

**UNIVERSITY OF KWAZULU-NATAL**

**Government policies and strategies in dealing with challenges confronting small  
and medium enterprises: A case of Harare, Zimbabwe**

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**A thesis submitted in partial fulfilment of the requirements for the degree of  
Doctor of Philosophy**

**School of Management, IT and Governance  
College of Law and Management**

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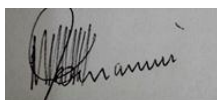
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## DECLARATION

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## **DEDICATION**

This thesis is dedicated to my beloved wife Miriam, my children Nyasha, Praise and Ayanda, and my hardworking parents, Jalison and Margret Bomani. It was because of your sweat and sleepless nights of prayer as my parents that I am what I am today. May the dear Lord bless you. Thank you.

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## **ABSTRACT**

This study focuses on the success the Zimbabwe government policies and strategies in addressing the challenges faced by small and medium enterprises (SMEs) in Harare, Zimbabwe. The study was conducted with a view to developing a policy and strategy framework for promoting the development of SMEs in Harare, Zimbabwe. Harare, the capital city of Zimbabwe, was used as a study site.

Pragmatism constituted the research philosophy for the study. The study adopted a case study design in which SMEs in Harare were studied. The mixed-methods approach was employed, along with concurrent triangulation. SMEs, officials from the Ministry of Small and Medium Enterprises and Co-operative Development (MSMECD), officials from the Small and Medium Enterprise Development Corporation (SMEDCO) and academics from three state universities in Harare constituted the population under study. The study employed purposive and stratified sampling techniques. Stratified random sampling was employed, in which the SMEs were divided into three strata: primary, secondary and tertiary. Purposive sampling was used to select the officials from the MSMECD and SMEDCO, as well as the key informants from three state universities in Harare. The study used a sample of six business advisors from SMEDCO and another six from the MSMECD. A sample of 382 SMEs was selected for the collection of empirical data using questionnaires. Of the 382 distributed questionnaires, 344 were returned, representing a response rate of 90%. Primary data was gathered using questionnaires and in-depth interviews. Questionnaires were administered to the SMEs, while in-depth interviews were conducted with the officials from SMEDCO and the MSMECD, as well as key informants from the three state universities. Documents were employed as secondary sources of data for the study.

The quantitative data collected through the questionnaires was analysed using descriptive and inferential statistics. The data was presented using figures, tables, graphs, pie charts, and percentages. The IBM Statistical Package for Social Sciences (SPSS) version 21 was used to analyse the quantitative data. SPSS was also used to calculate the Cronbach's alpha. The alpha coefficient ranged from 0.729 to 0.878, indicating that the questionnaire was a reliable data collection instrument.

Content analysis was employed in the analysis of the qualitative data gathered from the in-depth interviews. The intention was to achieve an adequate and detailed analysis of the data in order to obtain sufficient information relating to the challenges faced by SMEs in Harare, the

government policies and strategies employed to address these challenges, and the success of the policies and strategies.

The findings of the study showed that SMEs in Harare are confronted with challenges which include limited access to funding, limited access to markets, a lack of technical and management skills, antiquated machinery and equipment, increasing competition in the market, infrastructural challenges, and restrictive government laws and regulations. It was empirically confirmed that the government responded by creating partnerships with the private sector, non-governmental organisations, and other countries in the provision of funding, training and technology transfer. The study also revealed that the government promoted SME access to markets through participation in local and international trade fairs, business expos, and exhibitions, as well as facilitating SME involvement in public procurement. The government also imposed import duties to protect domestic businesses from foreign competition. Higher education institutions, which constitute part of the government's overall strategy of promoting SME growth, have been instrumental in addressing SME challenges.

However, despite its various policies and strategies, the government of Zimbabwe, on the whole, has not been successful in addressing the key challenges confronting the SME sector in Harare. This study builds on and broadens the current knowledge on the success of government policies and strategies in addressing SME challenges in Harare, Zimbabwe. Furthermore, the study proposes a policy and strategy framework for promoting the development of SMEs in Harare, Zimbabwe.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ADF	African Development Fund
AEO	African Economic Outlook
AFC	Agricultural Finance Corporation (Zimbabwe)
AfDB	African Development Bank
Agribank	Agricultural Bank of Zimbabwe
ARRA	American Recovery and Reinvestment Act, 2009
AU	African Union
BADEA	Arab Bank for Economic Development in Africa
BPRA	Bulawayo Progressive Residents Association
CABS	Central African Building Society
CBD	Central business district
CBE	Central Bank of Egypt
CBI	Confederation of British Industry
CBM	Central Bank of Malaysia
CBT	Central Bank of Turkey
CBZ	Commercial Bank of Zimbabwe
CCRIS	Central Credit Reference Information System (Malaysia)
CDB	China Development Bank
CDP	Cluster Development Programme
CEDAR	Centre for Entrepreneur Development and Research (Malaysia)
CGCM	Credit Guarantee Corporation of Malaysia
CGCZ	Credit Guarantee Company of Zimbabwe
CII	Confederation of Indian Industry
CIOL	Cybermedia Indian Online Limited
COMESA	Common Market of Eastern and Southern Africa
CTOS	Credit Tip-Off System (Malaysia)
CZI	Confederation of Zimbabwe Industries
DBSA	Development Bank of Southern Africa
DEDTEA	Department of Economic Development, Tourism and Environmental Affairs (South Africa)
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry (South Africa)

DUT	Durban University of Technology
EAC	East African Community
EC	European Commission
EDI	Entrepreneurship Development Institute
EIB	European Investment Bank
EIBA	Export-Import Bank of India
EMCOZ	Employers Confederation of Zimbabwe
EPZ	Export Processing Zone (Zimbabwe)
ESAP	Economic Structural Adjustment Programme
EU	European Union
FICCI	Federation of Indian Chambers of Commerce and Industry
FSB	Federation of Small Business
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoI	Government of India
GoM	Government of Malaysia
GoZ	Government of Zimbabwe
HCSME	Harare Chamber of Small and Medium Enterprises
HCT	Human capital theory
HDI	Human Development Index
HEI	Higher education institution
HIRE	Hiring Incentives to Restore Employment Act, 2000 (U.S.)
HIT	Harare Institute of Technology
ICAZ	Institute of Chartered Accountants of Zimbabwe
ICT	Information and communications technology
IDBZ	Infrastructure Development Bank of Zimbabwe
IDFC	International Development Finance Club (Vnesheconombank)
IEEA	Indigenization and Economic Empowerment Act
IES	Institute of Environmental Studies (University of Zimbabwe)
IFC	International Finance Corporation
IGDC	Indo-German Development Co-operation Project
ILO	International Labour Organisation
IMF	International Monetary Fund
IMMSME	Indian Ministry of Micro, Small and Medium Enterprises
LRP	Land Reform Programme (Zimbabwe)
MATRADE	Malaysian External Trade Development Corporation

MDC	Movement for Democratic Change
MENA	Middle East and North Africa
MHRM	Ministry of Human Resources Malaysia
MIDA	Malaysia Investment Development Authority
MITI	Ministry of International Trade and Industry (Malaysia)
MSC	Multimedia Super Corridor (Malaysia)
MSLSW	Ministry of Public Service, Labour and Social Welfare
MSME	Micro Small and Medium Enterprises
MSMECD	Ministry of SMEs and Co-operative Development (Zimbabwe)
MWAGCD	Ministry of Women Affairs, Gender and Community Development
MYDIEE	Ministry of Youth Development, Indigenisation and Economic Empowerment
NGO	Non-governmental organization
NMB	National Merchant Bank of Zimbabwe
NSDC	National SME Development Council (Malaysia)
NSIC	National Small Industries Corporation (India)
NSIFP	National SME Innovation Focal Point
NSSA	National Social Security Authority
NYDA	National Youth Development Agency (South Africa)
OECD	Organisation for Economic Co-operation and Development
PROPARCO	Promotion et Participation pour la Co-operation Economique
RASSME	Russian Agency for the Support of Small and Medium Businesses
RBI	Reserve Bank of India
RBV	Resource-based view
RBZ	Reserve Bank of Zimbabwe
RMTI	Rwanda Ministry of Trade and Industry
SACCO	Savings and credit co-operative
SADC	Southern African Development Community
SAGov	South African government
SANCR	South African National Credit Regulator
SANYP	South African National Youth Policy
SBA	Small Business Administration (U.S.)
SBJA	Small Business Jobs Act (U.S.)
SBLF	Small Business Lending Fund (U.S.)
SEDA	Small Enterprise Development Agency
SEDCO	Small Enterprise Development Corporation
SETA	Sectoral Education and Training Authority (South Africa)

SIDBI	Small Industries Development Bank of India
SME	Small and medium enterprise
SMEBM	SME Bank of Malaysia
SME Corp. Malaysia	Small and Medium Enterprise Corporation Malaysia
SMEDCO	Small and Medium Enterprise Development Corporation (Zimbabwe)
SMIDEC	Small and Medium Industries Development Corporation (Malaysia)
SMME	Small, medium and micro-sized enterprise
SNVND0	SNV Netherlands Development Organisation
SPB	State Procurement Board (Zimbabwe)
SPSS	IBM Statistical Package for Social Sciences
TBSE	Technology Bureau for Small Enterprises (India)
TDC	Technology Development Centre (India)
TI	Transparency International
TUT	Tshwane University of Technology
UKDBIS	Department for Business, Innovation and Skills
UKZN	University of KwaZulu-Natal
UN	United Nations
UNCTD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNDPAD	United Nations Development Policy and Analysis Division
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USITC	United States International Trade Commission
USTA	United States Trade and Development Agency
UYF	Umsobomvu Youth Fund (South Africa)
UZ	University of Zimbabwe
VCCZ	Venture Capital Company of Zimbabwe
WBG	World Bank Group
WDF	Women's Development Fund (Zimbabwe)
WEF	World Economic Forum
YDF	Youth Development Fund (Zimbabwe)
ZAMFI	Zimbabwe Association of Microfinance Institutes
ZANU PF	Zimbabwe African National Union – Patriotic Front
ZBC	Zimbabwe Broadcasting Corporation
ZBD	Zimbabwe Development Bank

ZCBTA	Zimbabwe Cross-Border Traders Association
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMRA	Zimbabwe Revenue Authority
ZimStat	Zimbabwe National Statistics Agency
ZITF	Zimbabwe International Trade Fair
ZMIC	Zimbabwe Ministry of Industry and Commerce
ZOU	Zimbabwe Open University

# CHAPTER 1: NATURE AND SCOPE OF THE STUDY

## 1.1 INTRODUCTION

Small and medium enterprises (SMEs) are the backbone of all economies, and Zimbabwe is no exception. They are a key source of economic growth, dynamism and flexibility in developed (Pandya, 2012; Belanger & Hart, 2012; UK Select Committee on SMEs, 2013), emerging (Haner, 2011; Ortmans, 2013) and developing (Ahiawodzi & Adade, 2012; Inyang, 2013) economies. SMEs make a significant contribution to the GDP in Zimbabwe that exceeds 50 % (Goriwondo, 2011, cited in Maunganidze, 2013; Ndoro, 2012; Zindiye *et al.*, 2012). Therefore, SMEs have a catalytic effect on achieving goals such as provision of employment and alleviation of poverty (Ehinomen & Adeleke, 2012). SMEs provide employment to more than 80 % of the economically active population of Zimbabwe (World Bank, 2013a; Musanzikwa, 2014).

The high levels of poverty and unemployment in Zimbabwe have been of great concern to the government as well as to civil society (Government of Zimbabwe (GoZ) & United Nations (UN), 2011; GoZ, 2013; University of Zimbabwe (UZ): Institute of Environmental Studies (IES), 2013). Unemployment in Zimbabwe sits at approximately 80 % (African Development Bank (AfDB), 2011). About 75 % of the population lives in abject poverty (Manuere *et al.*, 2012; Zimbabwe National Statistics Agency (ZimStat), 2013a), and poverty is prevalent in rural areas (UZ: IES, 2013; ZimStat, 2013b). The GoZ has identified SMEs as an effective tool for reducing poverty and the high unemployment rate (GoZ & United Nations, 2011). Given the critical role that SMEs play due to their impact on GDP and employment creation, it is imperative that SMEs be revamped, overhauled and energised in order to play their expected role of creating wealth, generating employment and promoting economic growth. Zimbabwe is a developing country whose GDP relies heavily on the performance of SMEs, and therefore the country needs vibrant and viable enterprises if it is to experience economic growth.

The challenges that face such important enterprises need to be dealt with effectively and efficiently. SME challenges include access to finance (Manyani, 2014), lack of managerial knowledge, skills and experience (Derera *et al.*, 2013; Mbizi *et al.*, 2013), inadequate infrastructure (Al Saleh, 2012), competition in the market (Chirisa *et al.*, 2012; Mapaure, 2014), a punitive regulatory environment (Maseko, 2014; Nyanga *et al.*, 2013), corruption

(Tsabora, 2014; Zinyama, 2014) and the use of inappropriate and outdated technology (Gombarume & Mavhundutse, 2014).

The GoZ has responded by formulating and implementing SME development policies and strategies. Examples of such policies and strategies include the following: the establishment of institutions to promote SME growth (Chivasa, 2014), government partnerships with non-governmental organisations (NGOs) and other countries (Kangondo, 2012; Mandizha, 2014; Maromo, 2015), the Medium-Term Plan (2011–2015) (GoZ, 2011), promotion of SME access to local and international markets (Mudzonga, 2009; United Nations Development Programme (Gumbe & Chaneta, 2014; Zimbabwe International Trade Fair (ZITF), 2014) as well as the participation of SMEs in the public procurement process (Mandiyambira, 2013; Bwititi & Towindo, 2014; Chingwaru, 2014).

However, despite all of the government policies and strategies formulated and implemented by the GoZ to handle such problems, the SME sector has not been able to survive, grow and develop (Ehinomen & Adeleke, 2012). It is, therefore, critical that the success of these policies and strategies be assessed with a view to developing a policy and strategy framework that is effective in promoting the development of SMEs in Zimbabwe.

The purpose of this chapter is to provide an overview of the study that includes describing the background to the study, the motivation for conducting the study, the research problem and problem statement, the research aim and objectives, as well as the research questions. A summary of the methodology used is presented, and the research context and study site are described. The limitations of the study and a summary of the ethical considerations constitute part of this chapter.

## **1.2 BACKGROUND OF THE STUDY**

Before Zimbabwe's independence in 1980, mining, manufacturing, processing, and the marketing of goods and services were performed by large-scale companies (Mhazo *et al.*, 2012). In the mid-1990s there was rapid growth of both formal and informal SMEs, a trend that could be attributed to the Economic Structural Adjustment Programme (ESAP) being implemented by the government at that time (Mhazo *et al.*, 2012; Murisa, 2010; Jongwe, 2013). It is reported that the number of SMEs has grown since the introduction of the ESAP (RBZ, 2014a).

The macro-economic environment, after the introduction of the ESAP, was suitable for the growth and development of SMEs, and not large-scale companies. Thus, the number of SMEs increased, leading to the creation of employment. The large companies scaled-down their operations (Mhazo *et al.*, 2012; Chipangura & Kaseke, 2012). The loss of business by large companies led to massive retrenchments and even the closure of factories, and this made people focus their attention on SMEs for survival (Mhazo *et al.*, 2012; Murisa, 2010; Gumbe & Chaneta, 2014). Ehinomen and Adeleke (2012) observe that the focus on SMEs was predicated on their contribution to economic development and their ability to create employment.

The Economic Structural Adjustment Programme in 1991 resulted in the GoZ changing its perception of the SME sector, which has increasingly been viewed as an important engine for employment creation and economic growth (Kapoor *et al.*, 1997; Chirisa *et al.*, 2012). This has been necessitated by the increasing awareness on the part of the GoZ that large industrial projects are less likely to generate employment opportunities, given the high capital-intensity input in the sector (Zindiye, 2008; Aremu & Adeyemi, 2011).

SMEs can quickly respond to changes in the macroeconomic, social and political environment, and create wealth and provide employment (Banham, 2010; Belanger & Hart, 2012). SMEs cover niches in the market that are ignored by large companies (Jamieson & Fettiplace, 2012; Lancaster & Withey, 2013). They do not need a lot of start-up capital, thus they can provide much needed employment for the population (GoZ, 2012; Musanzikwa, 2014). SMEs lead to the growth of an economy as well as industrial development (Zindiye *et al.*, 2012). A high failure rate among SMEs has a huge negative impact on any economy, especially on a developing economy with limited capital (Okpara & Wynn, 2007; Olawale, 2014) like Zimbabwe.

SMEs face a multiplicity of challenges in their operations. These include, but are not limited to, access to finance, inadequate infrastructure, competition in the market, lack of information about government programmes for SMEs, corruption, an unsupportive regulatory framework and outdated technology (Al Saleh, 2012; Nyanga *et al.*, 2013; Gombarume & Mavhundutse, 2014; Mapaire, 2014). Thus, the GoZ formulated and implemented policies and strategies to deal with the challenges. Approximately 85 % of Zimbabwean SMEs fail in the first four years while only 15 % succeed (Mudavanhu *et al.*, 2011). The SME development policies and strategies implemented by the GoZ to deal with the challenges confronting SMEs have to be evaluated to determine the strengths and weaknesses of the policies and strategies. Such an assessment leads to the improvement of the existing policies and strategies, or the

development of alternative policies and strategies that adequately address the obstacles faced by SMEs in Zimbabwe, for the purpose of promoting their survival, growth and development.

### **1.3 MOTIVATION FOR THE STUDY**

This study is of paramount importance to the nation of Zimbabwe and other African countries that may find themselves in a similar economic scenario. The following points help to explain why this research is critical.

Zimbabwe is an African country, and is thus situated in a relatively under-researched part of the world. Thus, studying the success of the government policies and strategies in addressing SME challenges to promote growth has both a theoretical and practical relevance to the whole world. This study exposes the policies and strategies implemented by the government to address SME challenges, and assesses the success of these policies and strategies in addressing the SME obstacles. Based on the results of the assessment, the researcher has developed a policy and strategy framework to promote the development of SMEs in Harare, Zimbabwe. The proposed policy and strategy framework for promoting SME development is a distinct contribution and would be a valued addition to policy design and implementation for Zimbabwe in particular, and other developing economies in general.

The policy and strategy framework could be used by the GoZ in the crafting of relevant and effective policies and strategies to assist in the development of SMEs. The study further assists in the proper implementation of policies and strategies that improve the state of SMEs and ultimately lead to economic development. The study also draws the attention of SMEs and policy-makers to the urgent need for specific management practices to enhance the effectiveness and sustainability of SMEs in Zimbabwe.

By using this study, universities will be able to modify their curricula to include courses and subjects pertaining to SMEs. Knowledge from such subjects and courses is critical for SME development in Zimbabwe.

From an academic perspective this study's insights should contribute to the future development of research on SMEs, particularly in relation to developing countries like Zimbabwe. Therefore, it facilitates the knowledge creation process. The student community also benefits by developing a holistic and practical insight into Zimbabwe's policies and strategies for SMEs. Research and debates in the area of SMEs are ongoing and, therefore, the present study provides a basis for future research and debates.

Since SMEs are important for economic growth and poverty reduction, evaluating the success of the SME policies and strategies adopted is crucial. Designing relevant policies and strategies to deal with challenges affecting SMEs is critical if the failure rate of SMEs is to be reduced. It is against this background that this research becomes indispensable.

#### **1.4 RESEARCH PROBLEM**

SMEs in Zimbabwe have been struggling to survive, grow and develop (Chadamoyo & Dumbu, 2012), and have been confronted with a multiplicity of challenges that have compromised their operations and viability (Mudavanhu *et al.*, 2011). These challenges include financial (Mwobobia, 2012), administrative and management (Zindiye *et al.*, 2012; Derera *et al.*, 2013), and taxation (Chipangura & Kaseke, 2012) problems, as well as other problems such as poor communication infrastructure and inappropriate location (Chipangura & Kaseke, 2012). It is because of these obstacles that the high failure rate of SMEs has become commonplace. Failure to grow and develop has subsequently led to 85 % of the SMEs closing shop in the first four years of their operation (Mudavanhu *et al.*, 2011). This percentage is too high, and stifles economic growth. The GoZ has responded by formulating and implementing policies and strategies to address the challenges confronting the SME sector. Such policies and strategies include the establishment of institutions to promote SME development, government partnership with the NGOs, government partnership with other countries, provision of financial assistance and access to local and international markets, and providing land and shelter to SMEs (Empretec, 2011; GoZ, 2011; Kanyenze *et al.*, 2011; Chirisa *et al.*, 2012; ZMIC, 2012). The Small and Medium Enterprises Development Corporation (SMEDCO, known as the Small Enterprise Development Corporation (SEDCO) prior to February 2014), the Ministry of SMEs and Cooperative Development (MSMECD), the Credit Guarantee Company of Zimbabwe (CGCZ), the Agricultural Finance Corporation (AFC) and the Agricultural Bank of Zimbabwe (Agribank) were among such institutions to serve the interests of SMEs (Malaba, 2005; ZMIC, 2011; Chirisa *et al.*, 2012). In spite of the government efforts, obstacles to the growth of SMEs are still evident in Zimbabwe, and have compromised their performance and their growth and development (Mudavanhu *et al.*, 2011). Thus, it is crucial that the policies and strategies be assessed to determine their success, in order to refine the existing policies and strategies, or to develop a new policy and strategy framework to improve SME performance in Zimbabwe.

*The GoZ have committed themselves to the development of SMEs through policy and strategy formulation and implementation, but the results are not commensurate with their efforts due*

*to a lack of proper policy and strategy alignment with the needs of the SMEs. Therefore, Zimbabwean SMEs are not functioning as they should. This study aims to address this problem by proposing a policy and strategy framework for promoting SME development in Harare, Zimbabwe.*

## **1.5 RESEARCH AIM AND OBJECTIVES**

The study aims to develop a policy and strategy framework for promoting SME development in Zimbabwe. This will be done through identifying the challenges confronting the SME sector, and the government policies and strategies adopted to deal with these challenges, and by determining the success of these policies and strategies. The study makes informed recommendations for future policy and strategic planning and implementation that could lead to the growth and development of SMEs in Zimbabwe.

The main objective of this study is therefore to develop a policy and strategy framework for promoting SME development in Zimbabwe. The secondary objectives are:

1. To identify the challenges facing SMEs in Harare, Zimbabwe in terms of start-up and development.
2. To identify existing government policies and strategies to deal with the challenges confronting SMEs.
3. To determine if government policies and strategies have addressed the challenges confronted by SMEs in Harare, Zimbabwe.
4. To develop a policy and strategy framework for SME development in Harare, Zimbabwe.

## **1.6 RESEARCH QUESTIONS**

The following research questions will be explored:

1. Which challenges have confronted SMEs in Harare, Zimbabwe?
2. What are the existing policies and strategies that have been formulated and implemented by government to deal with the challenges confronting SMEs?
3. How successful have these policies and strategies been in dealing with these challenges?
4. What policies and strategies can be used to develop a policy and strategy framework to promote the development of SMEs in Harare, Zimbabwe?

## **1.7 RESEARCH METHODOLOGY**

The research methodology employed in this study is composed of the research philosophy, research design, research approach, and research strategy. Furthermore, the study context, data collection and analysis are also included in this section.

### **1.7.1 Research philosophy**

The study adopted a pragmatic research philosophy, as a mixed-methods approach was employed. Both qualitative and quantitative data were collected to ensure a deeper and more holistic understanding of the challenges faced by SMEs, the government policies and strategies used to address SME obstacles, and the success of these policies.

### **1.7.2 Research design**

A case study design was used in this research. Data collection was conducted in Harare, the commercial nerve centre of Zimbabwe. The study site covers the city, high- and low-density suburbs, as well as the light industrial areas of Harare. Harare was chosen as it has SMEs in the primary, secondary and tertiary sectors of the economy. The primary sector is composed of SMEs involved in mining, agriculture, forestry and the extraction of raw materials. The secondary sector is composed of SMEs involved with manufacturing and processing, and the tertiary sector is composed of the services sector of the economy.

### **1.7.3 Research approach**

A mixed-methods approach was used in the collection and analysis of data. Qualitative and quantitative data were gathered. A questionnaire was used in the collection of quantitative data from SMEs in Harare. Qualitative data collection was conducted using interview guides. Documents of government policies, and published and unpublished articles were also an important source of qualitative data.

#### **1.7.4 Research strategy**

This study used a concurrent triangulation strategy, by means of which both qualitative and quantitative data were collected concurrently but separately (Creswell & Plano Clark, 2011). Data are mixed at the interpretation stage (Creswell & Plano Clark, 2011). In this study, qualitative and quantitative data were combined at the analysis stage. The weighting or priority given to the two data sets is equal (Terrel, 2012). Both sets of data were regarded as having equal value in this study. The main purpose of triangulation in this context was to achieve corroboration and a comprehensive analysis of the challenges faced by SMEs, the policies and strategies implemented by the government, and the success of these policies and strategies.

The researcher had only one opportunity to conduct field work, but managed to collect two sets of data, both qualitative and quantitative (Creswell & Plano Clark, 2011; Terrel, 2012). The collection of both qualitative and quantitative data sets was possible because the researcher was assisted by trained research assistants who distributed questionnaires and collected completed questionnaires from the respondents.

#### **1.7.5 Study context and site**

##### ***1.7.5.1 The study context***

The study was conducted in Harare, Zimbabwe. Zimbabwe is a landlocked country found in the southern part of Africa. Other countries found in the southern African region are Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland and Tanzania (GoZ, 2013). The country is situated on the central plateau of southern Africa, and is bounded by the Zambezi River in the north and the Limpopo River in the south (GoZ, 2013). Zimbabwe shares borders with Botswana, Mozambique, South Africa and Zambia, as illustrated in Figures 1 and 2. The country is divided into 10 provinces (Makumbe, 2009). The major cities are Bulawayo and Harare. The capital city is Harare.

