. (Fan 2003). In Japan, SMEs constitute 98% of the enterprises and accommodates 70% of employees in the country. Meeks (1993) has it that some researches have been conducted in order to investigate the contribution of SMEs to the economy. Ndoro (2012) has it that in Zimbabwe, SMEs contribute approximately 90% of the economic growth of the country (Goriwondo 2011).

However, the major challenge of Zimbabwean SMEs has been lack of financial assistance from banks. In order to address this challenge, the government is trying to raise US$50 billion through the selling of government treasury bonds. Since the introduction of the multi-currency regime, Zimbabwe as a country has been experiencing some liquidity challenges and SMEs are the hardest hit (Ndoro 2012).

Fan (opcit) has also argued that SMEs are the major sources of technological advances as well as new products. Mpofu (1998) thus argues that the need to see SMEs flourishing has grown over the years, especially in developing countries where it is believed that SMEs significantly contribute to employment creation, poverty alleviation as well as ownership of productive sectors. As the recognition of SMEs is increasingly becoming significant in the economic matrix, governments have come up with different policies and regulations with the aim of nurturing SMEs as main drivers of economic growth and employment creation (Munyanyiwa 2009).

The Egyptian government introduced a stock exchange for SMEs with the intention of boosting the financial base of SMEs so that they can be in a position to raise capital and improve on the quality of their products. Such a move will help in bringing the sector into mainstream economic matrix, thus allowing the government to collect taxes from this sector.

In Zimbabwe, the commissioning of the Ministry of Small and Medium Enterprise and Corporative Development and the Small Enterprises
Development Corporation reveals a great deal of commitment on the part of the government on the establishment and development of SMEs. However, it is regrettable to realise that the mentioned Ministry is not considered a major Ministry, thus it is perennially underfunded. The government is reluctant to adequately fund the Ministry of Small and Medium Enterprise and Corporative Development probably because it considers its beneficiaries to be informal traders. In addition, it has been noted that the government has traditionally left out SMEs from its incentive structures and this has caused the sector to avoid paying taxes, thus the government is losing a lot on potential contribution to the fiscus (Tanyanyiwa). Still on the part of underfunding, Small Enterprise Development Corporation received a paltry US$3.7 million dollars over a 4 year period. In 2012, SEDCO received US$200 000 only, an amount grossly inadequate if Zimbabwe has a dream of fully enjoying the economic benefits of SMEs, both from the perspective of increase in job creation and adding to the gross domestic product through an increase in taxes.

The Importance of SMEs in an Economy

According to Goriwondo (2011), Small to Medium Enterprises play a crucial role in revitalisation process of the economy. It is universally accepted and acknowledged that SMEs serve as effective instruments of employment creation as well as economic growth, which eventually lead to alleviation of poverty not only for the entrepreneurs themselves but for the employees as well. Their contribution to the mainstream economic activities will help address the economic ills in the country and many will experience a better way of living. To fulfil their strategic position in the mainstream economy, SMEs need to know critical factors that they are the mainstay of success in business. Players in this sector are made of many different people who are in business to benefit or succeed in one way or another. As they benefit, the nation as a whole will also benefit if their efforts are successful endeavours (Goriwondo 2011).

SMEs are confronted by a number of opportunities and challenges. Some of these opportunities and challenges are caused by the SMEs themselves, some are caused by the corporate world while others are caused by government
policies and legislation. Of importance in this study are the opportunities and challenges that relate to government policies, legislation and actions.

The Government’s Role in SMEs

The government, through its policies and legislation acts as both a barrier and a facilitator of the establishment and development of SMEs. SEDCO which is under the Ministry of Small and Medium Enterprise and Corporative Development is now strictly following the loans they gave to the SMEs in order to recover some funds for its continuity. This development has seen SMEs losing their properties they had surrendered as collateral security. Since SEDCO is under a Ministry, one can therefore argue that the Government is directly or indirectly sanctioning the activities by SEDCO. Directly, it is sanctioning this behaviour by not protecting the SMEs who would have defaulted repaying their loans. Indirectly, the Government is sanctioning this conduct by SEDCO by not adequately funding its activities, thus allowing it to leave on solely on its revolving finances. It is important to note that as much as some of the SMEs default in the payment of their loans due to mismanagement, a significant portion default due to a non-conducive economic environment in which these small to medium enterprises exist.