**FIGURE 1. MAP OF SOUTHERN AFRICA**



Source: Southern Africa Map Pictures  
(maps-africa.blogspot.com)

**FIGURE 2. MAP OF ZIMBABWE**



Source: GoZ (2004: 11)

Zimbabwe is a sparsely populated country with about 13 million people (Makumbe, 2009; ZimStat, 2012). Approximately 65 % of the country's population lives in rural areas, with the

other 35 % located in urban areas (Bohwasi & Mukove, 2008). The literacy rate is about 91 % (Zimbabwe Independent, 2014) and is the highest in Africa. The country covers about 390 757 km<sup>2</sup> (ZimStat, 2012; United States Agency for International Development (USAID), 2010). Water covers 3 910 km<sup>2</sup> while the land occupies 386 847 km<sup>2</sup>. About 85 % of the land is under agriculture, and the remainder consists of national parks, state forests and urban land (GoZ & UN, 2004).

Zimbabwe's political and policy environment has influenced its socio-economic situation. The political climate is characterised by human rights violations, injustice, political intolerance and violence that is politically motivated (Dansereau & Zimponi, 2005; Chakawarika, 2011; Ministry of Foreign Affairs of Denmark & International Development Co-operation, 2013). Violence is directed by the ruling party, the Zimbabwe African National Union Patriotic Front (ZANU PF), towards members of the main opposition party, the Movement for Democratic Change (MDC), led by Morgan Tsvangirai (Makumbe, 2009). Corruption amongst government officials is rampant (Bwititi & Towindo, 2014). Zimbabwe, in the eyes of the international community, has therefore become an unsafe investment destination (Robertson, 2012).

In 2008, the GoZ embarked on a Land Reform Programme (LRP) under the Indigenisation and Economic Empowerment Act (IEEA) (Toriro, 2009; Zhou & Zvoushe, 2012; Chowa & Mukuvare, 2013). The aim of the LRP was to address the imbalance in land ownership between blacks and whites that was a legacy of the colonial era (Zhou & Zvoushe, 2012). However, the programme removed productive white commercial farmers from the land (Toriro, 2009; Maseko, 2014), and the beneficiaries of the programme did not have the requisite capital to support agricultural production. The demand for agricultural inputs and farm implements and machinery declined (Magure, 2012, cited in Short *et al.*, 2012), and many farms in Zimbabwe now lie unused (Magure, 2012, cited in Short *et al.*, 2012). The LRP led to negative international publicity, and Zimbabwe became unattractive to tourists and investors (Robertson, 2012; Shangahaidonhi & Gundani, 2014). Agricultural production in Zimbabwe has declined significantly, turning the country into a net importer of food (Taru & Basure, n.d.; Tawodzera, 2013).

In accordance with the IEEA, all foreign-owned companies had to cede 51 % of their shares to black Zimbabwean citizens (Munyeza, 2011; Magure, 2012, cited in Short *et al.*, 2012; Robertson, 2012). Targeted companies were in the financial, mining and manufacturing sectors (Robertson, 2012), and this made Zimbabwe unattractive to investors (Magure, 2012, cited in Short *et al.*, 2012; Robertson, 2012), as giving 51 % of company shares to local people is tantamount to disempowering foreign investors (Shangahaidonhi & Gundani, 2014).

Today, mining companies are deliberately winding up their operations, and selling equipment and machinery so that they are not victims of the indigenisation process (Magure, 2012, cited in Short *et al.*, 2012). The closure of companies has led to job losses, thereby worsening the poverty levels in the country.

Zimbabwe's primary economic activities are agriculture, mining, manufacturing, tourism, retailing and services (African Economic Outlook (AEO), 2014; KPMG, 2014). The manufacturing sector contributes 25.1 % of the GDP, agriculture 20.3 % and services 54.6 % (Index Mundi, 2013). The agricultural sector produces tobacco, cotton, maize, groundnuts, sunflower, paprika, cowpeas, and sugarcane (Maiyaki, 2010). Small-scale farmers constitute the majority of farmers (AEO, 2014). The mining sector extracts minerals such as gold, copper, tin, asbestos, platinum, and chrome, as well as coal (RBZ, 2013; Kwaramba *et al.*, 2015). Cooking oil, soap, lotions, car batteries, chemicals, clothing, paper, pharmaceuticals, plastics, beverages, stock feeds, shoes, furniture, and iron and steel are produced in the manufacturing sector (Confederation of Zimbabwe Industry (CZI), 2012 cited in Saungweme *et al.*, 2014). The tertiary sector is composed of retailers, the transport sector, the banking sector, insurance institutions and tourist companies (KPMG, 2014).

Zimbabwe has a multi-currency system but the U.S. dollar is dominant (GoZ, 2013; AEO, 2014; KPMG, 2014). Currencies being used in Zimbabwe include the Botswana Pula, the South African rand, the British pound, the Australian dollar, the Chinese yuan, the Indian rupee and the Japanese yen (KPMG, 2014). The last four currencies were added by the RBZ in January 2014 to reduce the liquidity crisis. However, the cash crisis is still evident.

Zimbabwe's macroeconomic environment is unstable and is characterised by high levels of external debt and unemployment, a budget deficit, deindustrialisation, a liquidity crisis, corruption and policy inconsistency (AEO, 2014; RBZ, 2014b). The manufacturing sector is confronted with challenges such as inadequate infrastructure, inappropriate and outdated technology, and power shortages caused by incessant load shedding (Index Mundi, 2013; AEO, 2014; RBZ, 2014b; Saungweme *et al.*, 2014). The Zimbabwean economy is becoming more and more informal due to the closure of large companies in the manufacturing sector.

The industrial capacity utilisation declined from 44.2 % in 2012 to 39.6 % in 2013 (CZI, 2013, cited in RBZ, 2014c; AEO, 2014; RBZ, 2014), and to 36.3 % in 2014 (CZI, 2014, cited in KPMG, 2014; AEO, 2015; Ndlovu, 2015). Such a decrease in industrial capacity utilisation was caused by the liquidity crisis, the lack of long-term funding, persistent power cuts and power shortages, high labour costs, competition from low-priced imported products (especially from South Africa and China), and decreasing consumer demand for products due

to low disposable income (Chowa & Mukuvere, 2013; Institute of Chartered Accountants of Zimbabwe (ICAZ), 2013; RBZ, 2013; RBZ, 2014a; Saungweme *et al.*, 2014; Ndlovu, 2015). Companies have responded to such a scenario by downsizing or closing their operations (New Zimbabwe, 2014). The AEO (2014) notes that some companies have been put under judicial management. The number of companies placed under judicial management increased from 9 in 2010 to 37 in 2013 (Master of High Court, 2014, cited in RBZ, 2014b). The National Social Security Authority (NSSA), a government pension fund, notes that approximately 700 companies wound up their businesses between 2011 and 2014, leading to the loss of 10 000 jobs (New Zimbabwe, 2014). Between 2012 to 2013, a total of 6 383 workers were retrenched (Employers Confederation of Zimbabwe (EMCOZ), n.d., cited in RBZ, 2014a). Mazda Motor Industries, the only car assembly company in Zimbabwe, has since stopped manufacturing cars due to the unstable macroeconomic environment, decreasing demand, and competition from cheap imported cars, especially from Japan (Mambo, 2015).

The deindustrialisation of Zimbabwe, which has led to the closure of companies, has created unemployment (ICAZ, 2013) and has made the government the sole employer in the shrinking economy. Government revenue is decreasing due to the decline in the amount of taxes collected as companies are folding (ICAZ, 2013). Since revenues are declining, the government struggles to pay civil servants. The government does not have specific dates for paying civil servants, but they are paid as and when the financial resources become available. About 75 % of government expenditure constitutes civil servants' salaries (KPMG, 2014; World Bank, 2014a).

Between 2009 and 2011, the Zimbabwean economy showed significant signs of growth as a result of the introduction of a multi-currency system (World Bank, 2015a) and the creation of a Government of National Unity by three political parties: ZANU PF, the MDC led by Morgan Tsvangirai (MDC-T), and the MDC led by Professor Arthur Mutambara (MDC-M). However, economic growth again declined from 10.6% in 2011 to approximately 4.4% in 2012, and declined further to 3.7% in 2013 (AEO, 2014) and 3.2% in 2014 (World Bank, 2015b). The economic growth is projected to further decline to 2.8% in 2015 (World Bank, 2015c).

Agriculture is viewed by the government as a key sector for promoting economic growth. However, production is also decreasing in this sector due to the impact of the hostile macroeconomic environment and persistent droughts (RBZ, 2013, 2014b). For example, in the 2012/13 farming season, production declined by 5.4% (AEO, 2014; RBZ, 2014c). Droughts, flooding and inadequate funding for the agricultural sector have led to the reduced production of maize, cotton and groundnuts (Toriro, 2009; RBZ, 2014; World Bank, 2014b).

The financial services sector (commercial banks, building societies, cooperative banks, microfinance institutions, asset management companies and insurance companies) faces a liquidity crunch. Very few operational companies remain and deposits are few, as only a small number of people are employed (ICAZ, 2013). Individuals and companies are struggling to repay loans (ICAZ, 2013). Approximately 60–70% of the Zimbabwean population does not have access to banking facilities (RBZ, 2013).

The Zimbabwean retail sector is growing significantly, particularly supermarkets and fast food outlets (Robertson, 2012; RBZ, 2013). The demand for food is high due to the low levels of agricultural production in Zimbabwe (Robertson, 2012; RBZ, 2013; RBZ, 2014b). Zimbabwe imports food products from countries like Botswana, South Africa and Mozambique. South African retailers like Shoprite and Pick ‘n Pay have opened businesses in Zimbabwe (RBZ, 2013).

Zimbabwe is rich in natural resources such as coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, and the platinum group metals (USAID, 2010; RBZ, 2013; Kwaramba *et al.*, 2015). Zimbabwe has the second largest platinum deposit in the world and its gold deposits are viewed as among the largest on the African continent (RBZ, 2013). However, production in the mining sector is decelerating due to the decreasing prices of minerals on the world market and increasing mining costs (World Bank, 2014a). For example, the production of platinum and palladium is decreasing (RBZ, 2014). Declining mining production is also attributable to poor economic policies, political influence and interference, and lack of infrastructure (Shangahaidonhi & Gundani, 2014).

Exports declined by 8.7% in 2014, and for 2015 they were expected to remain low due to the lack of access to export finance, competition in the international market, the high costs of exporting, the high standards of export products, and limited access to imported inputs (Robertson, 2012; World Economic Forum (WEF), 2014, cited in KPMG, 2014). Imports also declined by 7.4% in 2014. Importers are confronted with challenges such as high tariffs on imports, corruption at the border posts, the high costs of importing, and the lack of access to funding (WEF, 2014, cited in KPMG, 2014). According to a 2014 survey conducted by the WEF, Zimbabwe was ranked as one of the least efficient countries in the clearing process at border posts. The processes involved in importing and exporting are administratively tedious and are thus partly responsible for the decline in import and export activity.

The health delivery system has been deeply affected by the current socio-economic and political climate. The GoZ provides about 60% of the country's health services (RBZ, 2013). However, the health sector is characterised by critical shortages of drugs, demotivated staff

due to the late payment of salaries and the increasing cost of living, a shortage of hospital beds, and inadequate and inexperienced staff. Some qualified personnel have left the country for greener pastures in neighbouring countries, while others have found their way to Western developed countries (GoZ & UN, 2011).

Regionally, Zimbabwe is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), and continentally, the country is a member of the African Union (AU) (GoZ & UN, 2011; Deloitte, 2012; KPMG, 2014).

#### ***1.7.5.2 The study site***

The study was conducted in Harare, the capital city of Zimbabwe. Data was collected from the city, the light industrial areas, and the high-density as well as low-density residential areas. Areas outside the city centre included in the study were High Glen Shopping Complex, Glen View, Mufakose, Kuwadzana, Dzivarasekwa, Mabvuku, Tafara, Mbare (Siyaso), Epworth, Hatfield, Willowvale, Glen Nora and Greendale. Harare is the commercial nerve centre of Zimbabwe and has SMEs in the primary, secondary and tertiary sectors of the economy. Therefore, the results would be representative of SMEs in Zimbabwe. The SMEs involved in this study are registered, pay tax, and have specific premises or plots of land where they conduct business.

#### **1.7.6 Population and sampling**

The target population in this study was composed of SMEs in the various sectors of the economy in Harare, Zimbabwe. The researcher focused on SMEs that are registered, are on the MSMECD's and Harare Chamber of SMEs' (HCSME) databases, and have specific locations, premises or structures from where they operate. Harare has approximately 442 000 SMEs. The FinScope Survey (2012) indicated that only 15 % (66 300) of these SMEs are registered. However, even though 15 % are registered, some have not yet started operating and do not have specific premises from which they operate. About 18 % (11 934) of registered businesses do not have premises (FinScope, 2012). The researcher focused on those that had specific business premises, such as offices in town, factory buildings or sheds, and proper shops or offices at home or in designated areas, and that contributed to the fiscus. The study therefore had a target population of 54 366 SMEs.

Stratified sampling was used in the selection of questionnaire respondents (SMEs). Purposive sampling was used in the identification of respondents from the MSMECD, SMEDCO and academic institutions. These were individuals with the relevant knowledge that the researcher required. The participants were also experienced in the field under investigation.

### **1.7.7 Data collection**

Data collection was conducted in July 2014 over a period of four weeks. Questionnaires were used in the collection of empirical data from SMEs. Five trained research assistants assisted the researcher in the distribution of the questionnaires and in the collection of the completed questionnaires from the respondents. The researcher conducted in-depth interviews with officials from the MSMECD and SMEDCO, and with key informants from the public universities. Government policy documents and published and unpublished articles provided valuable secondary qualitative data for the study

### **1.7.8 Data analysis**

The process of analysing qualitative data from in-depth interviews involved summarising, categorising, coding and identifying key themes emerging from the data. Identifying documents, reading the documents several times, categorising the data, coding the data, and reporting and interpreting the findings were the steps followed in the document analysis.

Quantitative data was analysed using IBM SPSS version 21. The data was analysed descriptively and presented through figures, tables, graphs, pie charts and percentages. Descriptive statistics were used to describe the characteristics of the data such as the mean, standard deviation, and range of scores (Macmillan & Schumacher, 2010; Bhattacharjee, 2012). Inferential statistics were used for making inferences about the population based on a randomly selected sample, and included the Spearman's correlation coefficient, the Mann-Whitney U test and the Kruskal-Wallis test.

The Spearman's rho was used to measure the strength of the relationship between the SME challenges and government policies and strategies. This was done to establish if the government policies and strategies have been successful in addressing the key obstacles confronting the SME sector in Harare, Zimbabwe. The Mann-Whitney U test was used to establish if there were any significant differences between the two groups of respondents in

terms of the technical, management and marketing skills deficiencies or challenges in their businesses. Establishing if there were any statistically significant differences among SMEs in various groups in terms of challenges, such as deficiencies in marketing skills, technical skills, financial management skills, management experience and training, was achieved using the Kruskal-Wallis test.

## **1.8 LIMITATIONS OF THE STUDY**

The study was conducted in the form of a case study. Data collection was restricted to SMEs in Harare, the capital city of Zimbabwe. Targeted SMEs were registered businesses with specific business premises from which they trade. For more conclusive results, more towns and cities need to be studied. However, this was not possible due to time and financial constraints. It was also not possible due to logistical challenges. The results of the study cannot therefore be generalised to all towns in Zimbabwe, but may be generalised to cities like Bulawayo and Mutare that have almost the same status as Harare.

## **1.9 ETHICAL CONSIDERATIONS**

Ethical standards were observed and maintained throughout the research process. Informed consent, confidentiality and privacy (Bhattacharjee, 2012; Myers, 2009) were maintained, and the research process was guided by these ethical principles. Prior to the commencement of the data collection process, the researcher obtained ethical clearance (protocol reference number HSS/1114/013D) from the University of KwaZulu-Natal (UKZN) Ethics Committee. Permission was sought from the senior management of the MSMECD and the Harare Chamber of SMEs. The researcher was issued with a gatekeeper's letter from the MSMECD and another one from the HCSME. Informed consent was sought from the SMEs, the officials from the MSMECD and SEDCO who were interviewed, as well as from the key informants from three state universities in Harare. Participants had to sign an informed consent form, and were informed of their right to withdraw from the study at any stage. Research participants were assured of confidentiality in that their names would not be published.

## **1.10 STRUCTURE OF THE STUDY**

The thesis is composed of eight chapters as outlined below:

### **Chapter One: Nature and scope of the study**

This chapter provides an overview of the study. Key aspects covered in the study include the background to the study, the research problem, the research objectives, the research questions, the motivation for study and the research methodology. The chapter also briefly presents the limitations of the study, the ethical considerations, and the structure of the study.

### **Chapter Two: SMEs in the global world**

Chapter Two provides a literature review of SMEs in the global world. The chapter covers the conceptual definitions of an SME as provided by international institutions such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), the European Commission (EC), the United Nations Industrial Development Organisation (UNIDO), and by regional organisations such as COMESA. Definitions of SMEs in developed, emerging and developing economies are also provided in this chapter. The chapter also describes the contribution of SMEs to economic development in developed, emerging and developing countries. A comparison of business ownership rate and growth is drawn between developing and developed nations. The challenges faced by SMEs on a global scale are explained, and an assessment of the government policies and strategies of selected countries in addressing the challenges of SMEs is presented. These countries are the United States of America (U.S.), the United Kingdom (UK), Russia, India, Malaysia and South Africa. The purpose of the chapter was to assist the researcher in drawing insights used for the development of the policy and strategy framework for the development of SMEs in Harare, Zimbabwe.

### **Chapter Three: SMEs in the Zimbabwean context**

The purpose of the chapter is to provide a holistic view of SMEs in Zimbabwe. Chapter Three defines SMEs in the Zimbabwean context, and provides an overview of SMEs in Zimbabwe, the location of SMEs, and the role of SMEs in the economy. The macroeconomic environment leading to the development of SMEs in Zimbabwe is described. Also included in the chapter is a discussion of the challenges confronting Zimbabwean SMEs, and the government policies and strategies that have been implemented to address the obstacles to

SME growth. An assessment of the success of these government policies and strategies in addressing the challenges is also provided.

#### **Chapter Four: Conceptual framework**

The chapter presents and discusses the conceptual frameworks guiding the study. The conceptual framework is informed by the challenges confronting SMEs, the government policies and strategies implemented to deal with these challenges, and the assessment of the success of these government policies and strategies. The conceptual framework also proposes the development of alternative policies and strategies, the refinement of the existing policies and strategies, or discarding policies and strategies that cannot address the needs of SMEs. The anticipated outcomes of the appropriate policies and strategies are also outlined in the chapter. The concept of government policy and the concept of strategy are explained in conjunction with the policy and strategy cycles, respectively.

#### **Chapter Five: Research methodology**

The research methodology is discussed in this chapter, with key aspects including the research process, research philosophy, research design, research approach, research strategy and the study site. The study population and sampling, research instruments, type of data collected, data collection process and the qualitative as well as the quantitative data analyses are explained. Quantitative data analysis was conducted using descriptive and inferential statistics. Content analysis was employed in the analysis of qualitative data.

#### **Chapter Six: Data analysis and interpretation of results**

Chapter Six presents the analysis and interpretation of quantitative and qualitative data. The quantitative data was generated by the questionnaire, while the qualitative data emanated from the in-depth interviews with the officials from the MSMECD, SMEDCO, and key informants from the state universities in Harare. Document analysis was also conducted to provide additional qualitative data.

#### **Chapter Seven: Discussion of results**

The purpose of this chapter is to present a discussion of the results presented in Chapter Six in relation to the research objectives. A detailed discussion is also presented on the extent to which the results link to the existing literature on the challenges confronting SMEs, the

government policies and strategies to address the SME obstacles, and the success of the policies and strategies in dealing with the challenges. A policy and strategy framework for promoting SME development in Zimbabwe is also provided in this chapter.

## **Chapter Eight: Recommendations and conclusions**

Chapter Eight focuses on the recommendations and conclusions based on the findings of this study on the challenges confronting SMEs, the government policies and strategies to address the challenges, and the success of these policies and strategies in dealing with obstacles experienced by SMEs. The study makes informed recommendations for future policy and strategic planning and implementation that could lead to the development of SMEs in Harare, Zimbabwe. Included in the chapter is a summary of the major findings from the literature review, from the quantitative and qualitative data analysis, as well as from the documents analysed. The implications of the results for the government are also presented. The limitations of this study and the suggestions for further studies are briefly discussed. The contribution of the study to current knowledge is also presented. The conclusions of the study are presented, based on the four research objectives.

### **1.11 CONCLUSION**

The purpose of this chapter was to provide an overview of the study. Its main areas of focus are the background of the study, motivation for the study, research problem, research aims and objectives, and the research questions guiding the study. The research methodology is briefly presented in this chapter. The limitations of the study and its ethical considerations are described. The structure of the study is also outlined.

The next chapter presents an overview of literature on SMEs in the global context. Challenges confronting SMEs globally are presented, and policies and strategies adopted by the U.S., UK, Russia, India, Malaysia and South Africa are outlined and assessed. The purpose of studying these countries is to draw insight from them in designing a policy and strategy framework for promoting the development of SMEs in Zimbabwe.

## **CHAPTER 2: SMEs IN THE GLOBAL WORLD**

### **2.1 INTRODUCTION**

Today SMEs contribute significantly to global economic development. However, they are faced with a myriad of challenges (Thwala & Mvubu, 2008; Bowen *et al.*, 2009; South African National Credit Regulator (SANCR), 2011; Al Saleh, 2012; Ehinomen & Adeleke, 2012). Governments have introduced certain policies and strategies to address these challenges (Central Bank of the Republic of Turkey (CBT), 2010; IMMSME, 2010; Razak, 2011; European Investment Bank (EIB), 2013; UK Cabinet Office, 2013). While the preceding chapter covered the introductory part of the study, this chapter focuses on SMEs in the global context. Key aspects covered include: the definition of SMEs, SMEs in the developing, emerging and developed economies of the world, SME challenges in the global context, and the policies and strategies implemented in selected countries to address the key obstacles to SME growth. An analysis of the success of these policies and strategies is also given. Selected countries whose policies and strategies were analysed are the U.S., the UK, Russia, India, Malaysia and South Africa. These countries have been selected because they have taken a committed stance to promote the development of SMEs. Insights are drawn from these countries to create a strategy policy and strategy framework for the development of SMEs in Zimbabwe.

### **2.2 DEFINITION OF THE CONCEPT OF SMEs**

There is no definition for SMEs that is universally accepted (Migiro & Wallis, 2006; Senik *et al.*, 2010; Khalique *et al.*, 2011; Inyang, 2013). Scholars and researchers have defined the concept from different perspectives and angles (Al Saleh, 2012). Various definitions which have been put forward are based on the number of employees, turnover levels, total net assets, capital base, legal structure and the degree of formalisation (Kapoor *et al.*, 1997; Hisrich *et al.*, 2004; Asian Development Bank & OECD, 2014). Therefore, countries do not have the same definitions and classifications of SMEs. Some countries classify SMEs according to the size of the workforce, while others classify them according to their asset base (Al Saleh, 2012). For example, Zimbabwe uses the asset base as one of the factors to consider in the classification of SMEs (SME Act, 2011), as does India (Export-Import Bank of India (EIBA), 2012; World Bank Group (WBG), 2012; Reserve Bank of India (RBI), 2013). Malaysia uses

the size of the workforce as one of the aspects in classifying SMEs (Senik, 2010; SME Corp. Malaysia, 2013a; Khan & Khalique, 2014). Therefore, it is not easy to arrive at a universal definition for all countries because the nature of an SME depends on the level of economic development of the nation in which it is located (Chisala, 2008; Motwani *et al.*, 2006; Khalique *et al.*, 2011; Inyang, 2013). Each nation has its own definition of SMEs (Inyang, 2013). The term ‘SME’ generally refers to micro, small and medium enterprises (CBT, 2010; United Republic of Tanzania Ministry of Trade and Industry, 2002; Zimbabwe Small Enterprise Development Corporation Amendment Act, 2011; WBG, 2012).

Definitions of SMEs do not remain the same, because economies change (National SME Development Council (NSDC), 2013a; Indian Ministry of Micro, Small and Medium Enterprises (IMMSME), 2014). The idea of what constitutes an SME changes with time depending on the level of development of a country, changes in inflation, structural changes and changes in business trends (IMMSME, 2014). For example, in Malaysia many economic changes have taken place since 2005, mainly due to inflation, structural changes, and changes in the Malaysian business trends (NSDC, 2013a). These changes necessitated a review of the definition of SMEs in Malaysia in July 2013. Before July 2013, a small enterprise in the agricultural sector had between five and 19 employees, while after the review a small enterprise in the same sector had less than 5 and up to 30 employees. Therefore, definitions change to suit current trends.

### **2.2.1 SMEs as defined by international organisations**

The classification of SMEs into small and medium enterprises by the World Bank is based on the number of full-time workers, annual sales and/ or the total value of assets (Kushnir *et al.*, 2010). The World Bank (Table 1) describes small enterprises as those formal sector businesses with between 10 and 50 employees, and total assets and/or total annual sales of up to US\$3 million, while medium enterprises have between 50 and 300 workers and a balance sheet total or annual sales total that ranges from US\$3 million to US\$15 million (CBT, 2010; Kushnir *et al.*, 2010; International Monetary Fund (IMF), 2013). The OECD (Table 2) defines SMEs as those non-subsidiary, private business entities having 10 to 250 full-time employees and not more than £10 million annual sales or assets (United States Agency for International Development (USAID), 2007; Dalberg, 2011; Independent Evaluation Group, 2013). The statistical descriptions of SMEs vary from one country to another (Cohen *et al.*, 2004, cited in Faloye & Akinkoye, 2013; UNIDO, cited in Ekwem, 2011; World Trade Organisation (WTO), 2013; Christina *et al.*, 2014). Differences in definitions stem from the varying socio-

economic structures among countries (Chisala, 2008; Christina *et al.*, 2014) and the purposes which the definitions are meant to serve (Faloye & Akinkoye, 2013). The variable which is most commonly used in defining SMEs is the number of employees (OECD, 2004; Dalberg, 2011; WTO, 2013). The OECD also uses this variable across all member states (OECD, 2013a; OECD, 2014).

**TABLE 1. WORLD BANK DEFINITION OF SMES**

Size of enterprise	Number of employees	Annual income	Assets
Micro	< 10	< US\$100 000	< US\$100 000
Small	< 50	< US\$3 million	< US\$3 million
Medium	< 300	< US\$15 million	< US\$15 million

Sources: CBT (2010: 4); Dalberg (2011: 6)

**TABLE 2. OECD ENTERPRISE CATEGORIES**

Size of business	Number of employees	Assets
Micro	≤ 10	–
Small	< 50	–
Medium	< 250	< £10 million

Sources: Asian Development Bank & OECD (2014: 48)

The EC (Table 3) considers the size of a company's workforce, its annual sales turnover, and its balance sheet total in determining whether or not it is an SME (USAID, 2007; EC, 2013). According to the EC, SMEs are those entities that employ fewer than 250 workers and have an annual income of not more than US\$67 million and/or a balance sheet total of not more than US\$56 million (EC, 2005; EC, 2013).

The European Union (EU) (Table 4) describes SMEs as businesses that employ fewer than 250 employees, and whose annual sales turnover is not above €50 million and/or whose annual balance sheet does not total more than €43million (OECD, 2009; Dalberg, 2011; EC, 2013; Faloye & Akinkoye, 2013; Katua, 2014). Thus, the EU's definition of SMEs is based on number of employees, annual income and total value of assets (Faloye & Akinkoye, 2013).

**TABLE 3. EC DEFINITION OF SMES**

Size of enterprise	Number of employees	Annual sales	Assets
Micro	< 10	≤ US\$3 million	≤ US\$3 million
Small	< 50	≤ US\$13 million	≤ US\$13 million
Medium	< 250	≤ US\$67 million	≤ US\$56 million

Sources: USAID (2007: 5); EC (2013: 181)

**TABLE 4. EU DEFINITION OF SMES**

Size of business	Number of employees	Annual income	Assets
Micro	< 10	≤ €2 million	≤ €2 million
Small	< 50	≤ €10 million	≤ €10 million
Medium	< 250	≤ €50 million	≤ €43 million

Sources: Dalberg (2011: 6); EC (2013: 9); Faloye & Akinkoye (2013: 181)

UNIDO (Table 5) uses both the qualitative and quantitative characteristics to define SMEs (UNIDO, 2005; USAID, 2007). According to UNIDO (2005), micro businesses employ between 1 and 9 workers, and have a registered capital base of less than US\$42 300, while small enterprises employ between 10 and 49 employees and have a registered capital base of more than US\$42 300. Medium enterprises employ between 50 and 249 full-time workers, and have a registered capital base of more than US\$42 300 (UNIDO, 2005; USAID, 2007).

**TABLE 5. UNIDO QUANTITATIVE DEFINITION OF SMES**

Category of enterprise	Number of employees	Registered capital base (US\$)
Micro	1–9	Less than \$42 300
Small	10–49	More than \$42 300
Medium	50–249	More than \$42 300

Sources: USAID (2007: 7); Sparrow (2011: 671); Faloye & Akinkoye (2013: 180)

UNIDO also considers the following qualitative features in defining SMEs (Table 6). A comparison with their criteria for large companies is shown.

**TABLE 6. USE OF QUALITATIVE INDICATORS IN DEFINING SMES BY UNIDO**

<b>Indicator</b>	<b>SMEs</b>	<b>Large Businesses</b>
<b>Management</b>	<ul style="list-style-type: none"> <li>• Proprietor entrepreneurship</li> <li>• Functions are linked to the nature of personalities of the proprietors</li> </ul>	<ul style="list-style-type: none"> <li>• Manager entrepreneurship</li> <li>• Division of labour is according to the subject matter</li> </ul>
<b>Human resources</b>	<ul style="list-style-type: none"> <li>• Lack graduates from universities</li> <li>• Should have knowledge about the whole business</li> </ul>	<ul style="list-style-type: none"> <li>• Have many university graduates</li> <li>• There is specialisation</li> </ul>
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Communication is personalised</li> </ul>	<ul style="list-style-type: none"> <li>• Communication is highly formalised</li> </ul>
<b>Relationship with customers</b>	<ul style="list-style-type: none"> <li>• It is unstable because of lack of long-term contacts</li> </ul>	<ul style="list-style-type: none"> <li>• It is stable because it is based on long-term relationship and communication</li> </ul>
<b>Production process</b>	<ul style="list-style-type: none"> <li>• Labour is used intensively</li> </ul>	<ul style="list-style-type: none"> <li>• There is intensive use of capital</li> </ul>
<b>Research and development</b>	<ul style="list-style-type: none"> <li>• Usually there is no research, and the business works according to the market. An intuitive approach is used</li> </ul>	<ul style="list-style-type: none"> <li>• Research is usually part of the company's strategy. Therefore, it is institutionalised</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Family funded</li> <li>• Self-financing</li> </ul>	<ul style="list-style-type: none"> <li>• Have access to many sources of finance from the capital market</li> </ul>

Sources: USAID (2007:7); Sparrow (2011: 671); Faloye & Akinkoye (2013: 180)

### **2.2.2 Regional definitions of SMEs**

COMESA (2013) defines SMEs according to the number of full-time employees (Table 7), arguing that it is the only factor that can be used to describe SMEs across all COMESA countries. COMESA therefore defines SMEs as businesses in the agricultural, manufacturing and service sectors of the economy that have between 5 and 150 employees.

**TABLE 7. QUANTITATIVE DEFINITION OF SMES BY COMESA**

<b>Size of enterprise</b>	<b>Number of employees</b>
Micro enterprise	5–9 employees
Small enterprise	10–50 employees
Medium enterprise	150 employees

Source: COMESA (2013: 6)

### **2.2.3 SME definitions in selected countries**

The UK defines SMEs according to income per annum and the size of the full-time workforce or the value of assets (UK Companies Act, 2006; Hughes & Mina, 2010; Faloye & Akinkoye, 2013; Infelise, 2014; OECD, 2014). In the UK, micro enterprises have fewer than 10 employees, up to £2 million (US\$3.3 million) in annual income, or assets worth up to £2 million (Faloye & Akinkoye, 2013; Lee & Rodriguez, 2013; UK Government House of Lords, 2013). A business with an annual income of up to £10 million (US\$16.7 million) and with fewer than 50 employees or with a balance sheet total of £10million (US\$16.7 million) is regarded as a small enterprise, while a business with an annual income of up to £50 million (US\$83.3 million), fewer than 250 employees or with assets worth £43 million (US\$71.7 million) is regarded as a medium-sized enterprise (UK Companies Act, 2006; Hughes & Mina, 2010; UK Government Department of Trade and Investment, 2013; OECD, 2014).

Small enterprises in the U.S. (Table 8) employ any number of workers which is fewer than 100, while medium enterprises employ more than 100 but less than 500 workers (Sweeney & Basefsky, 2010; United States International Trade Commission (USITC), 2010; OECD, 2013b; OECD, 2014). SMEs in the farming sector must have an annual income of less than US\$250 000, while those in the manufacturing sector and involved in exporting should have an annual income that ranges from US\$7 million to US\$25 million (USITC, 2010; OECD, 2013a; Katua, 2014; OECD, 2014). The U.S. classification of SMEs is unique in that the SMEs are defined according to their sector classification: exporting manufacturing, non-exporting manufacturing, and farming. Though the upper limit on the number of employees is the same for each sector, they differ in their upper limit for annual income (USITC, 2010; OECD, 2014). Annual income as an indicator does not apply to manufacturing and services businesses that are not involved in exporting (Sweeney & Basefsky, 2010; OECD, 2013).

**TABLE 8. SME DEFINITION IN THE U.S.**

<b>All manufacturers and service providers not involved in exporting</b>		<b>Exporting businesses</b>		<b>Farms</b>
<b>Number of employees</b>	Less than 500	<b>Most</b>	<b>High Value</b>	
		Less than 500	Less than 500	Less than 500
<b>Annual Income</b>	Does not apply	Not more than \$7 million	Not more than \$25 million	Not more than \$250 000

Sources: USITC (2010: 3); OECD (2013: 253b); OECD (2014: 360)

In Russia, micro enterprises have 1 to 15 full-time employees, while small enterprises have between 15 and 100 employees, total assets of between US\$100 000 and US\$3 million, and annual sales of between US\$100 000 and US\$3 million (EIB, 2013; OECD, 2013a; OECD, 2014). Medium enterprises in Russia have between 100 and 300 employees, total assets between US\$3 million and US\$15 million, and total annual sales between US\$3 million and US\$15 million (Mityay, 2012; EIB, 2013; OECD, 2014).

India makes use of capital assets in the classification and definition of SMEs, which are categorised into the manufacturing and services sectors and have different capital investment thresholds (Ravi, 2009; WBG, 2012; RBI, 2013). From 2006 to 2013, a micro enterprise in the manufacturing sector was defined as having assets worth up to US\$62 500, a small enterprise as having assets from US\$62 500 to US\$1.25 million, and a medium enterprise as having assets ranging from US\$1.25 million up to US\$2.5 million (EIBA, 2012; RBI, 2013; IMMSME, 2014). In 2014, the definitions changed due to the amendment of India's Micro Small and Medium Enterprises Development (MSME) Act of 2006. A new act, the MSME (Amendment) Act of 2014, came into force. From 2014 to date, a micro enterprise in the manufacturing sector has assets worth less than US\$92 000, small enterprises have assets ranging from US\$92 000 to US\$1.84 million, and medium enterprises have assets ranging from US\$1.84 to US\$5.52 million (IMMSME, 2014).

Prior to July 2014, a micro enterprise in India's services sector had assets worth up to US\$25 000, a small enterprise in the same sector had assets ranging from US\$25 000 to US\$0.5 million, and a medium enterprise had assets ranging from US\$0.5 million to US\$1.5

million (Ghatak, 2012; SME World, 2013; Thornton, 2013b). After the MSME (Amendment) Act of 2014, micro enterprises in India's services sector now have assets worth less than US\$36 800, small enterprises have assets ranging from US\$36 800 to US\$0.92 million, and medium enterprises have assets ranging from US\$0.92 million to US\$2.76 million (IMMSME, 2014).

Malaysia classifies SMEs according to the size of operation in terms of the number of employees or the annual sales turnover (NSDC, 2005; Muhammad & Labuan, 2010; Senik *et al.*, 2010; Hashim, 2012; Moorthy *et al.*, 2012; Katua, 2014). Malaysian SMEs are categorised into manufacturing, and services and other sectors (SME Corp. Malaysia, 2013a; Katua, 2014). A small enterprise in the manufacturing sector must have an annual sales turnover of between RM300 000 (US\$89 820) and RM15 million (US\$4.49 million) or have between 5 and 75 full-time employees (NSDC, 2013a). Medium enterprises in the same sector must have an annual sales turnover of between RM15 million (US\$4.49 million) and RM50 million (US\$14.97 million) or between 75 and 200 full-time employees (NSDC, 2013a; Katua, 2014). In the services and other sectors, small enterprises have an annual sales turnover of between RM300 000 (US\$89 820) and RM3 million (US\$898 200) or between 5 and 29 full-time employees (SME Corp. Malaysia, 2013a). A medium-sized enterprise in the same sector has an annual sales turnover of between RM3 million (US\$898 200) and RM20 million (US\$5 988 million) or between 30 and 75 full-time employees (NSDC, 2013a; Katua, 2014).

In the South African context, a micro enterprise is an entity that has fewer than 5 employees, has an annual income of between R200 000 (US\$20 000) and R500 000 (US\$50 000) or has assets that are worth less than R100 000 (US\$10 000), while small enterprises have fewer than 20 employees, have an annual turnover of between R2 million (US\$200 000) and R25 million (US\$250 000) and have assets of up to R500 000 (US\$50 000), depending on the industry (SANCR, 2011; Mohutsiwa, 2012; Tangwo, 2012). Medium enterprises have between 100 and 200 employees, an annual turnover of between R4 million (US\$400 000) and R50 million (US\$5 million) and assets worth between R2 million (US\$200 000) and R18 million (US\$1.8 million) (Fatoki & Odeyemi, 2010; Fatoki & Garwe, 2010; SANCR, 2011). These SMEs must be separate and distinct entities and are managed by one or more owners (SANCR, 2011; Tangwo, 2012).

The Zambian Ministry of Commerce, Trade and Industry classifies enterprises in terms of the value of their assets (excluding land and buildings), their annual income and the size of their labour force (Mumba, 2014). A micro enterprise has a total asset value of US\$15 000, an annual income of US\$30 000 and a maximum of 10 employees. A small enterprise involved

in manufacturing and processing has a total asset value ranging from US\$15 000 to US\$30 000. Small enterprises in the trade and services sectors have assets worth up to US\$30 000. Small enterprises in both sectors have an annual income of between US\$30 000 and US\$45 000, and employ between 11 and 49 workers. Medium enterprises in manufacturing and processing have assets worth between US\$40 000 and US\$90 000, while those in the trade and service sectors have assets of between US\$30 000 and US\$55 000. Medium enterprises in these two sectors have an annual income of between US\$30 000 and US\$150 000 and have 51 to 100 employees (Zambian Ministry of Commerce, Trade and Industry, 2008, cited in Mumba, 2014).

The various definitions of SMEs discussed above are summarised in Table 9.

**TABLE 9. STATISTICAL DEFINITIONS OF SMES IN SELECTED COUNTRIES**

<b>Country</b>	<b>Category of enterprise</b>	<b>Number of employees</b>	<b>Annual income (US\$)</b>	<b>Assets (US\$)</b>
<b>UK</b>	Micro	< 10	≤ \$3.3 million	≤ \$3.3 million
	Small	< 50	≤ \$16.7 million	≤ \$16.7 million
	Medium	< 250	≤ \$83.3 million	≤ \$71.7 million
<b>Russia</b>	Micro	1–15	< \$100 000	< \$100 000
	Small	15–100	≤ \$3 million	≤ \$3 million
	Medium	100–300	≤ \$15 million	≤ \$15 million
<b>Malaysia (manufacturing Sector)</b>	Micro	< 5	< RM300 000	
	Small	From 5 to less than 75	From \$89 820 to less than \$4.49 million	—
	Medium	From 75 to less than 200	From \$4.49 million to not more than \$14.97 million	—
<b>Malaysia (services &amp; other sectors)</b>	Micro	< 5	< \$89 820	—
	Small	From 5 to less than 30	From \$89 820 to less than \$0.9 million	—

	Medium	From 30 to less than 75	From \$0.9 million to not more than \$5.98 million	—
<b>India (manufacturing sector)</b>	Micro	—	—	Up to \$92 000
	Small	—	—	From above \$92 000 up to \$1.84 million
	Medium	—	—	From more than \$1.84 million up to \$5.52 million
<b>India (Service enterprises)</b>	Micro	—	—	Up to \$36 800
	Small	—	—	From above \$36 800 to \$0.92 million
	Medium	—	—	From more than \$0.92 million to \$2.76 million
<b>South Africa</b>	Micro	< 5	From less than \$20 000 to \$50 000 depending on the industry	Less than \$10 000
	Small	< 20	From less than \$200 000 to \$2 500 000	From less than \$15 000 to \$50 000
	Medium	< 200	From less than \$400 000 to \$5 million	From less than \$200 000 to \$1.8 million
<b>Zambia</b>	Micro	≤ 10	US\$30 000	US\$15 000
	Small (manufacturing & processing, and trade &	11 to 49 workers	US\$30 000 to US\$45 000	US\$15 000 to US\$30 000

	services sectors)			
	Medium (manufacturing & processing)	50 to 100 workers	US\$55 000 to US\$150 000	US\$40 000 to US\$90 000
	Medium (trade & services sector)	50 to 100 workers	US\$55 000 to US\$150 000	US\$30 000 to US\$55 000

Sources: Adapted from SANCR (2011: 24); EIBA (2012: 96); WBG (2012: 20, 96); OECD (2013: 6b); RBI (2013: 2–3); SME Corp. Malaysia (2013b: 2); IMMSME (2014: 14); Mumba (2014: 3); Russian Statistics Office, cited in OECD (2014: 271)

It is clear that different countries use different indicators to define SMEs (Katua, 2014). Definitions therefore vary from country to country (Pandya, 2012, cited in Mitanoski *et al.*, 2013), with each country or region using a definition that suits its needs, circumstances and expectations. Thus, giving a universal definition of SMEs is not an easy task (Inyang, 2013).

### 2.3 SMEs IN THE GLOBAL CONTEXT

SMEs in the developing world, emerging economies and developed economies play a critical role in industrialisation, economic growth, contribution to the GDP and provision of employment (Bowen *et al.*, 2009; Dalberg, 2011; Amoafa, 2012; Mwobobia, 2012; United Nations Economic Commission for Africa (UNECA), 2012). The generation of paid employment and self-employment leads to poverty alleviation (World Bank, 2004; Mwobobia, 2012). SMEs promote innovation, an entrepreneurial spirit, and the identification and development of local and international markets (Fafchamps & Quinn, 2011; UNECA, 2012). In their endeavour to promote innovation SMEs collaborate with large companies (Association of Chartered Certified Accountants (ACCA), 2010). It is against this background that SMEs, since 1979, have become an important element of the economic policies and strategies of almost every government in the world (Richard, 2008).

UNECA (2012) observes that SMEs play an important role in the transformation of an economy into a market economy through the promotion of competition among businesses. In some economies certain companies enjoy monopolies and this compromises the quality of customer service as well the quality of products. The presence of SMEs helps to reduce the inefficiency of a monopolistic system (UNECA, 2012). SMEs are also important for their flexibility and responsiveness to changes in the current global macroeconomic and socio-

political environment (Stefanovic *et al.*, 2009). They provide entrepreneurs with an opportunity for training in business and management skills, in turn providing an economy with critical skills, ideas and much needed innovation (Oh, 1994).

By number, SMEs are dominant in the private sector. They account for more than 95 % of the registered businesses in the world and contribute approximately 60 % of the jobs in the private sector (CBT, 2010; Ayygari *et al.*, 2011; Edinburgh Group, 2012). In the world economy, more than 50 % of the GDP that emanates from the private sector is contributed by SMEs (Stefanovic *et al.*, 2009; Edinburgh Group, 2012). Thus, the importance of SMEs in any economy cannot be overemphasised.

### **2.3.1 SMEs in developed economies**

Developed countries have highly developed economies and highly developed technological infrastructure (World Bank, 2011). Economically developed countries have high GDPs, high per capita income, high levels of industrialisation, widespread infrastructural development, and a high standard of living for their populations (United Nations Development Policy and Analysis Division (UNDPAD), 2013). The IMF (2013) notes that developed economies contribute 52.1 % of the global GDP. The Human Development Index (HDI), a tool that was developed by the UN to measure and rank countries' levels of social development, indicates that developed countries have high levels of human development in terms of their standards of education, literacy levels, and their quality of and access to health facilities (UNDPAD, 2013).

In developed economies the business environment functions better than that of developing or emerging economies, the macroeconomic environment is conducive to business growth, and the legal and institutional frameworks are effective (CBT, 2010). SMEs' access to finance differs in developed and developing countries. SMEs in developed economies tend to have greater access to finance than those in developing economies (Dalberg, 2011). Given such a scenario, SMEs in developed economies are bound to be different from those of emerging economies and developing countries in terms of their failure rate, government support and the types of challenges they face. Though SMEs do fail in developed economies, the number is insignificant because of comprehensive policies and strategies that have been formulated and implemented (OECD, 2004; Al Saleh, 2012; EC, 2012). In developed economies both the public and the private sectors play critical roles in ensuring the development of SMEs, as SMEs constitute the backbone of their economies (EC, 2012).

In developed economies 99.8 % of businesses are SMEs, providing 67.1 % of the total employment (Stefanovic *et al.*, 2009). SMEs have greatly influenced the development of modern economies through stimulating inventions, innovations and the spirit of entrepreneurship (Stefanovic *et al.*, 2009). Inyang (2013) quotes the European Union Commission Report's (EC, 2005) observation that SMEs make a significant contribution to the economy of Europe; 99 % of all registered EU businesses are SMEs and they account for 80 % of private sector employment. Al Saleh (2012) states that 99 % of the enterprises in the EU are SMEs. In 2009, SMEs in the EU provided 58 % of the GDP (CBT, 2010). The EC therefore regards SMEs as the 'life blood of Europe's economy' (UK Select Committee on SMEs, 2013). Before 2013, SMEs in the UK accounted for 59.1% of all businesses, contributed more than a third of UK exports and accounted for 48.8 % of the GDP (UKDBIS, 2013; UK Select Committee on SMEs, 2013). In 2014 there were 5.2 million SMEs in the UK, accounting for more than 99 % of all businesses and contributing 49.8 % of the GDP (Rhodes & Ward, 2014). In the U.S., SMEs constitute 95 % of all businesses and more than 90 % of employment is generated by SMEs (Thwala & Mvubu, 2008; Kongolo, 2010; USITC, 2010; Pandya, 2012; Inyang, 2013). U.S. SMEs account for 97 % of exporters and contribute 29 % of all exports and 39 % of the GDP (Pandya, 2012; USITC, 2010). In Canada SMEs comprise more than 99 % of the businesses, employ about 54 % of the Canadian workforce (Royal Bank of Canada, 2014; The Conference Board of Canada, 2014), and contribute 45 % of the GDP and 20 % of the exports (Belanger & Hart, 2012). In OECD countries, SMEs contribute 60–70% of the jobs (Dalberg, 2011). Inyang (2013) quotes the Australian Bureau of Statistics report that 95 % of the Australian private sector is composed of SMEs. SMEs in OECD countries account for 55 % of the GDP (Edinburgh Group, 2012).

### **2.3.2 SMEs in emerging economies**

Emerging economies are countries whose business activities are in the process of rapid growth and industrialisation (Eunni *et al.*, 2007). Thus, these nations are moving towards becoming industrialised. Such countries use economic liberalisation and stabilisation of the macroeconomic environment as the engine for economic growth (Hoskinsson *et al.*, 2000). Emerging economies include countries in Asia, Latin America, Africa and the Middle East, and examples of such countries are Brazil, Mexico, Hungary, Bulgaria, Turkey, India, South Africa, Malaysia and Indonesia. SMEs in emerging economies account for a large proportion of all business enterprises (Bank of Japan & International Finance Corporation (IFC), 2012). In emerging markets SMEs account for up to 85 % of new employment (Bank of Japan & IFC, 2012), and contribute 40–50% of each nation's GDP (Eunni *et al.*, 2007). SMEs in

emerging economies have made a significant contribution to economic growth through the introduction of innovative products and production processes (Wong *et al.*, 2005), and many of these innovations have been necessitated by increased global competition (Eunni *et al.*, 2007). The rapid economic growth in Asian economies and the introduction of new products in Latin America are examples of the benefits of entrepreneurial activity (Wong *et al.*, 2005). The majority of SMEs in emerging economies are active in production for export; for example, 24 % of SMEs in emerging countries are ‘born global’ and continue to be active in exporting, as compared with 13 % of SMEs in First World countries (DHL Express, 2013). This indicates that SMEs in the developed world are lagging behind SMEs in emerging economies in terms of the internationalisation of their businesses.

Ortmans (2013) observes that Brazil is one of the emerging markets that is quite promising in terms of performance. SMEs in Brazil account for 96 % of employment in the private sector (Ortmans, 2013). There is a growing spirit of entrepreneurship in Brazil as evidenced by the increase in the number of new SMEs (Entrepreneurs Speak Out, 2011), and Brazil reported a large number of high-growth enterprises in 2006 (OECD, 2007a). Brazilian SMEs are active in the commerce (retail) and service sectors of the economy (Haner, 2011), contribute about 20 % of the exports, account for 20 % of the GDP (Haner, 2011), and constitute about 99.5 % of all the businesses (Haner, 2011; Inter-American Development Bank, 2014). In Mexico, SMEs make up 99 % of the enterprises, employ 64 % of the workforce, and account for 40 % of the GDP (Avecedo & Tinajero, 2010). Nesirembé (2008) reports that SMEs account for 90 % of the businesses in Singapore. In 2007, in the same country SMEs contributed 42 % of the GDP and employed more than 50 % of the workers (Nesirembé, 2008). In South Africa, SMEs account for 95 % of all enterprises (RMTI, 2010) and contribute 57 % of the GDP and 60 % of employment (RMTI, 2010; Inyang, 2013).

SMEs in Malaysia are divided into two sectors: the manufacturing sector and manufacturing-related services, and agricultural industries (Muhammad *et al.*, 2010; Khalique *et al.*, 2011). SME development in Malaysia represents 99.2 % of the business community, contributing 16.6 % of exports (Senik *et al.*, 2010; Central Bank of Egypt (CBE), 2011; Moorthy *et al.*, 2012) and employing 56 % of the workforce (CBE, 2011). Malaysian SMEs account for 32 % of the country’s GDP (Gunto & Alias, 2013), and export products to the U.S., the EU, Japan, Hong Kong, the People’s Republic of China, and various other countries, which indicates that the Malaysian economy relies on production for export (Senik *et al.*, 2010). Malaysia, as a country, has benefited much from political stability, excellent infrastructure, and skilled, multicultural and multilingual workers (NST, 2006, cited in Senik, *et al.*, 2010). Such a socio-

economic and political environment has created an atmosphere suitable for SME development.