Still on the issue of SEDCO, the Portfolio Committee on Small and Medium Enterprise Corporative Development has it that the rates charged by SEDCO are too high leading to a lot of complains from SMEs. The exorbitant cost of capital could be one of the reasons why some SMEs fail to repay the loans, causing them to lose assets they would have provided as collateral security. In addition, the high rates also make SMEs hesitant to take the risk of borrowing from SEDCO fearing failure to lose assets due failure to repay the debt. Under such a circumstance, the growth of SMEs becomes hindered.

Literature has it that small to medium enterprises also have challenges of proper and legal places to conduct their businesses from. The Portfolio Committee on Small and Medium Enterprise Corporative Development also argues that most of the infrastructure being used by many SMEs is in a
dilapidated state or is grossly inadequate to support the assigned population allocated to it. A case in point is the scenario at the famous Mupedzanhamo market in the high density suburb of Mbare. It is argued that the place does not have adequate toilet infrastructure that tally with the available number of people, both the vendors and the customers. In this regard, there is a high probability of an outbreak of such diseases as cholera and typhoid. Business under such an environment does not properly flourish as potential customers will hesitate to come to such a place. Another case study is that of Glen View complex where some entrepreneurs produce and sell furniture. Although the government has allocated them a place to operate at, the place is not well developed to an extent that they do not have a descent place to put their wares during raining times. This surely draws back their businesses as the rain destroys their raw materials, work in progress as well as finished products.

In South Africa, informal traders can operate in some areas and some areas are restricted by by-laws (Skinner 2008). The designated areas are usually crowded and far away from potential customers. This has led the small and medium enterprises to continue operating in undesignated areas making them vulnerable to the full wrath of the law. Such issues are dealt with by the national police force or by municipality (local government) police. Upon being found operating on an illegal place, the trader is arrested and made to pay fines. Their wares are in most cases confiscated, thus incurring heavy setbacks. Skinner (2008) notes that in South Africa during the apartheid era, SMEs were not well tolerated, thus those who were found trading on undesignated areas would have their wares confiscated and would pay heavy fines. Willemse (2011) has however noted that deregulation of SMEs has continued, only that the contemporary position has turned to acknowledge critical economic development as well as creating jobs and income for the poor members of the community, thus the emphasis is now more on managing SMEs rather trying to eradicate them.

Goriwondo (opcit) maintains that government through its infrastructure should make efforts to educate entrepreneurs on the proper and professional ways of running businesses. Some workshops should be provided on a minimal
fee on such issues as corporate governance, business finance, basic accounting as well as the legal issues surrounding the notion of SMEs. It is argued that such knowledge will enhance production and profit levels of SMEs.

Some legal instruments have also been cited as hindering the establishment and growth of SMEs in Zimbabwe. The Portfolio Committee on Small and Medium Enterprise Corporative Development has cited a number of the legal instruments that does not promote SMESs’ success.

Regional and Town Planning Act of 1976 was revisited in 1994 and it guides spatial planning of regions, districts as well as local areas with the aim of conserving and improving the physical environment, health promotion, safety, convenience and general welfare as well as efficiency and economy in the development process. The Act also legally authorizes the preparation of regional, master and local plans and among others, regulates subdivision and consolidation of land pieces. Statutory Instrument 216 of 1994 which effectively authorized non-residential activities in residential areas have been enacted to ‘soften’ the Act but the main legislation remain tilted in colonial norms of land-use planning and regulation (Chaeruka and Munzwa 2009). Effectively, SMEs operating in residential areas are still under the Regional and Town Planning Act of 1976 although on paper they are now under the revised Act of 1994. Their operations are therefore being hampered by such a legal instrument.