SMEs also play a pivotal role in the Chinese economy through income growth, growth of employment and the increase of exports (Fong, 2011; Katua, 2014). Chinese SMEs account for 45% of employment, 60% of the GDP and 68% of the manufactured exports (Cardoza, Fornes & Xu, 2012). Cardoza *et al.* (2012) cite the Chinese Ministry of Industry and Information Technology's (2010) report that there are more than 10 million Chinese SMEs that account for 50 % of China's tax revenue and 80 % of urban employment. Fong (2011) and Cardoza *et al.* (2012) note that Chinese SMEs account for 99 % of all private enterprises.

The SME sector in India has around 26 million enterprises that contribute 45 % of the industrial output, employ about 73 million people, create 1.3 million jobs every year (RBI, 2013), and account for 35–40 % of the GDP (Zaidi, 2013) and 40 % of India's exports (Federation of Indian Chambers of Commerce and Industry (FICCI), 2010). SMEs in India account for approximately 90 % of the private sector (Zaidi, 2013). Business activities in which the SMEs in India are engaged include, but are not limited to, food and beverages, clothing, fabricated metal products, textiles, furniture, machinery and equipment, retail trade, repair and maintenance of motor vehicles, and wood and wood products (FICCI, 2010).

### **2.3.3 SMEs in the developing countries of Africa**

The UNDP (1994) views developing countries as those less-developed nations that have a lower standard of living for their populations, poor and slow industrial development, undeveloped infrastructure, and a low HDI. The HDI measures levels of poverty, literacy, education, and life expectancy. If the HDI in Africa is low, it means that there is a high level of poverty, a low literacy rate, low standards of education, and a shorter life expectancy for the population. The World Bank (2011) observes that developing countries have a low GDP and a low per capita income, and rely on agriculture as the mainstay of the economy. Burundi's economy, for example, is predominantly agricultural, with more than 90 % of the population depending on agriculture (East African Community (EAC), 2009). In Malawi 84.5 % of the population depend on agriculture (USAID, 2007). The Ugandan economy is also mainly agrarian (EAC, 2009). In the Democratic Republic of the Congo (DRC), 71 % of the population lives in abject poverty, and the quality and efficiency of education is low, with only 18 % of pupils advancing to secondary schools (AfDB & African Development Fund (ADF), 2013). In Mozambique 60 % of the adult population and 76 % of all women cannot

read and write (WBG, 2004). Less than 26 % of the population in the DRC have access to basic health, and the health facilities are poor (AEO, 2005). In Burundi, one of the poorest countries in the world, 68 % of the population lives below the poverty line on an income of less than US\$1 per day, and it is near the bottom of the HDI (EAC, 2009). In Malawi, one of the poorest countries in central southern Africa, 84.5 % of the population lives below the poverty line (USAID, 2007).

Africa has 40 of the world's poorest countries and 19 of these are fragile and affected by conflict (African Economic Outlook, 2005). War and civil unrest, poor governance, and poor economic performance have stifled SME growth in Africa (IFC, 2013a). For example, the business environment in the DRC has been affected by a long period of political instability that has made the country fragile (AfDB & ADF, 2013). Asset losses due to wars and years of financial crisis in the DRC and Burundi have made access to finance difficult for SMEs (African Economic Outlook, 2005). The January 2011 civil uprising against poor governance in Egypt had such a negative impact on SMEs and the economy as a whole that the economy of Egypt almost collapsed (German Development Institute and Egyptian Centre for Economic Studies, 2013). In Mozambique, a civil war that lasted for 16 years also stifled the country's general economic development and SMEs were affected in the process (Dos Santos, 2008). Social unrest in Libya in 2011, which was caused by corruption, macroeconomic imbalances and poor governance, led to macroeconomic instability (Mejia, 2012). Civil wars and social unrest create unstable macroeconomic environments in which SMEs cannot effectively operate, since war and unrest lead to the destruction of the infrastructure critical for SME development (Dos Santos, 2008). The socio-economic and political climates have an influence on the nature, development and performance of SMEs (Zarook *et al.*, 2013). Developed economies have large and sustainable SMEs due to infrastructural development, economic and political stability, and unwavering support for SMEs (Serrasqueiro *et al.*, 2008, cited in Zarook *et al.*, 2013). African SMEs, however, face a multiplicity of challenges that arise from the poor socio-economic and political milieu. That is what makes African SMEs different from those of developed economies.

In developing countries, SMEs account for 90 % of all businesses, and contribute more than 50 % of employment (Al Saleh, 2012; Inyang, 2013) and 60 % of the GDP (OECD, 2004a; Inyang, 2013). They are an important source of export revenue for African developing countries. For example, in Ghana SMEs contribute 70 % of the export revenue (Ahiawodzi & Adade, 2012). They are viewed as a means by which poor people gain access to economic opportunities (Al Saleh, 2012). UNECA (2012) quotes Macpherson (1996) as having

observed that between 15 and 75 % of SMEs in Africa are in the manufacturing and construction sectors.

In Ghana SMEs account for 92 % of all businesses, provide more than 80 % of employment (Ahiawodzi & Adade, 2012; Akorsu & Agyapong, 2012; Quaye *et al.*, 2014; Uppong *et al.*, 2014) and account for 75 % of the GDP (Akorsu & Agyapong, 2012).

In Malawi, SMEs employ about 38 % of the labour force and contribute 15.6 % of the GDP (Government of Malawi, 2012; UNECA, 2012). In Ivory Coast, SMEs account for about 78 % of employment in the manufacturing sector (UNECA, 2012).

Moroccan SMEs account for 98 % of all businesses, contribute 40 % of the GDP and employ 40 % of the workforce (Adama *et al.*, 2013; North Africa, 2014). SMEs also contribute to exports. These businesses account for 30 % of Moroccan exports (North Africa, 2014).

In Mozambique 90 % of the 9.3 million workers are employed in SMEs and the informal sector, and 77 % of the registered businesses are small businesses with fewer than 10 employees (WBG, 2004a). SMEs in Mozambique contribute 16 % of the GDP (Dos Santos, 2008), and of all the SMEs, 68 % are in commerce, 13.1 % in the manufacturing sector and 8.7 % in the services sector (WBG, 2004).

SMEs in Kenya account for approximately 20 % of the GDP and 85 % of total employment (African Outlook Economic Report of 2011 in Odhiambo & Ong'olo, 2013; Kiveu & Ofafa, 2013). Kenya's 2009 Economic Survey indicated that 92 % of the new jobs that were created in 2008 were from SMEs (Capital Market Authority, 2010; Ochanda, 2014). Approximately 98 % of all businesses in Kenya are SMEs (Gok, 2009, cited in Kiveu & Ofafa, 2013).

Table 10 presents the contribution of SMEs to economic development of various countries in the world. The contribution of SMEs to employment, GDP and exports is illustrated.

**TABLE 10. THE CONTRIBUTION OF SMES TO ECONOMIC DEVELOPMENT IN SELECTED COUNTRIES**

<b>Country</b>	<b>Number of SMEs(% of all SMEs)</b>	<b>Contribution to employment (% total)</b>	<b>Contribution to GDP (% total)</b>	<b>Contribution to exports (% total)</b>
<b>UK</b>	99	59	49.8	33
<b>U.S.</b>	95	90	39	29
<b>Canada</b>	99	54	45	20
<b>Mexico</b>	99	64	40	25
<b>India</b>	90	40	40	40
<b>South Africa</b>	95	60	57	34
<b>Malaysia</b>	99.2	56	32	16.6
<b>China</b>	99	45	60	68
<b>Brazil</b>	99.5	96	20	20
<b>Morocco</b>	98	40	40	30
<b>Ghana</b>	92	80	75	70
<b>Mozambique</b>	80	90	16	46
<b>Kenya</b>	98	85	20	45

Sources: Dos Santos (2008: 4, 6); Avecedo & Tinajero (2010: 2); Kongolo (2010: 2290); RMTI (2010: 11–12); USITC (2010: 4,17); Haner (2011: 3); Khalique *et al.* (2011: 398); Akorsu & Agyapong (2012: 138); Belanger & Hart (2012: 17); Cardoza *et al.* (2012: 4); Inyang (2013: 125–126); Kiveu & Ofafa (2013: 29); Ong’olo & Awino (2013: 2); UKDBIS (2013:13); Zaidi (2013: 413); North Africa (2014: 8); Quaye *et al.* (2014: 340); Royal Bank of Canada (2014: 1).

Though there are certain similarities in the economic statistics relating to SMEs, in developing countries in Africa this sector performs below its potential when compared to SMEs in developed nations (Ihun, 2009). This is attributed to the fact that SMEs in developed economies receive more support from governments (Ihun, 2009). However, in both developed and developing economies SMEs play an indispensable role (Stefanovic *et al.*, 2009; Mwobobia, 2012). Therefore, support for SMEs is critical for the socio-economic

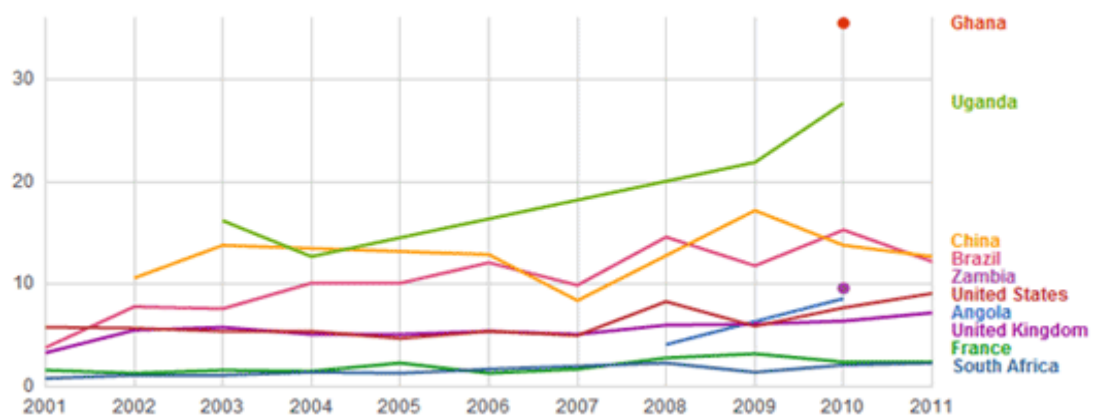
development of any economy. Whilst the importance of SMEs is well documented the world over, their ability to survive and grow is stifled by a plethora of challenges confronting the sector (Olawale & Garwe, 2010; Khalique *et al.*, 2011).

## 2.4 BUSINESS OWNERSHIP RATE AND GROWTH

### 2.4.1 Business ownership rate

There is a significant increase in the number of SMEs in sub-Saharan Africa and in the world (Gatt, 2012). More new businesses are being established in Africa than in emerging and developed markets. For example, in 2010 the number of SMEs grew by 40 % in Ghana, by 27 % in Uganda, by 15 % in Brazil and China, and by less than 10 % in France, the UK and U.S. (Gatt, 2012). There are more start-up SMEs in Africa than in the developed world due to Africa's high rates of unemployment and poverty. As a result, people are being forced into entrepreneurship (Gatt, 2012; Olawale & Garwe, 2010), and, especially in Africa, start businesses for survival purposes or as a source of income. Once these individuals find employment or better opportunities elsewhere, they close their businesses to pursue these better opportunities. SMEs in Africa therefore do not survive for a long time. Other reasons leading to the short life span of SMEs in Africa include, but are not limited to, lack of finance, poor managerial skills and expertise, stiff competition, inadequate business planning, and technological changes (Arasti *et al.*, 2014; Olawale & Garwe, 2010). Figure 3 illustrates the business ownership rate in selected countries.

**FIGURE 3. BUSINESS OWNERSHIP RATE (%) IN SELECTED COUNTRIES 2001–2011**



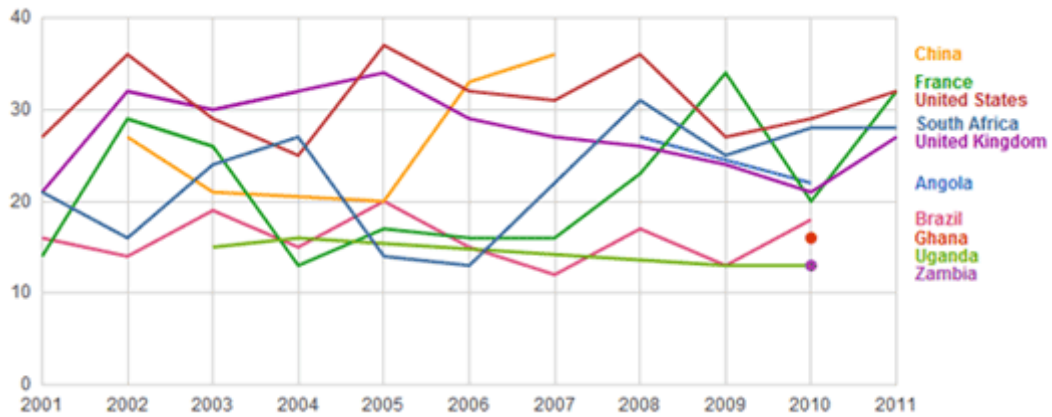
Source: Gatt (2012: 2)

Figure 3 shows that from 2004 to 2010, the business ownership rate in Uganda increased from about 12 % to approximately 27 %. The business ownership rate in Ghana grew by 40 % in 2010, while in Brazil and China the ownership rate was as low as 12 % in the same year. The U.S., UK and France, which are developed economies, had a business ownership rate of below 10 % in both 2010 and 2011. This shows that many new businesses are starting up in Africa.

#### **2.4.2 SME growth expectations**

Even though there are large numbers of start-ups and SMEs in Africa, entrepreneurs have low expectations that their businesses will grow. A study conducted by the Global Entrepreneurship Monitor (GEM) in 2012 in Zambia, Ghana and Uganda reveals that more than 80 % of the respondents indicated that they did not expect their businesses to grow in the following five years, while entrepreneurs in the U.S. projected growing by twenty or more employees. Respondents from France, the UK and the U.S. had greater expectations that their SMEs would develop in the following five years (Gatt, 2012; GEM, 2012). In the U.S. 29 % of SMEs survive after a period of 10 years (Shane, 2012). The growth of SMEs in Africa is impeded by a multiplicity of challenges, which include lack of access to finance, poor infrastructure, poor management skills, corruption, and an unfavourable political and macroeconomic environment (Okpara, 2011; Al Saleh, 2012; Kihimbo *et al.*, 2012; Kiveu & Ofafa, 2013; Zaidi, 2013). Research in African entrepreneurship reveals that African SMEs die with their founders (Sikomwe *et al.*, 2012). In the event of a sudden death there is often no successor, and this usually results in a crisis that leads to the closure of the business. Start-up SMEs in Africa usually get into business sectors that are already ‘overtraded’, where there is stiff competition, and consequently their survival and growth become compromised (Rogerson, 2001). Therefore, SMEs in the developing world have a shorter life span compared with SMEs in developed economies. Figure 4 illustrates the growth expectations of SMEs in different countries after a period of five years.

**FIGURE 4. EXPECTATIONS FOR GROWTH IN THE NEXT FIVE YEARS (%)**



Source: Gatt (2012: 2)

Figure 4 indicates that it is mostly entrepreneurs in developing countries who do not expect their businesses to grow. Entrepreneurs in Zambia, Uganda and Ghana have the lowest expectations for SME growth, while those in the U.S., the UK, France, China and South Africa have higher expectations. SME growth in the latter group of countries is made possible by supportive government policies and stable macroeconomic and political environments (Dalberg, 2011; Al Saleh, 2012; EC, 2012).

## **2.5 CHALLENGES CONFRONTED BY SMEs IN THE GLOBAL WORLD**

SMEs in many countries are confronted with a plethora of challenges (Saleh & Ndubisi, 2006, cited in Zulkiffli, 2009) that have stifled SME growth and development (Dalberg, 2011). These include lack of finance, poor infrastructure, poor management skills, lack of technology, lack of marketing information (Thwala & Mvubu, 2008; Bowen *et al.*, 2009; SANCR, 2011; Al Saleh, 2012; Ehinomen & Adeleke, 2012; Mwobobia, 2012), and lack of education (Migiro & Wallis, 2006). Such challenges have led to the high failure rate of SMEs in Africa (Bowen *et al.*, 2009). Research on SMEs has shown that the rate of failure in developing countries is higher than in the developed world (Okpara & Wynn, 2007). Developed economies are characterised by large and sustainable SMEs (Serrasqueiro *et al.*, 2008, cited in Zarook *et al.*, 2013), for example SMEs in the U.S., the UK and France. In Kenya 60 % of new enterprises fail in the first few months of establishment (Kenya Bureau of Statistics, 2007, cited in Bowen *et al.*, 2009). SMEs in emerging economies have a higher failure rate than those in developed markets (Dun & Bradstreet, 2012). In South Africa the failure rate of new SMEs is 75 %, one of the highest in the world (Olawale & Garwe, 2010).

The slow growth of SMEs is attributed to a multiplicity of challenges that include lack of financial support, managerial inexperience, poor location, corruption, poor infrastructure, and a hostile business environment (Fafchamps & Quinn, 2011). In Pakistan only 19 % of SMEs survive after five years (Shafique et al., 2010). Around 3 % of the SMEs in Africa go beyond having three employees after they start operating (Nichter & Goldmark, 2009). UNECA (2012) quotes the National Statistical Office of Malawi's (2000) observation that 80 % of SMEs in Malawi did not indicate any signs of growth due to challenges.

### **2.5.1 Financial challenges**

Access to and the cost of finance are challenges faced by many SMEs the world over (Zavatta, 2008; Stefanovic *et al.*, 2009; CBT, 2010; Dalberg, 2011; Okpara, 2011; UNECA, 2012). SMEs worldwide have identified access to finance as one of the most serious obstacles to growth (Ekeledo & Bewayo, 2009; Dalberg, 2011; Okwu *et al.*, 2013). In Malawi, Tanzania and Uganda, access to finance has been a major problem (UNIDO, 2007; Mulanga, 2013). The World Bank SME surveys indicate that about 43 % of the SMEs in developing countries view access to and the cost of finance as obstacles to operations and growth, while in developed economies only 11 % of SMEs consider access to finance to be a serious challenge (Dalberg, 2011). This indicates that SMEs in the developed world face almost the same challenges as SMEs in developing economies, but the extent and the impact of the challenges are not the same. For example, SMEs in developing countries are confronted with more challenges in accessing finance than SMEs in the developed world (Bowen *et al.*, 2009). Financial challenges are greatest in developing economies (Dalberg, 2011), and this partly explains the higher failure rate of SMEs in developing countries.

Access to finance has been singled out as one of the major challenges that have compromised the growth and competitiveness of SMEs in Kenya (Migiro & Wallis, 2006). According to the CBT (2010), 80 % of the OECD countries and 90 % of the non-OECD countries indicate that there is a financing gap among SMEs. The Philippines has a large SME sector that has been profitable; however, it lacks access to finance and 80 % of the population of the Philippines does not have bank accounts (Bank of Japan & IFC, 2012). SMEs in Rwanda have limited access to finance because they are viewed by financial institutions as a risky category of businesses (RMTI, 2010). Mambula (2002, cited in Ekeledo and Bewayo, 2009), reports that 72 % of the SMEs in Nigeria consider access to finance to be their greatest challenge. In the Middle East and North Africa (MENA) region, 63 % of SMEs have no access to finance (IFC, 2012a). In South-East Asia, due to a lack of financial support from financial institutions,

SMEs start businesses using individuals' own financial resources, and these businesses grow by ploughing back profits (UNECA, 2012). In the U.S., 80 % of SMEs that fail do so due to financial challenges (Pandya, 2012). SME owners in Africa rely on their own savings or family financial support, as it is difficult to access capital from financial institutions (UNDP, 2007; Bowen *et al.*, 2009). In Kenya only 24.6 % of SMEs have access to funding from banks, while in Zimbabwe 8.2 % receive financial support (Biggs & Shah, 2006). In Zambia 24 % of SMEs receive funding from banks (Keyser *et al.*, 2000). In China 20–25 % of SMEs are able to access bank finance, and the interest rates are twice as high as those of large companies (MasterCard Worldwide, 2012). Libyan SMEs have more challenges in accessing finance because most of them are run by entrepreneurs who are not legally obliged to provide financial reports or audit reports of their accounts (Zarook *et al.*, 2013).

Financial institutions are unwilling to support SMEs in terms of finance due to a plethora of factors. Financial institutions view financing SMEs to be a risky venture due to the SMEs' lack of collateral, their susceptibility to market changes, and their high failure rate (Oyefuga *et al.*, 2010; Zavatta, 2008; RBI, 2012). There are transaction or administration costs associated with processing SME financing (Beck *et al.*, 2008), and SMEs generally submit poorly presented documents and business proposals, and have poor accounting systems and/or incomplete records (Oh, 1994; Zavatta, 2008). Ekeledo and Bewayo (2009) observe that SMEs in Nigeria are not able to present acceptable feasibility studies to banks in order to access funding. SMEs, especially those of Africa, also often fail to repay the loans advanced to them by financial institutions (Beck *et al.*, 2008; de Maeseneire & Claeys, 2012) due to poor corporate governance and lack of performance objectives (Zavatta, 2008).

Hermes and Lensink (2011) note that micro-finance institutions usually focus on poor lenders and that the loans are too small to support proper investment. Most of the loans advanced to SMEs usually have a short repayment period, and they therefore finance working capital with limited funding being channelled towards capital investment (Zavatta, 2008; RBZ, 2013). In Africa banks usually provide short-term finance to SMEs in the form of overdraft facilities (Fafchamps *et al.*, 2005, RBZ, 2013).

The financial systems of developing countries, especially those in Africa, are underdeveloped and have low levels of intermediation; in addition, the capital markets are so weak that they cannot effectively provide the finance needed by SMEs (Tadesse, 2009). The banks in most African countries are highly concentrated in urban areas while rural areas lack banking services (Mwega, 2011).

### **2.5.2 Lack of infrastructure**

This challenge mainly affects countries that are still developing (Ekeledo & Bewayo, 2009). Lack of or poor infrastructure has been cited as one of the challenges facing SMEs (Ihun, 2009; Okpara, 2011; Kihimbo *et al.*, 2012; Zaidi, 2013). In Kenya poor infrastructure in terms of roads, water supply and electricity have militated against the growth of SMEs (Bowen *et al.*, 2009; Mwobobia, 2012). Telecommunications and the supply of electricity and water have been unreliable, resulting in impediments to the development of SMEs (USAID, 2007; UNECA, 2012). Ugandan SMEs have their own power generators for use during power failures (UNIDO, 2007). African countries, excluding South Africa, lag behind in infrastructural development in terms of transport, power supply and telecommunications (Ekeledo & Bewayo, 2009; Mwegu, 2011). Poor roads increase the costs of transporting goods (Ekeledo & Bewayo, 2009). Burundi, one of the poorest countries in the world, lacks suitable infrastructure to support SMEs, as much of it has been destroyed by incessant wars (EAC, 2009). In Mozambique the road network is mainly concentrated in the southern part of the country, while the northern part is undeveloped (Dos Santos, 2008). In Rwanda there is poor and insufficient infrastructure for SMEs in rural areas and these have been impediments to service provision and the use of new ideas for the benefit of entrepreneurs (RMTI, 2010). Poor infrastructure in the DRC has created a business environment that is not conducive to the development of SMEs (AfDB & ADF, 2013). The DRC's infrastructure was destroyed by war and the roads are poor due to lack of maintenance (AEO, 2005; AfDB & ADF, 2013). A study conducted by the EU (2006) in 27 EU countries has shown that only 23 % of the SMEs indicated that inadequate infrastructure is a challenge for them. This reveals that inadequate and poor infrastructure is not a major challenge in developed countries. In the UK, the government provides adequate infrastructure and it is prepared to do a lot more to promote SME development (Ihun, 2009). In Malaysia, the infrastructure for SMEs is available; however, the costs of the infrastructure have been too high and have been unsustainable for SMEs (Saleh & Ndubisi, 2006).

### **2.5.3 Global competition**

SMEs are exposed to global competition (Stefanovic *et al.*, 2009; Pologeorgis, 2012; Govori, 2013a; Ortman, 2013). Competition for new and existing markets is increasing among SMEs in both the global and regional economies (Stefanovic *et al.*, 2009; Heather & Banham, 2010). Globalisation of markets, which refers to the creation of an interdependent worldwide economic system (World Bank, 2009), increases the risk of failure for SMEs as they are not

in a position to compete globally (Lind, 2009, cited in Govori, 2013a; Pologeorgis, 2012). Globalisation and liberalisation have exposed SMEs in Malaysia to stiff competition (Khalique *et al.*, 2011). Right from inception, SMEs participate in international trade (World Bank, 2009) and compete with established businesses. However, such SMEs may not have grown to the point of being able to compete globally (Govori, 2013b; Kiveu & Ofafa, 2013). Local SMEs are exposed to fierce competition because some developed or emerging economies have a comparative or absolute advantage over other countries in particular industries (Stefanovic *et al.*, 2009). Global competition forces SMEs to be confined to relatively small markets where there is cut-throat competition (Kiveu & Ofafa, 2013). The low-cost products that are imported from Asian countries have threatened the internal markets of Europe, Brazil and Argentina, and Africa (Ortmans, 2013). For Kenyan SMEs, access to markets is a serious challenge because the local market is shrinking due to globalisation (Kippra, 2006, cited in Kihimbo *et al.*, 2012). In Nigeria and certain other African countries, domestically produced goods compete with low-cost quality products from emerging economies like China, India and Brazil, and these imports are replacing locally made goods and leading to the closure of small-scale industries (Ekeledo & Bewayo, 2009).

#### **2.5.4 Difficulty in accessing information about markets and government assistance**

SMEs are confronted with the challenge of getting access to and making effective use of information about local, regional and international markets (WBG, 2005; Overseas Development Institute, 2010; Kiveu & Ofafa, 2013). SMEs lack the technical knowledge and training to effectively utilise market information (RMTI, 2010). This is a constraint to SMEs in Rwanda and the EAC (RMTI, 2010), as well as those in Kenya (Kiveu & Ofafa, 2013). Kiveu and Ofafa (2013) note that a lack of information leads to SMEs being unaware of opportunities in the market. According to Moorthy *et al.* (2012), research conducted by Cociolatti and Fearn (2011) revealed that if SMEs effectively utilise marketing information they have greater chances for growth. SMEs also lack access to information relating to government efforts to assist them (RMTI, 2010). In South Africa, SMEs are not adequately informed of government efforts to assist them, such as Khula Enterprise Finance Ltd (Khula) and the Small Enterprise Development Agency (SEDA) (Olawale & Garwe, 2010), or on information about markets (Nieman & Nieuwenhuizen, 2009; Hashim, 2012). In Malaysia SMEs lack information about the markets and about cultural differences in various markets (Hashim, 2012). Usually SMEs do not have access to information about the level of demand for their products and how they can price their products for local and foreign markets

(Eskesen *et al.*, 2014). Consequently, SMEs restrict their operations to the national low-margin and low-demand markets. Australian and Turkish SMEs have adequate information about local markets. However, they have limited access to foreign markets due to a lack of adequate information (OECD, 2009; Republic of Turkey, 2012). These SMEs have no knowledge of opportunities in international markets and the procedures to be followed in exporting commodities (Republic of Turkey, 2012). The situation is different with SMEs in the U.S. Ilias *et al.* (2013) observe that U.S. government agencies provide information about the local and international markets in printed and electronic format. The U.S. government created a portal where SMEs can access information about local and foreign markets. The Small Business Administration (SBA), a U.S. government agency, links small businesses to export markets (Ilias *et al.*, 2013).

### **2.5.5 Lack of managerial capabilities and skilled workforce**

The lack of management skills has negatively impacted the development of SMEs the world over (Saleh, 2006; Shafique *et al.*, 2010; Okpara, 2011; Pandya, 2012). The quality of a business's human resources is closely related to the development of the business (Hashi & Krasniqi, 2010). The failure of SMEs in the U.S. is partly attributed to a lack of management skills among entrepreneurs and the managers appointed to run businesses on behalf of the owners (Shafique *et al.*, 2010). Shafique *et al.* (2010) cite Berryman (1983), who observes that 96 % of SME failures in Canada and 76 % of SME failures in Australia are attributed to poor management skills and lack of management experience. In South Africa, lack of management experience is one of the major reasons for the failure of new SMEs (Olawale & Garwe, 2010). Many SME owners or managers lack management skills because of a limited education and this leads to the mismanagement and misuse of business resources, thereby compromising the growth of SMEs (Chisompolo, 2009). SMEs have a tendency to lack proper management structures in which transparency, accountability and responsibility are required, and owners often appoint family members to management positions (Chisompolo, 2009). Where there is no transparency and accountability, business resources may be abused and wasted. In addition, the quality of management becomes compromised, leading to business failure. Such a scenario becomes an obstacle to SME development. In Ghana the lack of management skills has stifled SME survival and growth (Ahiawodzi & Adade, 2012). Cosh *et al.* (2007) note that proper management skills and the use of up-to-date management approaches lead to superior performance for SMEs.

SME failure is also attributed to the shortage of workers who have the requisite skills (Overseas Development Institute, 2010). In Malaysia the lack of skills and talent among the workforce has compromised the quality of products and services, as well as efficiency (Saleh, 2006). Lack of skills is attributed to the employment of workers who are not trained. The cost of employing a trained labour force is too high for SMEs who have limited access to finance. Therefore, they resort to cheap, untrained labour, which compromises the quality of their products and services. The failure rate of SMEs in Malaysia is around 60 % and is partly caused by a lack of managerial capabilities (Ahmad & Seet, 2009, cited in Khalique *et al.*, 2011). SMEs in Rwanda have the same challenge of unskilled employees and the businesses do not have the capacity to train and develop the skills of the workforce in areas such as information and communication technology (ICT), finance, and accounting, as well as technical and industrial fields (RMTI, 2010). SMEs in Rwanda have such limited access to finance that they usually cannot afford to train their workforce and it is difficult for them to employ skilled workers. If SMEs are to have sustained growth, it is critical that adequately skilled labour be employed (Olawale & Garwe, 2010) to improve the quality of products and services. Such a scenario promotes SME development. In developed countries, 77 % of SMEs indicate that hiring and retention of employees with the relevant skills is an obstacle to growth (Dun & Bradstreet, 2012). In economically developed countries, 43 % of SMEs complain that it has now become more difficult to find the right personnel (Dun & Bradstreet, 2012). This is attributed to the reluctance of skilled workers to join SMEs. They would prefer to be in large companies where there is certainty about their future. The failure rate among SMEs is so high that people do not feel secure working for them.

### **2.5.6 Macro-environment**

The nature of the external business environment in terms of its stability and predictability is closely linked to the growth of SMEs (Brasoveanu & Balu, 2014). A business environment must be predictable, transparent and stable if it is to promote SME development. Operations of SMEs are influenced by the environment in which they exist (Okwu *et al.*, 2013). Therefore, a supportive macro-environment enhances the development of SMEs. The macro-environment, which is characterised by burdensome government regulations, the economic climate, the political environment, and social factors such as corruption and bribery, militate against the growth of SMEs globally (Okwu *et al.*, 2013; Brasoveanu & Balu, 2014).

### ***2.5.6.1 The regulatory environment: Burdensome government regulations***

Regulations are important as they create order in an economy, assist government in the realisation of goals, protect citizens and the environment, and facilitate the development of an economy (World Bank, 2003, cited in Chittenden & Ambler, 2011). SMEs are expected to comply with a multiplicity of regulations that are imposed by different government offices (Chittenden & Ambler, 2011). However, the regulations impose compliance and other costs on SMEs (Chittenden & Ambler, 2011; Republic of Turkey, 2012; UK Government, 2013). SMEs have to pay for operating licenses or permits, which are sometimes too costly for the emerging businesses (Govori, 2013a). Stringent government laws and regulations have often discouraged the registration and establishment of SMEs (Republic of Turkey, 2012; Govori, 2013a). In the EU approximately 50 % of SMEs are exposed to stringent regulations, and these regulations have been identified as obstacles to SME growth (Arasti *et al.*, 2014).

In Ghana the cost of licensing a business is high and the registration requirements are prohibitive (Ahiawodzi & Adade, 2012). Bureaucracy converts simple processes, such as business permit renewals, into long and discouraging processes (Africa Centre for Open Governance, 2012). Therefore, businesses spend a lot of time and money in their attempts to comply with regulations (Chittenden & Ambler, 2011; UK Government, 2013). The WBG (2013a) notes that in Kenya it takes about 33 days to complete the licensing of a business and there are 10 steps to be followed. In the U.S. it takes less six days to complete the registration process of a business (WBG, 2015).

Table 11 illustrates that the process of registering a business in Kenya is long and discouraging for entrepreneurs. Thus, many entrepreneurs tend to be informal or do not start businesses at all (Govori, 2013a).

**TABLE 11. STEPS IN COMPANY REGISTRATION IN KENYA**

<b>Step</b>	<b>Procedure</b>	<b>Time to complete</b>
<b>1</b>	Registration of the business with government and tax registration with Centre for Public Registration	3 days
<b>2</b>	Stamping of the memorandum and articles as well as the statement of the capital	5 days
<b>3</b>	Payment of stamp duty at bank	1 day
<b>4</b>	A declaration of compliance form is signed before a Commissioner of Oaths or notary public	1 day
<b>5</b>	Filing of the deed and company details with the Registrar of Companies at the Attorney General's Chambers in Nairobi	Maximum 14 days
<b>6</b>	Registration with the Tax Department for a company identification number, value-added tax and Pay as You Earn online	1 day
<b>7</b>	Business permit application	5 days
<b>8</b>	Registration with the National Social Security Fund (NSSF)	1 day
<b>9</b>	Registration with the National Insurance Fund (NHIF)	1 day
<b>10</b>	After the issuing of the Certificate of Incorporation, a company seal is made	2 days

Source: WBG (2013: 21–23a)

Owners and managers of SMEs find it difficult to spend their time dealing with paperwork and regulatory authorities (UK Government, 2013). Compliance costs for SMEs are higher than those of large companies (Chittenden & Ambler, 2011; UK Government, 2013). Costs for SMEs with fewer than 20 employees are at least 35 % more than for large businesses (Small Business Service, 2002, cited in Ireland Government, 2008). The EC (2007), cited in Ireland Government (2008), reports that where a large business spends €1 per employee to comply with a regulation, a medium enterprise spends about €4 and a small business spends up to €10. Therefore, barriers created by regulations tend to impact negatively on SMEs. Owners and managers of SMEs spend a great deal of time away from their core businesses activities in trying to keep up to date with new regulations and in seeking to interpret and implement these regulations. As SMEs seek to understand new regulations, they incur costs.

Chittenden and Ambler (2011) note that SMEs also incur costs as they seek specialist services related to filing tax returns, preparing financial statements and implementing new regulations. In developed and emerging economies, the increasing tax rates have been cited as a challenge for SME growth (Dun & Bradstreet, 2012). In developed economies, 83 % of the SMEs mention tax as a challenge while 87 % of the SMEs in emerging economies indicate that tax has slowed down their development (Business Innovation, 2012; Dun & Bradstreet, 2012). Unfavourable government regulations discourage SMEs from operating as licensed and registered entities. Thus, they often exist as informal SMEs (Hashi & Krasniqi, 2010)

#### ***2.5.6.2 Economic environment***

Every business operates within the dictates of the macro-economic environment and SMEs are vulnerable to economic instability (Okpara, 2011; Government of Canada, 2013). A volatile economy becomes highly unpredictable and stifles SME development. The poor economic environment in countries such as the DRC (AfDB & ADF, 2013), Burundi (EAC, 2009), Mozambique (Dos Santos, 2008), and Malawi (UNECA, 2012) makes it difficult for SMEs to flourish. Economic factors such as inflation, interest rates and foreign exchange rates influence the demand for goods and services as well as the development of SMEs (Ehlers & Lazenby, 2007, cited in Olawale & Garwe, 2010). In South Africa there is a low consumption rate, high inflation rates, dwindling foreign exchange rates and high unemployment rates (Olawale & Garwe, 2010). These economic variables stifle the growth of SMEs as they affect sales, revenues and market growth.

#### ***2.5.6.3 Political environment***

Political stability is critical for SMEs to commit their financial and human resources in their businesses (Caner, 2010). The growth of SMEs in Malaysia, for example, is partly attributed to political stability (NST, 2006, cited in Senik *et al.*, 2010). An unstable political environment, however, threatens the growth of SMEs, and there are numerous examples that attest to this.

A study conducted by the IFC and Fransa Bank in 2011 in Syria revealed that most firms cited political uncertainty as a challenge to SME growth due to the spillover effects of the war in Syria. Lack of political cohesion and incessant wars in the DRC have had a negative impact on the economy, resulting in SMEs failing to grow (AEO, 2005; AfDB & ADF, 2013). In the

DRC, Rwanda and Uganda, civil wars have stifled the development of SMEs. In the DRC most businesses closed shop in the 1990s due the looting that took place in 1993 and 1996 during the civil war (Ene & Ene, 2014). A decade of war in Burundi led to the underdevelopment of the manufacturing sector as well as SMEs (EAC, 2009). Mozambique experienced 16 years of civil war, resulting in an economic recession and poor development of SMEs (Dos Santos, 2008). The political instability in Egypt (German Development Institute, 2013) and Libya (Mejia, 2012) in 2011 brought economic activities to a halt and negatively affected the operations of SMEs. The economy of Egypt was on the brink of collapse after the 2011 uprising against the government (German Development Institute, 2013). Afghanistan has experienced more than 30 years of political instability and violence, and this has destroyed important infrastructure, has made it difficult for people to be educated, and has led to economic recession (USAID, 2009). Such a political climate has made it difficult for SMEs to develop

#### ***2.5.6.4 Social environment: Corruption and bribery***

Corruption is the abuse of entrusted power for personal benefit (Transparency International (TI), 2013). Bribery is the seeking or offering of payments or gifts as private companies and government officials interact, for personal or collective gain (Rune, 2011; TI, 2012). Bribery is the most common form of corruption affecting SMEs (UNIDO& UNODC, 2007, cited in TI, 2013), and bribes are offered to influence the actions of an individual entrusted with power or an official holding a public office. Corruption and bribery have been cited as challenges confronting SMEs globally (Okpara, 2011). Approximately 70 % of SMEs in emerging economies view corruption as an obstacle to growth (ACCA, 2013).

There are numerous examples of the negative effects of bribery and corruption on SMEs, and on business in general. In Pakistan 40 % of businesspeople perceive corruption to be a challenge to business development (Sheraz *et al.*, 2013). The payment of bribes has been identified as one of the major obstacles to SME growth in South East Europe (World Bank, 2012, cited in Govori, 2013b). Bribery consumes a portion of the income that could be used for business expansion, and research has revealed that if bribery rates go up by one percentage point, the growth of a company is reduced by 3 % (Africa Centre for Open Governance, 2012). The World Bank (2012a) reports that the level of corruption in Kosovo is so high that it has stifled the growth of SMEs.

According to the 2013 Corruption Perceptions Index, Korea, Somalia and Afghanistan are the countries with the highest levels of corruption in the world (TI, 2013). The 2014 Corruption Perception Index indicates that Kosovo and Albania are the most corrupt countries in South East Europe (TI, 2014). Transparency International (2012) observes that Algeria, Armenia, Bolivia, Gambia, Mali, Mexico and the Philippines are other countries where corruption is rife. On the other hand, the 2013 Corruption Perception Index reveals that Denmark and New Zealand are the least corrupt nations in the world (TI, 2013).

UNIDO and the United Nations Office on Drugs and Crime (UNODC) (2007), cited in ACCA (2013), observe that where SMEs pay bribes to government officials, they are likely to pay a large portion of their annual income. SMEs fall prey to bribery for the processing of official documents for tenders (ACCA, 2013). They lack resources in general and are more reliant on outside support than larger businesses; therefore, it is difficult for them to avoid corruption and bribery since they need resources (Rune, 2011; UNIDO & UNODC, 2012; ACCA, 2013).

UNIDO and UNODC (2012) report that SMEs lack the bargaining power and influence to refuse to pay bribes because they often do not have strong connections with high-level government officials or politicians. In Thailand SMEs find it difficult to resist demands for bribes, and usually they are not aware that bribes can be resisted (Grimsholm & Poblete, 2010). This has compromised the growth of Thai SMEs. SMEs get involved in corruption because they view it as 'normal' way of doing business and the quickest way of getting what they want by avoiding the administrative obstacles caused by bureaucracy (Rune, 2011; Gbetnbom, 2012). According to Gbetnbom (2012), SMEs view corruption as a way of saving time and resources. Therefore, the owners and managers of SMEs are fully convinced that corruption is part of normal everyday business, and that they cannot successfully operate without being involved in it (UNIDO & UNODC, 2012).

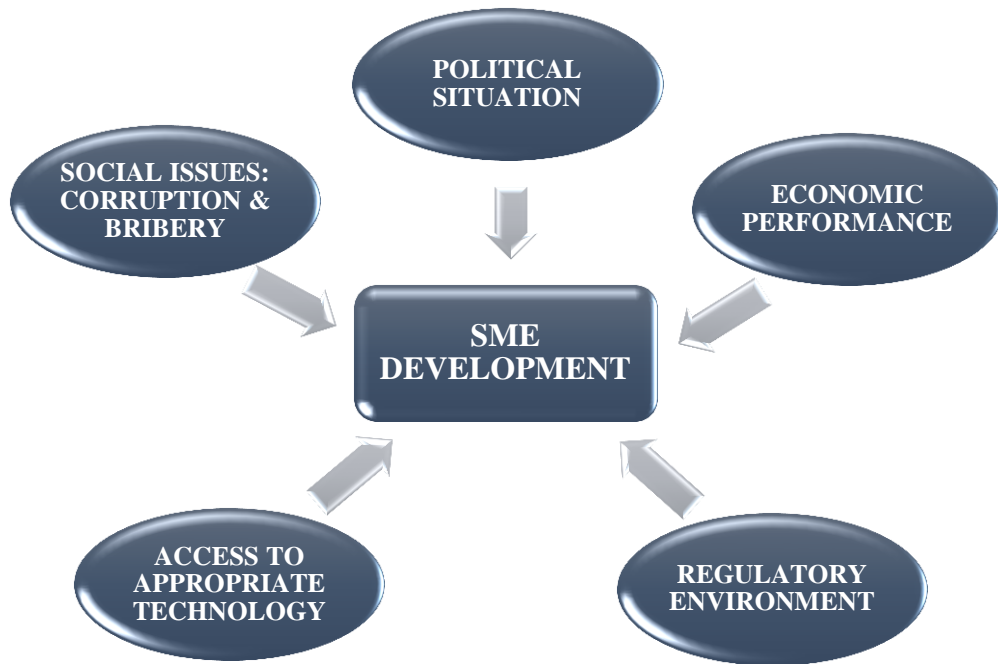
A study conducted by Gbetnbom (2012) in Cameroon revealed that 90 % of the respondents had been solicited for bribes on the part of government officials so that their documents could be processed quickly. This is confirmed by UNIDO and UNODC (2012), Transparency International (2013), and the Africa Center for Open Governance (2012), who report that SMEs have been asked to pay bribes in order to get operating licenses and permits. A survey by the World Bank and the IFC in 2010 reveals that 38 % of the SMEs surveyed indicated that corruption was a constraint to the growth of their businesses, and about 18 % reported having been expected to give gifts in order to obtain construction permits (TI, 2013). In South Africa SMEs are forced to become involved in corrupt activities in order to win contracts or tenders, and feel compelled to give 'gifts' to people who influence decisions on the awarding

of tenders (Business Unity South Africa, 2009). In Kenya 79 % of SMEs report that they are expected to pay bribes to government officials in order to get their required business documentation (Africa Centre for Open Governance, 2012).

#### ***2.5.6.5 Access to appropriate technology***

Acquiring the appropriate technology is important for SMEs, as it enables them to produce high-quality products and services, and to thus gain a competitive edge (Nieman & Nieuwenhuizen, 2009; Subrahmanya *et al.*, 2010; Sidik, 2012; Mwangi & Namusonge, 2014). Efficiency is improved, and operational and production costs are reduced (Nieman & Nieuwenhuizen, 2009; Bhushan & Sanghvi, 2011). SMEs are able to enter new markets if they are able to offer competitive and distinctive products and services (Subrahmanya *et al.*, 2010; Bhushan & Sanghvi, 2011; Sidik, 2012; Mwangi & Namusonge, 2014), and as a result they are able to build sustainable revenue streams. Therefore, there is a close relationship between technology and the development of SMEs (Mwangi & Namusonge, 2014). For example, in India access to the latest technology on the part of SMEs is a challenge and has compromised the growth and internationalisation of SMEs (RBI, 2012). SMEs in China often make use of poor-quality and outdated production technology and equipment (IFC, 2012b). South African SMEs mention the lack of appropriate technology as one of their major challenges, especially those in the manufacturing sector (Nieman & Nieuwenhuizen, 2009). In the developing countries of Zambia, Malawi, Zimbabwe, Nigeria, Kenya, Tanzania and Uganda, access to technology is a challenge for SMEs. In general, African countries lag behind in terms of technological development (Ekeledo & Bewayo, 2009; Mweha, 2011). Accessing the appropriate technology is often prohibitively expensive for SMEs; hence, the availability and affordability of technologies present a challenge (Heather & Banham, 2010). Such a scenario impacts negatively on SME growth. Figure 5 presents a summary of the macro-environmental factors influencing SME development.

**FIGURE 5. MACRO-ENVIRONMENTAL FACTORS INFLUENCING SME DEVELOPMENT**



Source: Hashi & Krasniqi (2010: 462)

## **2.6 SME POLICIES AND STRATEGIES IN SELECTED COUNTRIES**

Research on the evaluation of SME policies and strategies has been carried out in both developed and developing countries. Based on a literature search, Avededo and Tan (2010) identify 19 rigorous strategy-evaluation studies, 10 from high-income countries (including the U.S., the UK, the Republic of Ireland and Northern Ireland, Australia, New Zealand, Belgium and Japan) and nine from developing countries (including Chile, Mexico, Argentina, Brazil, Bangladesh and Turkey). The evaluation studies of the high-income countries demonstrate that enterprise support programmes can significantly improve SMEs' performance. In the developing countries it was shown that some programmes have been effective while others still have to be aligned to the needs and challenges of SMEs (Avededo & Tan, 2010).

The U.S, UK, Russia, India, Malaysia and South Africa have been selected by the researcher as they are examples of nations that have detailed SME policies and programmes that have yielded meaningful results. The U.S. is characterised by a high level of entrepreneurship and a high rate of SME growth. SME development is possible due to supportive universities, transport and communication infrastructure, clustering of industrial activity and the

supportive government policies and strategies (Hatton, 2012; Global Entrepreneurship Monitor (GEM), 2012). The UK has a strong base for supporting SMEs through access to business support and mentoring programmes, provision of entrepreneurial awareness schemes through the education system, availability of office space, information technology and the effective participation of SMEs in public procurement (GEM, 2012; UKDBIS, 2012). Russia has been successful in the provision of physical infrastructure and commercial infrastructure, and of professional education that has promoted SME development (EIB, 2013; GEM, 2012 RASSME, 2012). Further to that, the Russian government has been active in the provision of funding for exporting SMEs. India has been outstanding in the provision of commercial and physical infrastructure, as well as entrepreneurial education and technology transfer through technology centres (Cybermedia India Online Limited (CIOL), 2012; IMMSME, 2015b; Jahanshahi *et al.*, 2011). Malaysia has done exceptionally well in the provision of SME funding, commercial services and physical infrastructure (SME Corp. Malaysia, 2010; Asian Productivity Organisation, 2015; Gunto & Alias, 2013). South African SMEs have been provided with excellent infrastructure, financial support, commercial support and exposure to local and international markets through trade fairs, exhibitions and business expos organised by the government (Mthimkulu & Aziakpono, 2012; SANCR, 2011; Stephen, 2012). Ethiopia (GRIPS & Ministry of Industry Ethiopia, 2013), Egypt (CBE, 2011) and Libya (Gunto & Alias, 2013) have learnt much from the Malaysian government and other emerging countries' strategies to promote SME growth. Therefore, a country like Zimbabwe can derive lessons from such policies and strategies. Policies and strategies adopted in these countries assisted the researcher in the development of a policy and strategy framework for addressing the challenges confronting the SME sector with a view to promote the development of the sector.

## **2.6.1 United States of America (U.S.)**

### ***2.6.1.1 The Small Business Administration (SBA)***

The U.S. government established specialised agencies such as the Small Business Administration (SBA) in 1953 to offer assistance and advice to SMEs, and to protect their interests (Xin-li & Yi-min, 2009; CBT, 2010; Global Alliance of SMEs, 2013). The SBA has been in operation for about sixty years and has recently been re-energised through the provisions of the Small Business Jobs Act (SBJA) of 2010 (Hatton, 2012). The SBJA increased the budget allocation of the SBA and improved the quality of financial assistance to U.S. SMEs (U.S. Department of Treasury, 2011). It has offices in all the states (Global Alliance of SMEs, 2013). One of its responsibilities is to critically analyse the legislation

relating to small businesses and how it is implemented (Xin-li & Yi-min, 2009). It is a requirement that the SME laws be in the best interests of the SMEs. The SBA guarantees government-backed loans extended to the SMEs by private lending institutions such as commercial banks (Hatton, 2012). Hatton (2012) reports that from 2009 to 2011, more than \$53 billion of government-guaranteed loans was made available to more than 11 300 SMEs, and that U.S. government contracts worth \$221 billion were awarded to SMEs. In 2009 alone, the SBA assisted 46 019 small businesses, and 524 950 jobs were retained or created by these businesses (Cray *et al.*, 2011). To date the SBA has effectively provided guidance and facilitation of SME development that has resulted in the flourishing of SMEs in the U.S. (Global Alliance of SMEs, 2013). The SBA has contributed to the creation of a vibrant economy in which 99 % of all the businesses are small businesses (U.S. Department of State, 2006). However, the demand for government funding always far exceeds the financial resources available, and the jobs created by small businesses tend to have low wages, limited benefits and poor working conditions (Cray *et al.*, 2011). However, it is important to note that overall government efforts have significantly improved small businesses in the U.S.