Another Act which hinders the progress of SMEs is the Environmental Management Act. Although the idea of protecting the environment is a noble one, some people argue that it is too strict for the operations of SMEs. Honourable Moyo who is the Chairperson of the Parliamentary Portfolio Committee on SMEs in his report to the Cabinet argued that some small scale miners were being hampered from operations due to strict rules and regulations imposed by the Environmental Management Authority (EMA) (Herald 17 April 2013.

It can therefore be argued that government policies and legal instruments can promote or hinder the operations of SMES. It was in the interest of this research to investigate how the existing government policies and legislation have
had an impact on the establishment and development of small to medium enterprises, either directly or indirectly.

**Research Methodology**

The researcher adopted the qualitative research methodology. According to Denzin and Lincoln (2005), qualitative research is a method of inquiry that is employed in a number of various academic disciplines, originally in the social sciences, but now applied in market research and as well as other contexts. The aim of qualitative researchers is to gather an in-depth comprehension of human behaviour as well as the reasons that govern such behaviours. The qualitative inquiry is mainly interested in investigating the why and how of decision making, not just what, where, when. Hence the use of smaller but focused samples is more often needed than large samples which are mainly used in quantitative methods.

Qualitative research is a term generally employed in investigative methodologies described as ethnographic, naturalistic, anthropological, field as well as participant observer research. Its emphasis is on the importance of looking at variables in the natural setting in which they occur. Interaction between variables is considered important. Detailed data is gathered through open ended questions that provide direct quotations. The interviewer is an integral part of the investigation (Jacob, 1988). This differs from quantitative research which attempts to gather data by objective methods to provide information about relations, comparisons, and predictions and attempts to remove the investigator from the investigation (Smith, 1983).

Qualitative research methodology was chosen on the basis that it would allow the respondents to narrate their unique experiences in as far as how government policies and legal instruments promote or hinder their entrepreneurial efforts.

Convenient sampling was used in this study. Convenience sampling is a sampling procedure whereby the researcher makes use of participants that are readily available to participate in a study (Coolican 2009). The study used 30
participants. Ten participants were interviewed using a semi structured interview schedule while the remaining twenty were used in focus group discussions, each group comprised of 10 respondents. Focus groups were considered useful in the sense that participants can stimulate each other to participate through brainstorming (Coolican 2009).

The interview method was seen as the best since it allowed respondents to express themselves freely without being limited in their responses. In addition, an interview schedule also gave the researcher an opportunity to probe and follow up on questions that were not clearly addressed by the participants as well as introducing some new questions which would have emerged during an interview session. The idea of triangulating face to face interviews with focus group discussions was to counterbalance the weaknesses of each of these data collection methods. Effort was made to make sure those who had participated in face to face interviews would not participate in focus group discussions. Focus group participants were drawn from a different locality from those who took part in face to face interviews.

Results and Discussion of Findings

As indicated in the literature, governments can be both a stumbling block and a facilitator in the establishment and development of SMEs. It emerged from the study that entrepreneurial activities were being facilitated directly by the Ministry of Small and Medium Enterprise Development and indirectly through the Ministry’s Department of Small Enterprises Development Company Limited (SEDCO).

The Ministry provides SMEs with such information as the legal instruments that govern entrepreneurship, requirements needed to register different forms of companies, exporting opportunities among others. This is in line with the argument by Mpofu, Munyanyiwa (2009) (1998) and Goriwondo (2011) who holds that the government should see to it that entrepreneurs are given support as they meaningfully contribute to the overall economic and social functioning of an economy.
Some participants highlighted that SEDCO provided some financial support to SMEs. The organisation would provide some loans. It also emerged that some participants had benefited from SEDCO through being trained on basic managerial, financial skills and marketing strategies in as far as properly managing their businesses is concerned. This is supported by the Portfolio Committee on Small and Medium Enterprise Corporative Development which highlights that although the money is not enough, the government of Zimbabwe is making some efforts help SMEs. The training was conducted in conjunction with other international bodies such as the International Labour Organisation (ILO).