#### ***2.6.1.2 Supporting SMEs through government procurement***

The SBA plays a critical role in supporting small businesses through the provision of government contracts (Hatton, 2012). The U.S. government awards about \$500 billion in contracts annually (The White House National Economic Council, 2011). The SBA's Office of Government Contracting and Business Development works with government agencies so that they can award at least 23 % of all government contract dollars to SMEs (The White House Office of the Press Secretary, 2010). Hatton (2012) reports that in the first quarter of 2011, about 32.6 % of government contracting dollars totalling about \$221 billion had been awarded to SMEs. This significantly increased revenue for SMEs in the U.S. The time taken by government departments to pay SMEs for the goods supplied and services rendered was also significantly reduced (Hatton, 2012). However, the procedures involved in getting a government contract are time-consuming, expensive and bureaucratic (Spors, 2009). Numerous documents have to be completed, and it may take months before a company is notified about whether it has been awarded a contract (Spors, 2009). Usually, small companies that are best-positioned to get government contracts are those that have established relationships with government officials and have vast experience in government contracts (Spors, 2009). This means that new start-ups may not get government contracts. The same companies tend to be awarded contracts repeatedly.

### ***2.6.1.3 Government financial support for SMEs***

The central, state and local governments provide a plethora of financing programmes to assist SMEs to start and expand their operations (Global Alliance of SMEs, 2013). Such programmes include low-interest loans, venture capital, and scientific and economic development grants (U.S. Department of Treasury, 2011). Where an SME is involved in scientific research and development, it may qualify for government grants offered under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programmes (U.S. Department of Treasury, 2011). Small businesses are encouraged to engage in research and development projects that meet the government research and development goals, and that can be commercialised.

From 2010 to 2011, U.S. government-guaranteed credit to SMEs increased by 20 % (U.S. Department of Treasury, 2011). This was made possible by the provisions of the SBJA of 2010, which was designed to improve small business access to credit finance (Hatton, 2012). The provisions of this act include the strengthening of state-supported programmes that provide government-guaranteed finance to SMEs, the provision of tax relief to SMEs, and the provision of a new fund to motivate small banks to extend credit finance to businesses (U.S. Department of Treasury, 2011). Through the SBJA, the loans to small businesses guaranteed by the SBA increased from \$2 million to \$5 million for the category of SMEs that are unable to secure funding as they do not qualify for commercial credit finance (The White House Office of the Press Secretary, 2010). The White House Office of the Press Secretary (2010) further reports that loans for manufacturing projects that encourage economic growth were increased from \$2 million to \$5.5 million. The SBJA made it possible for the SBA to guarantee loans worth more than \$10 billion (Hatton, 2012). Hatton (2012) mentions Miceli Dairy Products as an example of a company that has benefited from government-backed loans worth \$5.49 million, and has been able to increase its workforce by sixty people.

The American Recovery and Reinvestment Act (ARRA) of 2009 resulted in the reduction of fees applicable to those who accessed government-guaranteed loans (U.S. Department of Treasury, 2011). Through ARRA, from 2009 to 2010 the SBA managed to guarantee about \$30.4 billion of credit finance to more than 70 000 SMEs (U.S. Department of Treasury, 2011, cited in Hatton, 2012). From 2009 to 2011 credit finance worth over \$70 billion was availed to 150 000 SMEs (U.S. Department of Treasury, 2011).

The SBJA made a provision for the introduction of the Small Business Lending Fund (SBLF) whose goal was to give incentives to banks so that they would increase their lending to SMEs (White House Office of the Press Secretary, 2010; U.S. Department of Treasury, 2011). The

U.S. Department of Treasury (2011) reports that \$30 billion worth of capital has been made available to banks and community-development loan funds with a capital base of less than \$10 million to finance local SMEs that have proved to be viable. If the financial institutions increased their lending to the local SMEs, their interest rate payable on the funds received from government would be lowered (Hatton, 2012). The interest rate that financial institutions could pay on SBLF capital was set at 5 %, but this could be reduced to 1 % if the institution increased its lending by more than 10 % in 2008 (White House Office of the Press Secretary, 2010). The community banks increased their lending by about 9.8 % while the community-development loan funds increased their credit finance by at least 10 % (U.S. Office of Community Development Investments, 2011; U.S. Department of Treasury, 2011).

#### ***2.6.1.4 Support for export-oriented SMEs***

The U.S. Government plays an active role in the promotion of small business exports. Government departments and agencies provide export assistance services, feasibility studies, export finance and insurance, and government-to-government advocacy (U.S. National Economic Council, 2011; Ilias *et al.*, 2013). The U.S. embassies and consulates all over the world advocate for U.S. businesses, providing market information on particular countries as well as settling commercial and investment disputes (Ilias *et al.*, 2013).

The U.S. Trade and Development Agency (USTDA) conducts feasibility studies on foreign markets, trade missions, and reverse trade missions, which evaluate the socio-economic and political environment of potential markets (Ilias *et al.*, 2013). Such information on the markets is made available to U.S. exporters. Trade missions are conducted in order to attract overseas markets into accepting U.S. products and services. Counselling sessions are conducted for new and experienced small business exporters, and reverse trade missions are arranged to bring potential foreign customers to the U.S. to meet and liaise with U.S. companies involved in exporting products and services. In 2012, the USTDA spent US\$14.1 million (32 % of its budget) on feasibility studies (Ilias *et al.*, 2013). Multilateral, regional and bilateral trade agreements are negotiated and enforced by the USTDA. Also involved in government-to-government advocacy are the Departments of Commerce and State.

The U.S. Government introduced programmes to improve access to finance for SMEs for the purpose of promoting exports. The National Export Initiative (NEI) was established in 2010 in an attempt to achieve a target of doubling exports in five years, with a view to creating many jobs (Graves, 2011; U.S. National Economic Council, 2011). This programme was put

in place to address challenges related to access to finance experienced by exporting companies. Export Express Loan was guaranteed by the SBA, and in this programme the government could provide a 90 % guarantee for an export of up to \$350 000, and a 75 % guarantee for an export loan of \$500 000 (Hatton, 2012). The funding programmes for exports have been successful. Between 2005 and 2011 the U.S. Government managed to support more than 15 000 loans related to international trade worth \$4 billion (U.S. National Economic Council, 2011). Hatton (2012) reports that SMEs managed to provide 10.3 million jobs, and exports worth \$1.83 trillion were achieved.

Exporting companies were and are still also supported by the Export Import Bank (Exim Bank) of the U.S. Loans, export credit guarantees, working capital guarantees, and export credit insurance are some of the services provided by the U.S. Exim Bank (Ilias *et al.*, 2013). The bank is an important source of information about foreign markets (Hatton, 2012). Credit finance provided by the bank to exporting small businesses is guaranteed by the SBA. Funding for small exporting businesses increased from \$3.2 million in 2008 to \$5 billion in 2010, and in 2011 it increased further to \$6 billion (White House National Economic Council, 2011). Hatton (2012) cites Dan's Fish, Inc. as an example of a company that benefited from the bank funding, whose exports rose from \$2.2 million in 2009 to \$3.3 million in 2010. In 2012, the Exim Bank's credit and insurance amounted to US\$35.8 billion. US\$50 billion worth of exports was supported and 255 000 jobs were created as a result of the support (Ilias *et al.*, 2013). Between 2007 and March 2015, 8 976 exporters were supported by the Exim Bank, 5 848 of which were small businesses (U.S. Exim Bank, n.d.). Approximately 85 % of the bank's transactions benefit small businesses (U.S. Exim Bank, n.d.). Therefore, the U.S. Government's finance programmes, through the Exim Bank, have led to the expansion of small businesses.

#### ***2.6.1.5 Tax relief***

The U.S. government has established legislation committed to the promotion of small business development. Tax relief has been a strategy adopted by the U.S. Government to promote SME growth and the provision of much needed employment without seeking funding (Hatton, 2012; U.S. National Economic Council, 2011). The government, in 2010, put in place seventeen tax-reducing methods for SMEs (U.S. National Economic Council, 2011). ARRA, the SBJA and the Hiring Incentives to Restore Employment (HIRE) Act (2009) are some of the pieces of legislation that led to tax-reduction (U.S. National Economic Council, 2011). ARRA reduced the capital gains tax by 75 % on specific goods sold by small

businesses while the SBJA removed 100 % of the capital gains tax on particular investments in the year 2010 (U.S. National Economic Council, 2011; U.S. SBA, 2011).

The new small business Health Care Credit started in 2010 and covered up to 35 % of the health care premiums paid by the employer, and the tax credit increased to 50 % in 2014 (Families USA & Small Business Majority, 2010; U.S. National Economic Council, 2011; Lowry & Gravelle, 2015). In order to qualify for the tax credit, employers must pay at least 50 % of the health plan premium (Lowry & Gravelle, 2015) and must have fewer than 25 full-time employees and an annual average wage of less than US\$50 000 for each full-time worker (U.S. Department of the Treasury, n.d.; Lowry & Gravelle, 2015). When this tax credit was introduced in 2010, about four million small businesses were eligible; however, less than 4 % of the small businesses could claim the tax credit in 2010 (Lowry & Gravelle, 2015). The Government Accountability Office report revealed that small business owners felt that the credit was too small and that even if they provided health insurance, their employees would not be able to pay their part of the premium (Lowry & Gravelle, 2015). The government then simplified and expanded the credit to 50 % in 2014. A tax credit for hiring unemployed workers introduced in 2010 was US\$1 000 for each employee who was retained for more than one year (U.S. National Economic Council, 2011; Lowry & Gravelle, 2015). These tax-cutting measures enabled small businesses to increase investment, resulting in business growth and the provision of employment.

Whilst it is widely appreciated that the U.S. Government is making serious efforts to assist small businesses, it is believe that it has erred by classifying all small businesses into one category, under the same rules, policies and agency (Chatterji, 2012). There are different types of businesses in various sectors of the economy, each with specific needs and challenges that may not be addressed by the generic government policies and strategies. Small businesses with greater potential in terms of expansion and employment provision need unique government assistance in the form of loans, expert advice and management issues (Chatterji, 2012). Therefore, it is not advisable for the government to establish 'one-size-fits-all' policies and strategies.

Research has revealed that businesses that have operated for between one and five years provide a larger portion of new jobs than older small businesses, and usually they graduate into global businesses (Chatterji, 2012). However, such businesses receive only a third of the loans guaranteed by the SBA, which concentrates on older small businesses that may not have potential for further growth (Spors, 2009).

The HIRE Act provides financial incentives for SMEs that employ people who have previously been unemployed (Hatton, 2012). A tax incentive of \$1 000 is provided for each new employee who had not been employed for a period of 60 days or more and who is kept in employment for a year or more (U.S. Business Administration, 2011). From the beginning of 2010 to mid-year 2010, 8.1 million people who had been unemployed secured employment (Graves, 2011; The White House National Economic Council, 2011).

**TABLE 12. IMPACT OF THE U.S. GOVERNMENT POLICIES AND STRATEGIES ON SMALL BUSINESS**

<b>Initiative (policies and strategies)</b>	<b>Purpose</b>	<b>Impact</b>
<b>American Recovery Reinvestment Act (ARRA) of 2009</b>	To reduce the fees applicable to those who accessed government-guaranteed loans.	From 2009 to 2010, the SBA guaranteed \$30.4 billion of credit to SMEs under ARRA and more than 70 000 SMEs benefited from this. Between 2009 and 2011, more than \$70 billion was made available to 150 000 businesses.
<b>Small Business Jobs Act (SBJA) of 2010</b>	To ensure the extension of the government-supported credit to small businesses through the SBA, to encourage banks to provide credit to SMEs, to strengthen government programmes providing credit to SMEs, and to provide significant tax relief for SMEs.	It increased small business access to finance by 20 %. By the end of 2010, the SBA had approved more than \$10 billion in loan guarantees. It led to the provision of employment, had a positive impact on the growth of small businesses, and improved the economic performance of the U.S.
<b>Small Business Lending Fund (SBLF)</b>	To promote and increase funding to small businesses through community banks, through attractive interest rates.	332 institutions used the capital provided and lending to SMEs increased by an average of 9.8 %.
<b>State Small Business Credit Initiative (SSBCI)</b>	To increase lending to small businesses with a view to promoting SME growth.	In Kansas only capital of \$13.1 million was used and \$132 million was extended to small businesses. The government on the whole managed to deal with small business's financial challenges.

<b>National Export Initiative (NEI)</b>	To promote small business exports and to increase export revenue for the U.S.	From 2005 to 2011 the SBA supported more than 15 000 loans with a total value of \$4 billion. In 2010, exports from U.S. companies amounted to \$1.83 trillion. The U.S. Exim Bank increased funding from \$3.2 million in 2008 to \$5 billion in 2010.
<b>Supporting small businesses through government procurement</b>	To ensure that SMEs be awarded government contracts so as to increase small business income.	The government committed itself to ensure that 23 % of the federal contracting dollars was given to small businesses, but by April 2011, 32.6 % had been given to small businesses. These contracts valued \$221 billion and this increased income to SMEs in the U.S.
<b>Tax relief for small businesses</b>	To reduce the tax burden on small businesses so as to promote small business growth.	The U.S. Government reduced tax burdens and established 17 tax-cutting measures through ARRA, the SBJA and HIRE. ARRA removed 75 % of capital gains tax on particular small business stock and the SBJA removed 100 % of the capital gains tax from particular investments in 2010. Removal of capital gains tax enabled small businesses to increase investment, leading to business expansion and the employment of more people.
<b>The Hiring Incentive to Restore Employment Act (HIRE) of 2010 (incentives for increasing employment)</b>	To provide a financial incentive for SMEs to employ people who are currently unemployed.	From January to mid-year in 2010, small businesses managed to provide employment to about 8.1 million people who were unemployed at the time.

Source: Hatton (2012: 20)

Though there were some challenges and criticisms leveled against the U.S. policies and strategies in addressing the key challenges confronting the small business sector, it is important to note that the successes outweigh the criticisms. Therefore, the U.S. policies and strategies can be deemed to be effective in dealing with SME obstacles to growth.

## **2.6.2 United Kingdom (UK)**

The UK has introduced policies and strategies to address key challenges confronting the SME sector to promote the development of the sector. As in many other countries, SMEs have been viewed as an important engine for economic growth and employment creation (Richard, 2008; UK Cabinet Office, 2013).

### ***2.6.2.1 Access to finance***

The UK Government has provided various financial packages to deal with the financial challenges confronting the SME sector in the UK. This came in the wake of the realisation that SMEs play a significant role in economic development and employment generation. The UK Government has reduced the corporate tax for SMEs by 20 % so that businesses have more financial resources for investment (UK Cabinet Office, 2013).

Enterprise Finance Guarantee (EFG) was loan-guarantee scheme by the government to facilitate access to finance by SMEs that were viable but lacked the required collateral or track record for a commercial loan (Hatton, 2012; Portsmouth City Council, 2013). The EFG was set up in January 2009 to promote increased commercial lending to SMEs (BBC, 2011; Hatton, 2012). This facility was available to SMEs that had an annual income of up to £41 million and required loans of between £1 000 and £1 million (Loxton, 2014; Portsmouth City Council, 2013). The UK Government provided a 75 % guarantee for the loans and the lenders guaranteed 25 % (BBC, 2011; Hatton, 2012; Portsmouth City Council, 2013). There were 45 commercial lenders who were accredited by the UK Government to provide guaranteed loans to SMEs (UKDBIS, 2012; Portsmouth City Council, 2013). This scheme assisted about 6 000 SMEs each year (BBC, 2011). Between January 2009 and April 2011, the EFG supported loans worth £1.47 billion to 14 750 SMEs (Hatton, 2012). This facility was available until April 2015. Thus, it was short-term programme. The demand for this service has been decreasing since 2010, partly due to a lack of awareness of the scheme among SMEs (Hatton, 2012; UK Public Accounts Committee, 2014).

The National Loan Guarantee Scheme was launched in March 2012 with the aim of providing funding to SMEs at a low cost (UKDBIS, 2012). Accredited banks, including Santander, RBS, Lloyds, Barclays and Aldermore, provide loans at 1 % below their standard lending rate to businesses with an income of up to £50 million (Loxton, 2014; Portsmouth City Council, 2013). The scheme allows banks to raise a maximum of £20 billion in funding, guaranteed by

government, to lend directly to SMEs at a lower cost (Portsmouth City Council, 2013). Between March and August 2012, loans worth £2.5 billion were provided to more than 16 000 SMEs (Hatton, 2012). The effectiveness of the scheme is yet to be established.

The UK Government has also encouraged banks to lend to SMEs through the Project Merlin agreement that was launched in 2011 (Hatton, 2012). Five banks (Barclays, HSBC, Lloyds Banking Group, RBS and Santander) were identified to participate in the project, in which they pledged to provide funding worth £76 million to SMEs in the UK in 2011 (UKDBIS, 2012; Hatton, 2012). However, at the end of 2011 only £1.1 billion had been given to SMEs for funding. That meant that the 2011 target was not realised. This was partly due to a lack of awareness of the scheme among SMEs (Hatton, 2012). A survey conducted by the Department for Business, Innovation and Skills (UKDBIS) and the Confederation of British Industry (CBI) reveals that only 20 % of the SMEs were aware of the scheme (UKDBIS, 2012). Thus, the UK Government's attempt to increase lending to SMEs in 2012 can be deemed to have been unsuccessful.

The Business Finance Partnership is a UK government scheme to encourage private investment in small businesses (Loxton, 2014; Prisk, 2012; Portsmouth City Council, 2013). This scheme was launched in January 2012, and involved a partnership of the government and the private sector in assisting SMEs. The government invested £1.2 billion and the private sector organisations, who are co-investors, also made financial contributions towards funding medium-sized enterprises with an annual income of up to £500 million (Hatton, 2012). This scheme is meant to diversify funding options available to SMEs. By February 2012, about £700 million had been made available to fund managers for the purpose of financing SMEs (UKDBIS, 2012; Hatton, 2012).

The UK government has also made efforts to improve access to export finance (UKDBIS, 2012; Prisk, 2012). The Export Enterprise Finance Guarantee Scheme was launched in April 2011 to provide export finance to SMEs that are viable and for whom obtaining finance is a challenge (UKDBIS, 2012; Hatton, 2012; Prisk, 2012). The government provides 60 % of the guarantee and the scheme is administered by five accredited financial institutions involved in the Project Merlin agreement (UKDBIS, 2012). The costs of the programme are covered by the borrowing SMEs through paying a 3 % pro rata premium each year (Hatton, 2012). The government provides guarantees for SMEs looking for funding of between £25 001 and £1 million. Between the launch of the scheme and January 2012, five SMEs had been assisted through the programme (UKDBIS, 2012). This low number is partly because of a lack of awareness on the part of SMEs about the scheme (Hatton, 2012).

### ***2.6.2.2 Tax relief***

The UK government has realised the importance of a competitive company tax system in the promotion of economic development. The UK has experienced the emigration of companies, large and small, in recent years due to an unfavourable tax system (ACCA, 2010). This scenario has forced the government to adopt tax-cutting measures to attract investment and promote small business development. Thus, tax relief has been a strategy adopted by the UK government to allow SMEs to access more financial resources for investment. Therefore, small profits corporate tax was reduced from 21 % to 20 %, while the main corporate tax was cut from 28 % to 24 % as of April 2011 (Hatton, 2012). There was an increase in the point at which employers must begin to pay National Insurance contributions for their employees (from £110 to £136) in 2011 (Hatton, 2012). It is estimated that employers, including SMEs, could save up to £3 billion.

From 1 April 2013, the government introduced research and development (R&D) tax relief to promote innovation and technological advancement (Nguyen, 2013; Thornton, 2013b). The tax credit on allowable R&D expenditure is 225 % for SMEs (Oliver & Singer, 2014; Wessing, 2015). This means that for every £100 spent on R&D, the tax on an SME's income would be reduced by £125 (Nguyen, 2013). The EC definition of SMEs is the one used for R&D tax relief. To qualify for tax relief as an SME, a business must have fewer than 500 workers and an annual income of not more than €100 million or assets of not more than €86 million (Nguyen, 2013; Thornton, 2013a; Oliver & Singer, 2014). These criteria must be satisfied for two consecutive years. R&D for tax purposes refers to a project undertaken by any SME that is meant to promote advancements in science and technology (ACCA, 2010; Oliver & Singer, 2014; Wessing, 2015).

The introduction of R&D tax relief was a step in the right direction in promoting science and technology. However, only 3 % of the manufacturing SMEs claim R&D tax relief (TBAT Innovation, n.d.). The HMRC R&D Tax Credit Statistics report of August 2012 reveals that 2 110 manufacturing SMEs claimed R&D tax credits in the 2010/2011 financial year, yet about 65 000 manufacturing SMEs qualified to claim for the R&D tax relief. This could have been caused by a lack of awareness of the R&D tax relief, and a lack of proper understanding of how claims are made (TBAT, n.d.).

### ***2.6.2.3 Financial incentives for increasing employment***

SMEs in the UK have been provided with incentives for increasing employment. The UK government launched the Youth Contract in April 2012, as a system of wage subsidies for SMEs offering work placements to those who are unemployed and are between 16 and 24 years old (UK Work and Pensions Committee, 2012). The scheme was introduced to reduce unemployment. Each company receives £2.275 as an incentive. The government has also introduced financial incentives worth £1.500 for businesses that agree to take on an apprentice or to increase the total number of available apprenticeship places (Rickman, 2012). In February 2012, the government introduced another scheme worth £126 million, which focuses on assisting people aged 16–17 years who are not in schools or colleges and are unemployed (Coughlan, 2012). The people to be assisted should be without a GCSE Grade C or higher, and must be kept in employment, education or training for a year (Coughlan, 2012; UK Work and Pensions Committee, 2012). This programme has been criticised for being insufficient to address the country's employment problems (Brandweiner, 2011; Rickman, 2012) but it is critical to note that SMEs have benefited from the financial support.

Various finance schemes have been introduced by the UK government; however, some of them could not achieve their objectives due to a lack of coherence and coordination (Groom, 2014). SMEs still struggle to obtain finance because the government does not provide them with adequate information on how they can access the much needed funding (Groom, 2014; UK Public Accounts Committee, 2014). Even if funding is discussed in the media, SMEs find it difficult to access it (The Guardian, 2014).

### ***2.6.2.4 SME access to government procurement contracts***

The UK government has established a policy of ensuring that SMEs have an opportunity to supply the government with goods and services, as a means of rendering direct support to SMEs (Loader, 2013). The procurement process has been made simple and less bureaucratic (UK Cabinet Office, 2013). Such a move has been made to ensure that SMEs that are important for economic development are not excluded from government procurement because of too much bureaucracy and strict government regulations (UK Cabinet Office, 2011, cited in Loader, 2013). Sometimes SMEs may not be able to sell directly to government so they act as subcontractors to larger firms (Business Link, n.d., cited in Loader, 2013; UK Cabinet Office, 2013). Interserve, a large company in the UK, sources 70 % of its suppliers for public contracts from the SME community (UK Cabinet Office, 2013). The UK Cabinet Office

(2013) further observes that Capita, a company providing training services, states that 22 % of its revenues in 2012 were delivered by SMEs. The UK government has established a “Contracts Finder” website for the viewing of tenders that the government has on offer (Hatton, 2012). Making procurement accessible to SMEs was a move to ensure that SMEs increase their income and provide employment (UKDBIS, 2013). Table 14 illustrates how much some government departments spent in supporting SMEs through procurement.

The UK Cabinet Office (2013) reports that the government increased its direct spend with SMEs from 10.1 % in 2011/2012 to 10.5 % in 2012/2013. In 2011/2012 the direct spend flowing to SMEs was £4.4 billion but in 2012/2013 it rose to £4.5 billion, indicating a 0.4 % increase. New suppliers to government have indicated that they can now compete in markets that they were not able to access before (Federation of Small Business (FSB), 2008). Thus, procurement has improved the competitive position of SMEs and promoted business growth (FSB, 2008). Business Enterprise Regulatory Reform (2007, cited in Loader, 2013), notes that a 16 % share of contracts was awarded to SMEs by the government and its agencies.

However, a survey by Fresh Minds (2008) revealed that 41 % of the SMEs never tender for government work and 29 % rarely tender due to a lack of knowledge about opportunities, the high degree of formality in the tendering process, and slow payment by government (Bovis, 1996; Erridge *et al.*, 1998; Loader, 2011, 2013; Preus, 2011). Therefore, SMEs’ participation in the procurement process has been stifled by a myriad of challenges. SMEs are required to submit a meaningful track record, which most of them do not yet have (Pickernell *et al.*, 2011), and getting onto the approved supplier list is extremely difficult (Loader, 2005). Some government contracts have been too big to be handled by SMEs (FSB, 2008, cited in Loader, 2013) and SMEs have not been able to win such contracts.

Even though challenges still exist for SMEs to participate in the procurement process, the UK government has made serious efforts with some meaningful results. Criticisms have been levelled against the government; however, it is imperative to note that SME participation in the procurement process is not an event but a process. Therefore, it is too early to view the government as having failed in this regard. Table 13 presents the breakdown of UK Departmental SME spend data,

**TABLE 13. BREAKDOWN OF UK DEPARTMENTAL SME SPEND DATA**

Department	2011/12 Full Year			2012/13 Full Year		
	Total procurement spend (£m)	Direct spend with SMEs (£m)	Direct spend with SMEs as %	Total procurement spend with SMEs (£m)	Direct spend with SMEs (£m)	Direct spend with SMEs as %
Business, Innovation & Skills	£1.108	£295	26.6%	£1.490	£422	28.8%
Cabinet Office	£93	£11	12.0%	£168	£23	13.5%
Communities & Local Government	£253	£53	21.1%	£269	£67	25.0%
Culture, Media & Sport	£336	£59	17.5%	£320	£46	14.5%
Energy & Climate Change	£3.081	£13	0.4%	£1.841	£35	1.9%
Environment, Food & Rural Affairs	£1.266	£208	16.4%	£1.345	£27	20.3%
Education	£267	£48	17.9%	£325	£63	19.5%
Department for Int. Development	£652	£202	30.9%	£698	£222	31.9%
Health	£1.061	£91	8.6%	£1.206	£161	13.4%
Work & Pensions	£3.407	£378	11.1%	£3.354	£238	7.1%
Foreign & Commonwealth Office	£179	£35	19.5%	£192	£39	20.5%
Treasury	£92	£5	5.0%	£80	£4	5.0%
Home Office	£2.876	£185	6.4%	£2.616	£98	3.8%
Transport	£2.696	£77	2.9%	£2.791	£137	4.9%
Revenue & Customs	£1.475	£6	0.4%	£1.410	£91	6.5%
Ministry of Defence	£20.071	£1.044	5.2%	£20.369	£1.096	5.4%
Ministry of Justice	£5.090	£1.728	34.0%	£5.030	£1.560	31.0%
<b>Total</b>	<b>£44.002</b>	<b>£4.439</b>	<b>10.1%</b>	<b>£43.503</b>	<b>£4.577</b>	<b>10.5%</b>

Source: (UK Cabinet Office, 2013: 2)

### **2.6.2.5 Business advice**

Business advice is one of the support services provided by the UK government. Through the Business Link, an SME support website has been established to assist businesses in accessing services. However, government support in terms of business advice has been heavily criticised because it has not met the expectations of the SMEs (Richard, 2008). Richard (2008) reports that less than half of 1 % of SMEs use and have been satisfied with the government advice. A study conducted by the University of Cambridge reveals that government advice for SMEs is insignificant as compared with the advice provided by private-sector service providers, such as accountants, solicitors and banks, who provide 75 % of all the advice (Richard, 2008). An FSB survey (2008) indicates that 57 % of those who use private sector advice are satisfied, compared with 9 % who use government advisory services. Therefore, the UK government can be considered to have failed in providing advice to SMEs. It is critical that this area becomes the function of the private sector, as it has a record of providing effective advice.

The UK government has introduced a plethora of policies and strategies to assist the SME sector in dealing with challenges. However, the policies were implemented in a piecemeal fashion with no proper coordination (Richard, 2008). According to the UK Public Accounts Committee (2014), the various government departments manage their different programmes in their own way, not as a coherent programme but as a series of ad hoc programmes.

## **2.6.3 Russia**

### **2.6.3.1 Laws and public institutions**

The Russian Federation has put in place laws and institutions as part of its policies and strategies for addressing the challenges confronting SMEs and in order to promote the development of the sector. The Russian Federation's support for SMEs mainly focuses on manufacturing companies that are focused on innovation and technology (EIB, 2013). Federal Law 88-FZ on "State support for small businesses" was enacted in 1995 (EIB, 2013), and defines the framework of state support for small businesses, the regulations for small businesses, and the definition and characteristics of small businesses (EIB, 2013). Federal Law 209-FZ of July 2007, which replaced 88-FZ, focuses on the development of SMEs in the Russian Federation (Chernukha, 2009; EIB, 2013). The law introduced the terms, "medium entrepreneurship", "microenterprises" and "infrastructure for SME support", and explained the various ways in which SMEs could be supported (EIB, 2013). The policy aims to develop

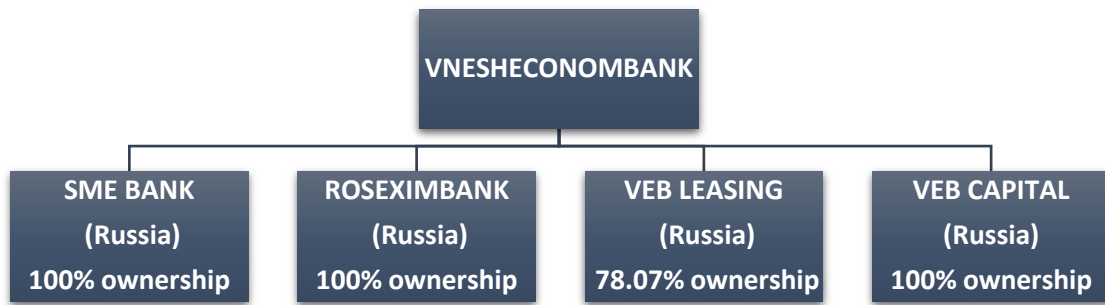
SMEs for the purpose of creating a competitive environment in the Russian Federation, promoting a suitable milieu for the growth of SMEs, ensuring the competitiveness of SMEs, providing assistance to SMEs, and increasing the number of SMEs (Chernukha, 2009).

The Russian Federation provides assistance to SMEs through financial support, special tax regimes, the renting and acquiring of property under favourable conditions, and involving SMEs in the government procurement process (EIB, 2013). The Russian Agency for the Support of Small and Medium-sized Businesses (RASSME) was established in 1992 for the purpose of providing support for SMEs (RASSME, 2012). This agency has operated with success in the provision of market information, and specialised training and consulting services in every part of Russia. Several programmes involving export, young entrepreneurs, and support infrastructure as well as quality management have been set up by RASSME, and it has also managed to provide support and development to SMEs in terms of their internationalisation.

#### ***2.6.3.2 Vnesheconombank***

The Vnesheconombank, which was established in 2007, operates according to Federal Law 82-FZ of May 2007 “On the Bank for Development” (Vnesheconombank, 2011; International Development Finance Club (IDFC), 2013). It is a bank which is wholly owned by the Russian Federation, and whose objectives are to promote innovation and industrial development among SMEs and offer financial support for exporting SMEs (IDFC, 2013). The Vnesheconombank has four subsidiary financial institutions with specific functions (Figure 6): the SME Bank (Russian Bank for SME Development), Roseximbank (Eximbank of Russia), VEB Leasing, and VEB Capital (Vnesheconombank, 2011; Wermuth Asset Management, 2011; RASSME, 2012; EIB, 2013). Figure 6 illustrates the Vnesheconombank and its subsidiaries.

**FIGURE 6. VNESHECONOMBANK AND ITS SUBSIDIARIES**

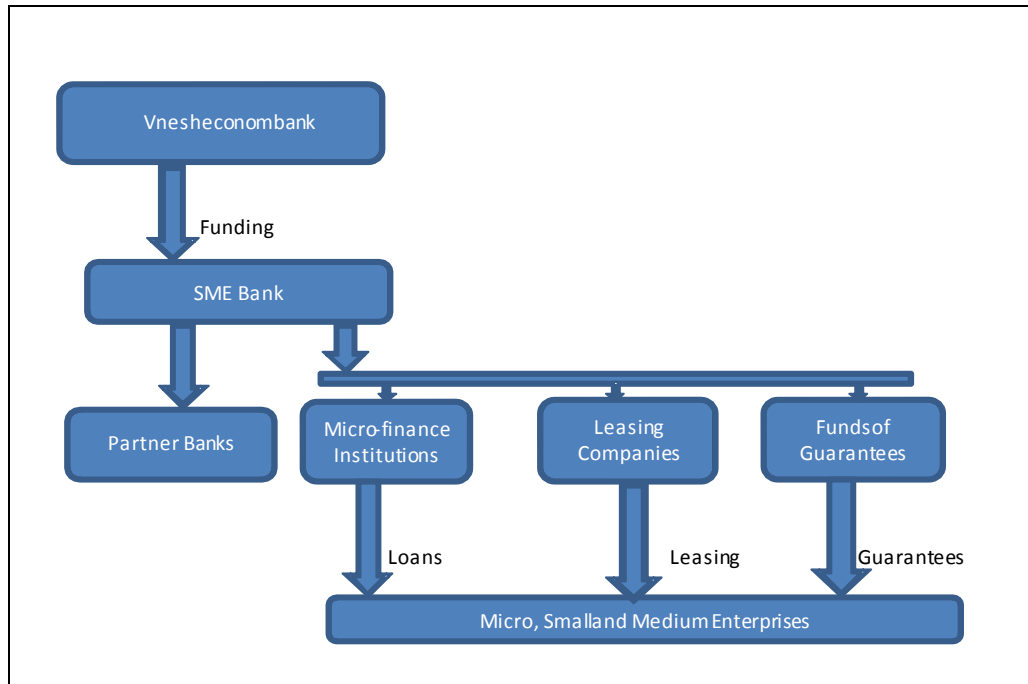


(Source: Vnesheconombank, 2011: 3)

### **2.6.3.3 SME Bank**

The SME Bank is a financial intermediary through which SMEs obtain financial support from the Federal Government (EIB, 2013). It is 100 % owned by Vnesheconombank (Vnesheconombank, 2011). The bank provides mid-and long-term funding to SMEs in the manufacturing sector and those involved in innovative and technology-intensive projects (RASSME, 2012; EIB, 2013). The EIB (2013) observes that the SME Bank works with a network of partner banks, leasing and factoring companies and microfinance institutions. SME Bank loans range from \$300 000 to \$1.5 million, and usually have interest rates that are 2–3 % below the market rate (RASSME, 2012). The average interest rate is 12.7 % (EIB, 2013). By 2011, 15 000 loans had been provided to SMEs and 108 000 jobs had been created (Vnesheconombank, 2011). By June 2013, approximately €2.3 billion had been made available by the Bank for supporting SMEs (EIB, 2013). The SME Bank conducts on-site and off-site control of partner banks involved in the provision of loans to SMEs. At the beginning of April 2013, the SME Bank started providing guarantees of 50 % of the loan amount (which should not be more than €25 million), which should mature in 2–10 years (EIB, 2013). The maximum amount which can be paid as a guarantee fee is 1.8 % per year (Vnesheconombank, 2011). The SME Bank conducts research to establish the potential and the level of development of SMEs, and identifies product niches and areas in which work needs to be done so as to provide effective support for SMEs in various regions of Russia (Vnesheconombank, 2011). Figure 7 illustrates the financial support for SMEs through the SME Development Bank.

**FIGURE 7. FINANCIAL SUPPORT FOR SMES VIA THE SME DEVELOPMENT BANK**



Source: Vnesheconombank (2011: 3)

Vnesheconombank, through the Roseximbank, provides support for the export of SME products (Vnesheconombank, 2011; EIB, 2013). Roseximbank provides financial support for export and pre-export funding facilities (about 3 million), which is payable over a period of 14 years (Wermuth Asset Management, 2011). VEB Leasing, a subsidiary of Vnesheconombank, assists SMEs financially by providing leasing products. SMEs receive leasing of high-tech equipment, rolling stock, automobiles, and sea vessels (Wermuth Asset Management, 2011). VEB Capital is involved in the provision of capital for SMEs.

The strategy implemented by the Department for SMEs and the Competition Department of the Ministry for Economic Development focuses on providing support for exporting SMEs through compensating them for some of their costs, such as certification, attending fairs and exhibitions, interest on export credit, and branding grants to exporters who are just starting (RASSME, 2012).

Specialised support infrastructure for export-oriented SMEs was created and developed. A regional centre of the Enterprise Europe Network has been in place in Russia since 2008, and coordinates support for exporting SMEs (Vnesheconombank, 2011; RASSME, 2012). In partnership with the Vnesheconombank, RASSME distributes information on available

opportunities to the regional SMEs (EIB, 2013), and prepares SMEs for international certification requirements (RASSME, 2012), such as ISO, GOST, CE, and many others. The Russian Federation facilitates the participation of SMEs in international business fora (Vnesheconombank, 2011; RASSME, 2012).

The Russian government, through the Vnesheconombank, therefore provides financial support to exporting SMEs. Access to finance has been an obstacle to the development of exporting SMEs, and to address this challenge, the Vnesheconombank co-operates with various international financial institutions and banks to assist SMEs in this regard (Vnesheconombank, 2011; Wermuth Asset Management, 2011; RASSME, 2012). The Bank has signed agreements with various external financial institutions to provide financial support to exporting SMEs through guarantees, letters of credit and currency credit (Vnesheconombank, 2011).

There are also certain guarantee funds made available to various regions so that the regional governments can provide guarantees for SME loans (EIB, 2013). Every year the regions are financed from the National Budget. The regional guarantees do not exceed 70 % of the loan amount (Vnesheconombank, 2011; RASSME, 2012; EIB, 2013). Regional guarantee funds provide guarantees for banks and leasing companies that have signed agreements with the regional governments. When an SME applies to a bank for loan, the bank analyses the application and the accompanying documentation. If the SME is eligible for a loan, the application is sent to the regional guarantee office, where a guarantee is either approved or declined (Vnesheconombank, 2011; EIB, 2013). The activities of the regional governments in respect of the guarantee funds are supervised by the Ministry of Economic Development.

#### **2.6.4 India**

The government of India (GoI) has formulated and implemented a myriad of policies and strategies to address the key obstacles to SME growth in the country. It is common for governments to have policies meant to encourage the growth of local SMEs, since SMEs play a pivotal role in poverty alleviation and the provision of employment (Jahanshahi *et al.*, 2011). In 1954, the Micro, Small and Medium Enterprises (MSME) Development Organisation was set up. Two years later, the National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission, and the COIR Board were also established (Jahanshahi *et al.*, 2011). These organisations were established to promote MSME access to funding from banks, infrastructural development, and setting up institutes for entrepreneurial

and skills development (IMMSME, 2010). Between 1954 and 1991, MSME Development Institutes were established in all the Indian states for the purpose of training the youth in skills and entrepreneurship (IMMSME, 2015b; Jahanshahi *et al.*, 2011). In 1999, the Ministry of MSMEs was established to spearhead policy formulation and implementation in the MSME sector (IMMSME, 2014). A plethora of policies and strategies were implemented to promote the growth of MSMEs in India.

#### **2.6.4.1 Technology Centre Systems**

With the assistance of the German and Danish governments, Technology Centres (TCs) and Technology Development Centres (TDCs) were established to offer technical and training services to MSMEs (Jahanshahi *et al.*, 2011; Cybermedia India Online Limited (CIOL), 2012; IMMSME, 2014). The aim was to promote technological development among MSMEs in India (IMMSME, 2013; Kushalakshi & Raghurama, 2014). The Indian government, through the Ministry of MSMEs, established 18 Technology Centres (TCs) (formerly tool rooms) and eight Technology Development Centres (TDCs) throughout the country (Kushalakshi & Raghurama, 2014). The establishment of these centres took place in each state and cost around Rs. 15 crores (CIOL, 2012). Government assistance is in the form of once-off grants equivalent to 90 % of the costs of machinery or equipment, if the TC is new. If the TC has been operating for some time, 75 % of the costs of the equipment or machinery is provided as a grant (CIOL, 2012). The scheme focuses on the manufacture of cutting tools, pressing tools, and pressure-cutting dies. The TCs also provide training in the manufacturing of tools in order to produce skilled labour, supervisors and engineers. The centres provide services such as consultancy and information, as well as technical skills development among the youth (Kushalakshi & Raghurama, 2014). These youths may be school dropouts or graduate engineers (IMMSME, 2014).

TDCs were established as sector-specific and product-specific centres to deal with challenges related to particular products (EIBA, 2012). Consultancy, technology improvement, and training and development in areas such as electronics and glass manufacture are some of the services provided by TDCs (EIBA, 2012). Testing centres for quality certification were also established (Jahanshahi *et al.*, 2011; IMMSME, 2013).

#### **2.6.4.2 Ministry of MSMEs**

The Ministry of MSMEs was established in 1999 as a result of the merging of the Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries (IMMSME, 2014) to deal with MSME issues and promote the growth of the sector in India. The ministry addresses the persistent challenges confronting the MSME sector, such as access to funding, infrastructure, technology, markets, and product development (Jahanshahi *et al.*, 2011; IMMSME, 2014). MSME policy formulation and implementation, as well as the facilitation of programmes and projects, fall under the jurisdiction of the Ministry of MSMEs (IMMSME, 2014).

In an endeavour to promote entrepreneurship development and training, the Ministry of MSMEs, at national level, established three Entrepreneurship Development Institutes (EDIs): the National Institute for Micro, Small and Medium Enterprises (NIMSME), the Indian Institute of Entrepreneurship (IIE), and the National Institute for Entrepreneurship and Small Business Development (NIESBUD). NIESBUD, under the Ministry of MSMEs, is the umbrella institute in the field of entrepreneurship and small business development. Its main focus is the facilitation of the development of MSMEs through various training programmes (IMMSME, 2009, 2014). To date the institute has conducted 9 822 training programmes involving 254 289 delegates (NIESBUD, 2013). The IIE carries out training, research and consultancy services to promote the development of MSMEs. Further to that, the IIE conducts seminars, workshops and conferences to provide a platform for the interaction and the exchange of ideas among businesses and various agencies (IMMSME, 2009, 2014). As a result of the government support, the MSME sector has grown, leading to the provision of employment for the Indian population (Jahanshahi *et al.*, 2011).

#### **2.6.4.3 MSME (Amendment) Act, 2014**

The MSME Act was first enacted in June 2006 and came into effect in October of the same year (Jahanshahi *et al.*, 2011; WBG, 2012). The MSME Act of 2006 broadened the scope and coverage of the sector (RBI, 2013). Previously, the small business sector had excluded medium enterprises in the manufacturing and the services sectors (Ravi, 2009; RBI, 2013). The old definition of small enterprises was used to refer to small-scale industries with assets less than Rs.10 million lakhs. With the passing of the MSME Act, 2006, all non-agricultural activities were classified under the MSME banner (RBI, 2013; Indian Ministry of SMEs, 2014). The Act was amended in 2014 with changes to the definition of MSMEs (Table 14),

necessitated by the changes in the price index and the cost of inputs (GoI, 2014). Therefore, there was a need to make provision for a higher capital ceiling (GoI, 2014). The amendment of the Act was also intended to revive and strengthen MSMEs, such that they could survive under difficult financial circumstances (IMMSME, 2014).

**TABLE 14. CHANGES IN DEFINITIONS AS A RESULT OF MSME ACT, 2006 AND MSME (AMENDED) ACT, 2014**

Sectors	Before 2006	From 2006 to 2013	2014 to date
	(Value of plant & equipment)	Changes due to the MSME Act, 2006 (Value of plant & equipment)	Changes due to the MSME (Amendment) Act, 2014 (value of plant & equipment)
<b>MANUFACTURING SECTOR</b>			
<b>Micro</b>	Not defined before 2006 (were classified under small businesses)	< Rs 2.5 million (US\$46 000)	< Rs. 5million (US\$92 000)
<b>Small</b>	Rs 2.5 to Rs 10 million	Rs. 2.5 to 50 million (US\$46 000 to US\$0.92 million)	Rs. 5 million to Rs. 100 million (US\$92 000 to US\$1.84 million)
<b>Medium</b>	Not defined before 2006	Rs 50 million to Rs. 100 million (US\$0.92 million to US\$1.84 million)	Rs. 100 million to Rs. 300 million (US\$1.84 million to US\$5.52 million)
<b>SERVICES SECTOR</b>			
<b>Micro</b>	Not defined before 2006 (were classified under small businesses)	< Rs. 1 million(US\$18 400)	< Rs. 2 million(US\$36 800)
<b>Small</b>	< Rs. 1 million	Rs. 1million to Rs. 20 million (US\$18 400 to US\$0.368 million)	Rs. 2 million to Rs. 50 million (US\$36 800 to US\$0.92 million)
<b>Medium</b>	Not defined before 2006	Rs. 20 million to Rs. 50 million (US\$0.368 million to US\$0.92 million)	Rs. 50 million to Rs. 150 million (US\$0.92 million to US\$2.76 million)

Sources: Ministry of MSME (2007, cited in Ravi, 2009: 2); Indian Ministry of MSME (2014: 14)

Prior to 2006 (Table 15) micro enterprises were classified under small enterprises and were not defined, and medium enterprises in the manufacturing and services sectors were excluded from the definition. With the enactment of the MSME Act of 2006, both the micro and medium enterprises were included in the definition of MSMEs in India (RBI, 2012). In 2014, the definition of MSMEs was further reviewed in order to reflect the prevailing situation (IMMSME, 2014).

The Indian government, through the Act, aimed to promote and enhance the competitive position of MSMEs, deal with obstacles to the growth of these businesses, and strengthen their role in economic development (WBG, 2012; FICCI & Thornton, 2013). The policy outlined government support in the form of improving infrastructure, technology, and the quality of products and services (Jahanshahi *et al.*, 2011; WBG, 2012; Kushalakshi & Raghurama, 2014). Included in the Act was the government's commitment to the skills development of workers, managers and entrepreneurs (WBG, 2012; IMMSME, 2014). Through the same legal instrument, the Indian government aimed to promote MSMEs' access to markets and to ensure the availability of finance to these businesses (Jahanshahi *et al.*, 2011; WBG, 2012; FICCI & Thornton, 2013; Kushalakshi & Raghurama, 2014; ). MSME participation in the tendering process was one of the key issues addressed in the Act (IMMSME, 2013, 2014). MSMEs are given preference in the awarding of government contracts to supply goods and services (IMMSME, 2013, 2014).

#### ***2.6.4.4 Technology Bureau for Small Enterprises (TBSE)***

The Technology Bureau for Small Enterprises (TBSE) was established to facilitate the transfer of technology to small enterprises. The National Science and Technology Entrepreneurship Development Board (NSTEDB) was put in place in 1982 by the Indian government to promote knowledge-driven and technology-intensive MSMEs. This was done for the purpose of generating employment for the Indian population (Das, 2007). The board was established in order to achieve the following: facilitate entrepreneurship development among people who are science and technology oriented so as to generate employment, using science and technology infrastructure and methods; provide informational services directed at promoting entrepreneurship; and create a network of agencies, academic institutions and R&D institutions to promote MSMEs (Jahanshahi *et al.*, 2011).

The programmes implemented by the government managed to encourage science and technology oriented people to be involved in entrepreneurship and to create MSMEs. As a

result of the government initiatives, academics and research institutions became interested in entrepreneurship and the need to create employment for the Indian population. Government support for MSME development led to an increase in the number of people employed in MSMEs. People employed in MSMEs increased from about 22.9 million in 1999 to 29.5 million in 2005 and 2006, and also increase from 29.5 million in 2005 and 2006 to 59.5 million in 2007. By 2009, approximately 65.9 million people had jobs in MSMEs (Jahanshahi *et al.*, 2011). This indicates that Indian MSMEs have developed over time.

#### ***2.6.4.4 Access to finance***

In an effort to deal with the financial challenges confronting the SME sector in India, the RBI has advised commercial banks to achieve a 20 % year-on-year growth in credit to micro and small enterprises (RBI, 2012), and closely monitors the implementation of this policy. Banks have been further instructed by the RBI to provide loans free from collateral of up to Rs 10 lakh to SMEs, and banks are able to access cover for the collateral-free credit facilities under a credit-guarantee scheme for MSMEs launched by the GoI (RBI, 2012), to provide both new and existing MSMEs with collateral-free loans. This was done to increase MSMEs' access to funding.

The Ministry of MSMEs and the Small Industries Development Bank of India (SIDBI) established the Credit Guarantee Trust for MSMEs (CGTMSME) for the purpose of guaranteeing MSME loans (CIOL, 2012). SIDBI was established for the purpose of providing funding to MSMEs (Ghatak, 2010; Jahanshahi *et al.*, 2011). The Indian government and SIDBI partnered with the World Bank to promote MSME access to funding (Ghatak, 2010), and the World Bank provided funding worth US\$120 million for MSME funding and development (Ghatak, 2010). The project ran from 2005 to 2009 and covered 10 Indian states and 927 MSMEs (Ghatak, 2010). In 2009, the Indian government also received additional funding worth US\$ 400 million from the World Bank for promoting MSME growth (Ghatak, 2010).

Financial literacy has been a challenge for Indian MSMEs; therefore, in order to promote financial literacy, banks were advised by the RBI to provide their MSME clients with financial literacy and consultancy support (RBI, 2012). The RBI (2012) further recommended that all bank employees be trained in customised programmes in order to be able to assist SMEs effectively and to meet the specific needs of the sector.

The government also established the Credit Link Capital Subsidy Scheme, for the purpose of improving technology in the small-scale industries (SSI) sector (CIOL, 2012). All forms of business from different sectors of the economy qualify for this type of government assistance (IOL, 2012). Under this scheme, MSMEs in the SSI sector can access loans of up to Rs. 1 crore. This loan has a subsidy of 15 % and is calculated on the purchase price of the plant, equipment or machinery (CIOL, 2012). The maximum subsidy that can be provided to an MSME is Rs. 100 lakhs (CIOL, 2012).

A Delayed Payment Act was established to facilitate quick payment by creditors to MSMEs and steps were taken to discourage delayed payments to MSMEs (MSME, 2008) This was established to ensure that MSMEs have adequate financial resources at all times to finance their operations.

#### ***2.6.4.5 Market Development Assistance Scheme for MSMEs***

In an attempt to facilitate the internationalisation of MSMEs in India, the government established the Market Development Assistance Scheme for MSMEs. The scheme provides funding to manufacturing MSMEs involved in international trade fairs and exhibitions (IOL, 2012; WBG, 2012; IMMSME, 2014). The Office of the Development Commissioner of MSMEs organises MSME attendance of international exhibitions and trade fairs (WBG, 2012), where MSMEs are afforded the opportunity to showcase their products at an international level and to explore the possibilities of exporting their products to these markets (EIBA, 2012; IMMSME, 2014). In 2013/2014, the Office of the Development Commissioner took part in nine international trade fairs in which 131 MSMEs participated (IMMSME, 2014). On average, the Office of the Development Commissioner takes part in 8–10 international trade fairs or exhibitions each year (MSME Development Institute, n.d.). So far more than 200 MSMEs have benefited from these international trade fairs (MSME Development Institute, n.d.).

In making provision for MSMEs to attend international trade fairs and exhibitions, the Indian government pays 75 % of delegates' airfares and 50 % of their exhibition space rental at the trade fairs (IMMSME, 2013a; MSME Development Institute, 2014). For women entrepreneurs and entrepreneurs from the North Eastern Region, the government provides a 100 % subsidy of their travel and rental costs (MSME Development Institute, n.d.; MSME Development Institute, 2014; IMMSME, 2015a). The government also covers 25 % of the costs of producing publicity material (Indian National Institute for MSMEs, n.d.; IMMSME,

2015a). MSMEs that participate in the international trade fairs or exhibitions are chosen on the basis of the conformity of their products to world-class standards and quality (MSME Development Institute, 2014).