The majority of participants indicated that the government was trying its best to uplift the operations of SMEs financially. The major stumbling block to the financial aid was the service was provided to registered SMEs of which the majority of them were either not registered or they had not yet renewed their operating licenses. In addition, collateral security was considered a prerequisite for one to get a loan. It emerged from the study that collateral was suppose to be in the form of a house or a motor vehicle. Respondents also lamented the high cost of capital. They argued that SEDCO charged exorbitant interests. The same challenge was also echoed by the Portfolio Committee on Small and Medium Enterprise Corporative Development. The high interest has been seen to create 2 main challenges. Firstly, aspiring borrowers are discouraged to take up the loans on offer, thereby making it difficult for them to increase their operations. Secondly, it has been reported that some SMEs fail to repay the loan on time, leading them to lose some valuable assets they would have attached as collateral. It is highly likely that the conditions set by SEDCO are a result of the inadequate funding of the Department by the Ministry of Finance. Similar sentiments have been echoed by the Portfolio Committee on Small and Medium Enterprise Corporative Development. The committee has it that many SMEs complain about the high interests of the loans from SEDCO. One can therefore conclude that although the services provided by the Ministry through its Department, SEDCO, are seen as noble, they are only being accessed by a limited number of potential beneficiaries.
Results have revealed that some of the designated areas where SMEs operated in belong to SEDCO. These places included one in Chitungwiza and the other one in Harare Gazaland Area where a lot of activities relating to SMEs are conducted. Already, it is clear that the government is committed as it erected some infrastructure for the benefit of this group of upcoming business people. It is however important to note that although the move is a noble one, SEDCO has mainly focused its infrastructure to accommodate SMEs that are involved in manufacturing or automobile repairing kind of activities at the expense of other categories of SMEs such as those engaging in vending or in the buying and selling of small wares. Results have also shown that although the government has made tremendous efforts to provide shelter for SMEs through SEDCO, most of these areas are densely populated. Participants have argued that the population there does not tally with the supporting infrastructure, thereby causing a health hazard time bomb for the operators. This is clearly in line with the arguments provided by the Portfolio Committee on Small and Medium Enterprise Corporative Development which went on to highlight that the infrastructure was also in a dilapidated state.

Upon further investigation, it however emerged that it was not an issue of the responsible authorities allocating a lot of people on a small piece of land, but those allocated a portion to operate on will tended to illegally sub-lease the portion to others in an effort to cushion themselves from the high tariffs charged by the authorities. In addition, the presence of formal operators will bring some informal operators on board such as those who may want to provide some food for the traders as well transporters who may want to take advantage of customers and suppliers of raw materials who would be dealing with the traders. This scenario will surely have an impact on the numbers of people operating at any designated piece of land.

It is however important to note that it emerged from the study that the Ministry and SEDCO only deals mainly with formal SMEs who would have regularised their operations with the responsible authorities. It is however sad to note that the majority of SMEs are not formally registered.
Results have indicated that allocation of these places may be done along partisan lines. Potential beneficiaries should be perceived as ‘politically correct’ by the responsible authorities. Participants have indicated that the allocation is done in relation to one’s allegiance to a particular part, especially towards elections, a period which coincided with the period of data collection of this study. The allocation of stands to operate on and the peaceful execution of one’s business therefore, depends heavily on his/her political affiliation.

Respondents have also lamented the high corruption levels within the Department of the Registrar of Companies. They argued that after application for proper recognition through registration of a company, it may take forever for one’s papers to be considered. Papers can just be shelved until one engages in corrupt activities to have his/her papers processed. Respondents argued that they have to part with unofficial money in order for them to register their companies. This together with other conditions has led to many SMEs opting not to register or failing to renew their licenses.

The majority of participants who were involved in petty businesses such as buying and selling of vegetables and bread among other consumables argued that although the local government has designated portions for them to operate from, these places are located far from the people who should consume these products. This has forced them to abandon the designated areas so as to be as close as possible to their customers.

The notion of designating specific places for SMEs to operate from has been also witnessed in South Africa (Skinner 2008). Skinner (opcit) however, has it that SMEs or informal traders as they are usually known prefer to operate in those undesignated places where they are closer to their customers but run the risk of their wares being taken away or them being arrested and forced to pay fines. Unlike in the South African experiences reported by Skinner (2008), participants in the current study have revealed that although they operate in undesignated areas, it has been long since they have had their wares confiscated by either the national police force or municipality police force.
This argument clearly shows that although the government did not explicitly say so, it has since realised the importance of informal traders in maintaining the social order and its role in contributing income for households. It has been argued that in the previous years, these traders were always up in arms with either the national police force or the municipal police, making their operations highly unproductive. The government could have realised the high unemployment rate in the country and the social and economic contributions made by these individuals to alleviate the challenges (Goriwondo 2008).

The study has revealed that the registration process for one to be considered an official SME is hectic and the requirements are difficult to meet. This has led to many SMEs operating without the required paperwork. Respondents argued that the stiff requirements for legal recognition of SMEs have had a negative impact on their operations as they cannot acquire financial assistance, legal places to operate from as well as running the risk of losing their wares through confiscation by the police.

A significant portion of the participants however did not say anything against the Management Environmental Authority (EMA). This could be the fact that the participants’ line of business did not require any form of land manipulation. Emma is actively involved in such SME activities such as mining.

**Conclusion and Recommendations**

The role played by SMEs in Zimbabwe cannot be undervalued in any sense. The study has shown that the government has been an active player in both promoting and hindering the establishment and development of small and medium enterprises in Zimbabwe. The government has established a Ministry of Small and Medium Enterprise and Corporative Development in order to ensure that SMEs are given attention they deserve. The Ministry houses the Department of SEDCO which provides some financial as well as business related courses for SMEs.

However, the majority of participants do not access the services provided by the Ministry through its Department due to their inability to register as
formal businesses. In addition, the Ministry is considered a minor Ministry; hence it is perennially underfunded, thus limiting its operations as well as the number of beneficiaries who can benefit from it. In order to fully realise the benefits of SMEs, the government of Zimbabwe should loosen some its conditions on the registration process of SMEs. In addition, it is important for treasury to fully fund the Ministry of Small and Medium Enterprise and Corporative Development so that it would be in a position to fully service its operations.

The study has also revealed that the loan conditions as well as the interest rates charged by SEDCO are deterring potential beneficiaries to take advantage of the scheme. The government should see to it that conditions for loans are made easier and the interest rates are reduced in order to assist the operations of SMEs.

It has emerged from the study that the designated places allocated to some SMEs are overcrowded and in a deplorable state. In as much as the government want to promote and help as many SMEs as possible, it should however control the number of people operating at any given designated area in order to maintain sanity. This will also allow the government to control such possible outbreaks as cholera which is caused by some unhealthy conditions that characterises most of these places.

When allocating places for SMEs to operate, the government, be it local or national should consult the potential beneficiaries so that they would chose the most appropriate places in as far as strategically positioning themselves is concerned. The designated places should be nearer to the customers. It is pointless to designate a piece of land which customers cannot easily reach. Traders will eventually move to undesigned areas where then can easily be accessed by their customers, thus defeating the whole idea of designating special places and building infrastructure on such places.

It is important to applaud the government’s effort in promoting SMEs by allowing them to operate in different part of the country. The study has revealed that SMEs, although not legally correct, are operating almost anywhere. This
has made them to strategically position themselves. The government and the city fathers have realised the critical role played by SMEs or informal traders as they are at terms known in alleviating the social and economic challenges, especially those related to unemployment. It is however important to note that allowing them to operate is not enough, effort should be made to make sure they are registered and operate legally, this managing to enjoy all the possible benefits enjoyed by registered SMEs. These include loans and training.

References