MSMEs involved in exporting are trained in the latest international packaging standards and techniques (MSME Development Institute, n.d.). The importance of packaging is emphasised during these training sessions (IMMSME, 2014). Training programmes are organised by the Office of the Development Commissioner for MSMEs. The Indian Institute of Packaging is also involved in the running of the training programmes for MSME exporters (IMMSME, 2014, 2015b).

Funding is also availed for studies in the markets of particular sectors conducted by industry associations or by export promotion councils. The thrust of the scheme is to facilitate the development of markets for MSMEs. The studies conducted provide valuable information for exporters in terms of products in demand, the packaging required, the costs incurred, and expected income.

The government also plays a role in promoting MSMEs' access to local markets. This is done through improving how MSMEs market themselves, for example through renovating their buildings, training salespeople, setting up online sales, and improving their production machinery (Kushalakshi & Raghurama, 2014). Information regarding the local market is provided through training sessions conducted for MSME owners (MSME Development Institute, n.d.; Kushalakshi & Raghurama, 2014).

#### ***2.6.4.6 Participation of MSMEs in public procurement***

In March 2012, the Indian government instituted the Public Procurement Policy for MSMEs (WBG, 2012; IMMSME, 2014; Kushalakshi & Raghurama, 2014). Every central government ministry, department and public enterprise is compelled by the policy to establish goals for procuring products or services from the MSME sector (Kushalakshi & Raghurama, 2014). According to the policy, central government ministries, departments and public enterprises should procure at least 20 % of their products, services or raw materials from MSMEs (WBG, 2012; FICCI & Thornton, 2013). It is a requirement of the policy that 4 % of this 20 % comes from MSMEs owned by women or Scheduled Castes (SC) or Scheduled Tribes (ST) entrepreneurs (Kushalakshi & Raghurama, 2014). The SCs and STs are marginalised groups of people in Indian society who do not take an active role in mainstream economic activities (Iyer *et al.*, 2011; Mahajan, 2011). In terms of the ownership of enterprises, these groups of

people are under-represented (Iyer *et al.*, 2011). Therefore, the government realised the need to involve them in the economic activities of India by facilitating their participation in public procurement.

MSMEs have access to tender documents free of charge and they do not pay earnest money in order to reduce their business costs (MSME Development Institute, n.d.; IMMSME, 2014, 2015a). Reducing costs makes more financial resources available for use in their businesses. Thus, this becomes a way of propping up the MSME sector.

Central government ministries, departments and public enterprises, according to the public procurement policy, must report procurement goals and achievements in their annual reports (IMMSME, 2014). They are also required to establish an Annual Procurement Plan and upload it onto their official websites so that MSMEs are informed of the procurement requirements. Each state in India is also expected to formulate a similar procurement policy for MSMEs (IMMSME, 2014, 2015a).

The procurement policy promotes MSMEs' access to markets and improves their competitive position due to participation in government tenders (Kushalakshi & Raghurama, 2014). Participation in public procurement improves MSMEs' cash flow into their businesses and provides employment (UKDBIS, 2013). Cash flow is a prime controller of business viability. Therefore, public procurement is the means by which the government can provide direct assistance to MSMEs (Loader, 2007; Kiage, 2013; Loader, 2013).

#### **2.6.4.6 Business incubation**

One of the strategies implemented by the Indian government is to promote MSMEs through business incubation. The IMMSME (2009) notes that the scheme was established to promote emerging technology and knowledge-based innovative ventures that seek mentorship and technical advice from professionals, which falls outside the traditional activities of the MSME (Ministry of MSME, 2008; Business Standard, 2014). Some business ideas have to be developed in an environment supported by professionals before they become attractive for investment. Business incubation is provided for MSMEs in the fields of mechanical engineering, food processing, electronics, and software engineering (IMMSME, 2015b; Business Standard, 2014). Under this programme, 100 incubators were set up under various technology host institutions (IMMSME, 2015b), including the Indian Institutes of Technology, the National Institutes of Technology, engineering colleges, TDCs, tool rooms, and other recognised R&D or technical institutes and development institutes in the fields of

paper, rubber, machine tools, and other related fields (IMMSME, 2015b; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2013; Business Standard, 2014). To date, more than 80 ideas have been commercialised in different business sectors in which MSMEs operate (Business Standard, 2014). Examples include, but are not limited to, paper manufacturing, rubber making, manufacturing of tools, and chemical manufacturing (Business Standard, 2014). The Business Standard (2014) further observes that the government aims to commercialise 400 business ideas and also intends to add 100 more incubators.

#### ***2.6.4.7 Indo-German Development Co-operation Project (IGDC)***

The Indian government has partnered with the German government under the Indo-German Development Co-operation Project (IGDC) funded by the German Ministry of Economic Co-operation and Development. The project aims to provide a suitable milieu for MSMEs to be involved in and to adopt innovation in order to address the socio-economic challenges confronting India today (GIZ, 2013). Workshops on technology and innovation are held for the benefit of both German and Indian SMEs. In March 2014, the IMMSME and GIZ jointly held a workshop to promote technology for energy efficiency (Indo-German Energy Forum Support Office, 2014). The workshop focused on funding, training, and providing subsidies for SMEs using energy-efficient technologies, which reduce the costs of production and carbon emissions (Indo-German Environmental Partnership, 2013; Indo-German Energy Forum Support Office, 2014).

The co-operation between the two countries has also provided an export market for MSMEs in India and for German SMEs. Today, Germany is India's largest European trading partner (Confederation of Indian Industry (CII), 2010; GIZ, 2014). Indian MSMEs export textiles, leather products, chemicals and metal products, among others (GIZ, 2014). In 2009/2010, India exported products worth US\$5.4 billion to Germany (CII, 2010). German SMEs export machinery, electrical equipment, and chemicals to India (CII, 2010; GIZ, 2014). India thus imports a great deal of technology from Germany (CII, 2010), and this benefits Indian MSMEs.

The IGDC also provides a platform for exchanging valuable information for MSME growth. The Indo-German MSME Forum held in 2013 provided an opportunity for sharing information on issues relating to, among others, the role of business membership organisations in SME development, and investment co-operation opportunities for SMEs in

India and Germany (GIZ, 2014). Such a regular exchange of critical knowledge improves the competitive position of SMEs in both India and Germany.

Indian MSMEs have received financial support from German banks under the umbrella of the IGDC. In 2012, SIDBI signed an agreement with the German Development Bank (KfW). The agreement was meant to assist Indian MSMEs financially to the tune of €54 million for the purpose of promoting the development and spread of the latest innovative technologies among MSMEs in the clean technology fields (GoI, 2012). The KfW, according to the agreement, was expected to provide loans and technical assistance to MSMEs in India for the development of energy-efficient technologies, renewable energy and waste management (GoI, 2012).

#### ***2.6.4.8 MSME Cluster Development Programme***

The Indian Government, through the IMMSME, introduced the SME Cluster Development Programme (CDP) in 1998 with the aim of promoting the productivity, competitiveness and growth of MSMEs (IMMSME, 2009; Kushalakshi & Raghurama, 2014; MSME Development Institute, 2014). The CDP focuses on technology-oriented MSMEs (IMMSME, 2009; Kushalakshi & Raghurama, 2014). Clustering MSMEs facilitates the provision of services by banks and credit agencies more efficiently and economically, thereby reducing the costs. Clustering refers to the agglomeration of businesses that are involved in manufacturing and distributing homogenous and complementary goods and services (IMMSME, 2009; Ghatak, 2010; Kushalakshi & Raghurama, 2014; MSME Development Institute, 2014). The clusters are made up of MSMEs with homogeneous challenges and opportunities, levels of technology and marketing strategies (IMMSME, 2009, 2014). The objectives of the scheme include the following: fostering the growth of MSMEs by dealing with issues such as technology, skills, quality of products and services, market access, and access to funding; the upgrading of infrastructural facilities; and establishing facility centres for the purposes of training, testing, effluent treatment, and complementing production processes (IMMSME, 2009; EIBA, 2012; FICCI & Thornton, 2013; IMMSME, 2014, 2015). CII *et al.* (2014) observe that clusters assist MSMEs through addressing challenges associated with scale and facilitate the development of technology. The government assists by providing funding of up to Rs. 8 crores per cluster (IMMSME, 2009). More than 20 schemes and programmes in India and about 1 500 clusters have been supported under such schemes and programmes (FICCI & Thornton, 2013; CII *et al.*, 2014). To date MSMEs in the clusters have managed to provide employment to 60 million people (Foundation for MSME Clusters, n.d.). Therefore, the

clustering of MSMEs has been of much assistance to both the Indian population in terms of providing employment and to the MSMEs in terms of business growth.

## **2.6.5 Malaysia**

Having realised the critical role played by SMEs in economic development, the Malaysian government formulated and implemented policies and strategies in order to address obstacles faced by SMEs and to promote SME development. Government support programmes include training and advisory services, access to funding, market research, provision of infrastructure, and the participation of SMEs in public procurement (Razak, 2011).

### ***2.6.5.1 National SME Development Council***

The National SME Development Council (NSDC) was established in 2004 as the apex body for policy formulation. It provides strategic direction on SME policies and ensures that the government programmes are effectively implemented (NSDC, 2008; CBE, 2011; Gunto & Alias, 2013; Asian Development Bank, 2014; Khan & Khalique, 2014). The NSDC monitors and measures the effectiveness of SME policies and programmes (Muhammad *et al.*, 2010; CBE, 2011; SME Corp. Malaysia, 2012b; Ramaiah, 2013; Francis, 2014; Khan & Khalique, 2014).

In 2006, the NSDC approved the establishment of microfinance institutions for providing funding to SMEs. Muhammad *et al.* (2010) observe that by 2007, at least 286 000 SMEs had received assistance through the NSDC programmes. The microfinance institutions are made up of banks and development finance institutions (NSDC, 2008; Muhammad *et al.*, 2010; Devinanga & Tan, 2012), and loans to SMEs are between RM500 and RM50 000 and are collateral-free. They do not involve much documentation and approval does not take much time (NSDC, 2008). Through the loans, SMEs have been able to expand their businesses locally and abroad (Ramaiah, 2013). In 2009, 162 main programmes worth RM3.05 billion had been put in place by the government, from which more than 600 000 SMEs benefited (OECD, 2012b). From 2005 to 2010, the SME contribution to GDP increased from about 29 % to approximately 32 % (SME Corp. Malaysia, 2011a, 2013; OECD, 2012b; Rahman *et al.*, 2013; Francis, 2014). The year 2010 saw an increase in the number of programmes to 167, with an expenditure of RM6.9 billion towards SME development (OECD, 2012c). In 2012, about 144 SME development programmes worth US\$4.9 billion were implemented (SME Corp. Malaysia, 2012c). The programmes implemented in 2013 had an approximately 85 % success rate (SME Corp. Malaysia, 2014a). From 2004 to 2010, the SME growth

(approximately 8.4%) was more than the overall Malaysian GDP growth (less than 8%) (SME Corp. Malaysia, 2011, 2013b).

The NSDC has managed to improve the SME statistics, as well as the dissemination of information to SMEs through the SME database and SME information portal (CBE, 2011). The CBE (2011) observes that the NSDC has also enhanced the manner in which training and marketing for SMEs is conducted. Therefore, the NSDC has significantly promoted the development of SMEs in Malaysia (Francis, 2014).

#### ***2.6.5.2 SME Corporation Malaysia***

The government of Malaysia (GoM), through the NSDC, appointed the SME Corporation (SME Corp.) Malaysia in 2009 to co-ordinate SME programmes and SME policy and strategy formulation (RMTI, 2010; GRIPS Development Forum & Ethiopian Ministry of Industry, 2013; Khan & Khalique, 2014). SME Corp. Malaysia assists SMEs through the provision of information, advice and business support (Bank Negara Malaysia, 2007, cited in CBE, 2011; Devinanga & Tan, 2012; Khan & Khalique, 2014). The SME Corp. Malaysia has an expert advisory panel made up of 70 industry experts who provide technical advice to improve the quality of the production processes (United Nations Conference on Trade and Development (UNCTD), 2011).

SME Corp. Malaysia has introduced the SME@University Programme for the purpose of providing structured learning programmes to the senior management of SMEs (Gunto & Alias, 2013) to improve their level of skills. Participants in the programme learn how to become world-class CEOs (Gunto & Alias, 2013). The SME-University Internship Programme was set up in 2008 through the signing of a memorandum of understanding between SME Corp Malaysia and the Ministry of Higher Education (Gunto & Alias, 2013). This programme focuses on the improvement of business performance by using university students as consultants, under the guidance of their lecturers and SME Corp. This exposes students to real-world business experiences that enable them to acquire business skills and that foster an entrepreneurial spirit in them (CBE, 2011; Gunto & Alias, 2013).

Grants for the Skills Upgrading Programme are provided by SME Corp. Malaysia (UNCTD, 2011). Through this programme, SME workers are sent to registered skills development centres across the country, such as the Penang Skills Development Centre. Such centres offer training in the technical and management fields (UNCTD, 2011). There are also special programmes for the improvement of the quality of products and manufacturing processes, as

well as for increasing the standards of packaging and management. Certifications for quality and for the international advertising of Halal products are also funded by SME Corp. Malaysia (UNCTD, 2011).

### ***2.6.5.3 SME Bank of Malaysia***

In the Malaysian economy, financial institutions play a critical role in economic development (SME Bank of Malaysia (SMEBM), 2013). The government has established various development finance institutions to promote the growth of sectors that are important for the socio-economic development of Malaysia (SMEBM, 2013). One such sector is the SME sector. Therefore, the SME Bank of Malaysia (SMEBM) was established in 2005 to promote the development of SMEs, and to meet the specific needs of the SME sector (NSDC, 2006; SME Corp. Malaysia, 2008a; SMEBM, 2010, 2013). The SMEBM is wholly owned by the Ministry of Finance on behalf of the GoM (SMEBM, 2011). The bank's activities are supervised by the Ministry of International Trade and Industry (MITI) while the Central Bank of Malaysia (CBM) regulates its operations (SMEBM, 2013).

The SMEBM provides funding and operates as a business development centre for SMEs (NSDC, 2006; Bank Negara Malaysia, 2008; SME Corp. Malaysia, 2008; UNCTD, 2011; SMEBM, 2013). The Bank provides funding for new businesses, promotes professionalism among SMEs, supports the expansion of SMEs through franchising, supports export-oriented SMEs, and promotes SME participation in local and global procurement (Bank Negara Malaysia, 2008; CBE, 2011; PKF Accountant & Business Advisers, 2011; UNCTD, 2011). The SMEBM also supports SMEs in the manufacturing, services and construction sectors (PKF Accountant & Business Advisers, 2011; SMEBM, 2011).

The Centre for Entrepreneur Development and Research (CEDAR) was established by the SMEBM to complement the Bank's role by developing the human resources for SMEs (SMEBM, 2014). Training sessions are held by CEDAR to equip existing or prospective entrepreneurs with the requisite skills for managing SMEs (SMEBM, 2013). Training is provided in the areas of marketing, customer service, and business development. The aim is to enhance the development of SMEs.

#### ***2.6.5.4 National SME Innovation Focal Point (NSIFP)***

The GoM has been putting a great deal of emphasis on the idea of an economy that is led by innovation (SME Corp. Malaysia, 2010). Such an economy requires a new crop of SMEs to promote market- and technology-led innovation. Global competition has forced governments and SMEs to understand the importance of technology and innovation in improving their competitive position (GoM, 2010; Rosli & Sidek, 2013). The economic progress of a nation hinges on technology and innovation (GoM, 2010; Rosli & Sidek, 2013), and innovation and technology have therefore become a necessity (Kaplan & Waren, 2007, cited in Rosli & Sidek, 2013). It is within this framework that the National SME Innovation Focal Point (NSIFP) was set up in 2006 to facilitate the dissemination of technology and innovation-related and R&D information to relevant stakeholders (Asian Productivity Organisation, 2015). According to the Malaysian Third Industrial Master Plan (2006–2020), the NSIFP provides a forum for MSMEs, industry associations, research institutes, financial institutions, and various government agencies to discuss and exchange ideas on the development of SMEs that are innovation-led and technology-driven (NSDC, 2008; Small and Medium Industries Development Corporation (SMIDEC), 2008; SME Corp. Malaysia, 2010; Asian Productivity Organisation, 2015). The development of such SMEs takes place through technology and innovation that is R&D-driven or market-driven, as well as through the use of current knowledge in production. Current information about production, processes, the latest technologies, and quality are made available to MSMEs, industry associations and relevant government agencies (SMIDEC, 2008; SME Corp. Malaysia, 2010). Therefore, it is the responsibility of the NSIFP to ensure that Malaysian SMEs have access to up-to-date production technologies (Asian Productivity Organisation, 2015). The commercialisation of R&D results is facilitated by the NSIFP (Organisation for SMEs and Regional Innovation, 2008; SMIDEC, 2008; Asian Productivity Organisation, 2015). Public universities and government research institutes under the NSIFP work together with SMEs in the commercialisation of new technologies (Organisation for SMEs and Regional Innovation, 2008; Asian Productivity Organisation, 2015). At the 2007 International Trade Fair, 22 new technologies that were ready for commercialisation were exhibited (Organisation for SMEs and Regional Innovation, 2008). Thus, the government provides support for SMEs through new technologies and through assisting them to improve the quality of their products and production processes (UNCTD, 2011).

The MITI has a Commercialisation of Research Development Fund for the provision of partial grants of 50–70% of R&D costs (UNCTD, 2011). These costs include, among others, market research and designing of products.

### ***2.6.5.5 Access to finance***

One of the challenges confronting SMEs in Malaysia is access to credit finance. To address this challenges, the GoM, under the Ninth Malaysia Plan (2006–2010), provided funding worth RM3.8 billion in 2008 and RM11.9 billion in 2010 (Stephen, 2012; Gisip & Harun, 2013). The government has also implemented a loan-guarantee scheme through the Credit Guarantee Corporation of Malaysia (CGCM) in order to further promote SMEs' access to funding so that they do not continue to have cash flow problems (Aziz, 2007; CBE, 2011; Devinanga & Tan, 2012; Gisip & Harun, 2013; Gunto & Alias, 2013; CGCM, 2014). The CGCM guarantees 80 % of the loan amount with no charges (CBE, 2011).

By December 2008, the number of SME accounts that were approved and financed exceeded 37 000 (Bank Negara Malaysia, 2009). Stephen (2012) observes that from 1972 to 2010 the CGCM guaranteed more than 40 000 loans amounting to approximately US\$15.7 billion. By the end of June 2011, the CGCM had made guarantees worth RM47.8 billion (US\$16.2 billion) to 411 930 SMEs (CBM, 2011a). Between 1972 and August 2011, the CGCM guaranteed more than RM48 billion to 413 360 SMEs (Association of Banks in Malaysia, 2012). The end of February 2012 witnessed the CGCM guaranteeing a total of 414 469 loans worth RM48.8 billion (SME Corp. Malaysia, 2012b). At the end of 2012, the CGCM had guaranteed a total of 420 217 loans (NSDC, 2013b). In light of the given statistics, the scheme has been a success in terms of assisting SMEs.

The CGCM loan-guarantee scheme is intended for SMEs without collateral or a track record to access finance from financial institutions (Aziz, 2007; CGCM, 2009; Devinanga & Tan, 2012; Gunto & Alias, 2013). The credit guarantee facility was created to provide employment in SMEs mainly in the manufacturing, trading and services sectors (Devinanga & Tan, 2012). The operations of the CGCM are supervised by the Bank Negara Malaysia (Devinanga & Tan, 2012). The shareholders of the CGCM are Bank Negara Malaysia (76.5 %), commercial banks (23.4 %) and development finance institutions (0.1 %) (CGCM, 2009).

Even though the government has made serious efforts to address the challenges confronting the SME sector, Malaysian SMEs still have factors militating against their growth, such as access to finance, human capital, technology, and markets. For example, a continuous shortage of finance has been an obstacle to the expansion of SMEs into international markets (Gisip & Harun, 2013). The CGCM has managed to assist approximately 45 % of SMEs (Devinanga & Tan, 2012), and the GoM still needs to find ways to address the remaining challenges.

As part of its strategy to promote SME access to finance, the GoM has taken part in the establishment of a venture capital industry (Aziz, 2007; CBE, 2011; Stephen, 2012; NSDC, 2013b). The GoM, between 2001 and 2007, contributed over RM450 million to private venture capital companies (Aziz, 2007). As of the end of 2012, the GoM had contributed about RM3.081 billion towards the venture capital industry (NSDC, 2013b). The government contributes 54.1 % of the financial resources to the venture capital industry, while the other 45.9 % is provided by insurance companies, banks, pension and provident funds, and individuals (NSDC, 2013b). These private venture capital companies invest in SMEs, and the GoM, through Malaysia Venture Capital Management (Mavcap), has so far trained approximately 100 professional venture capital companies over the past ten years (Mavcap, 2011).

#### ***2.6.5.6 Systems to mitigate risk associated with credit finance***

The GoM has set up systems intended to mitigate risk and assess quickly the creditworthiness of a borrowing SME or any business entity (CBE, 2011; CBM, 2011a; Stephen, 2012; Ata *et al.*, 2013; Bank Negara Malaysia, 2013; NSDC, 2013b). The Central Credit Reference Information System (CCRIS), owned and operated by the Credit Bureau within the CBM, provides information about an SME in order to calculate the risk of lending to that particular business (CBM, 2011a; Association of Banks in Malaysia, 2012; Ata *et al.*, 2013; World Bank & IFC, 2014b). The system provides both positive and negative information on borrowers. Such information is important for financial and non-financial institutions in making lending decisions (CBM, 2011a).

Section 7 of the Central Bank of Malaysia Act, 2009 empowers the CBM to collect credit information on individuals, companies and SMEs, and to make the same information available to financial and non-financial institutions on request to assess the creditworthiness of potential borrowers (Malaysia Financial Surveillance Department & Statistical Services Department, 2012). The credit information is disclosed to financial and non-financial institution through the CCRIS (NSDC, 2013b). Such information is provided to relevant institutions free of charge through email on submission of the relevant documentation (Credit Counselling & Debt Management Agency, 2012). The CCRIS generates a report with factual and historical credit information (Rosly, 2013). The report is used by financial or non-financial institutions to determine whether or not credit should be given to a potential customer (CBM, 2011a).

The CCRIS provides many benefits for SMEs in Malaysia. Such a facility assists SMEs in building good credit records to enhance quicker processing of their loan applications (CBM, 2011a; Association of Banks in Malaysia, 2012; NSDC, 2013b; World Bank & IFC, 2014). As a result, easy access to credit finance is promoted (NSDC, 2013b; World Bank & IFC, 2014), and SMEs in Malaysia have become well informed about providing credit or accepting guarantees (CBM, 2011a; Association of Banks in Malaysia, 2012).

Between July 2008 and June 2011, the CCRIS generated 253 990 credit reports (CBM, 2011a), and by September 2011, the number had increased to 350 000 (Association of Banks in Malaysia, 2012). At 31 December 2012, the credit bureau had generated more than 800 000 reports and over 400 000 SMEs had been rated (NSDC, 2013b).

The Malaysian CCRIS is similar to an SME credit bureau and loan security scheme that were established in Singapore with the aim of promoting SME access to credit finance (Ata *et al.*, 2013). Thailand has also taken the same stance of promoting SME access to finance by setting up the Central Credit Information Service Company Limited and the Thai Credit Bureau (Ata *et al.*, 2013). Both institutions provide up-to-date credit information about SMEs.

The Credit Tip-Off System (CTOS) has a privately run database that logs any legal complaint made against any business organisation or SME or any person in Malaysia (CGCM, 2010; CBE, 2011; Stephen, 2012; Rosly, 2013). Any individual or company bankruptcy is registered on the CTOS database (Rosly, 2013). The CTOS does not provide any information on the credit ratings or creditworthiness of the would-be borrower, but the financial institution examines the information from CTOS to make decisions (Rosly, 2013).

#### ***2.6.5.7 Promoting the use of technology and ICT***

There has been a general transition from industrial economies to knowledge and digital economies worldwide (EC, 2014), and economic development therefore increasingly relies on the creation and distribution of knowledge (Asia-Pacific Development Information Programme, 2010, cited in EC, 2014). Countries have been attracted to the use of information and communications technology (ICT) because of its ability to transform SMEs (Kushwaha, 2011). The way business is conducted today has been greatly influenced by ICT (Alam, 2009; Rashid & Hassan, 2012). The use of ICT is cost-effective, increases SME competitiveness, promotes efficiency, improves productivity, and creates networks and co-operation among SMEs and large businesses globally (Alam, 2009; Salman, 2010; Ghobakhloo *et al.*, 2012; EC, 2014; Olukayode *et al.*, 2014). The use of ICT has increased the pace of globalisation and

has exposed SMEs to more competition (Olukayode *et al.*, 2014). In order to compete in such globalised knowledge economies, SMEs require ICT skills (Alam *et al.*, 2009; Rashid & Hassan, 2012; EC, 2014).

The ability to access and use technology and ICT has been an obstacle to SME growth and competitiveness in Malaysia. There has been a slow adoption of ICT among Malaysian SMEs (Alam, 2009; Hua *et al.*, 2009; Ministry of Science, Technology & Innovation (Malaysia), 2009; Pouris, 2012; EC, 2014). Therefore, upgrading technology and promoting the use of ICT is one of the key strategies adopted by the GoM to promote SME development and competitiveness in international markets (Malaysian MITI, n.d.; Saleh & Burgess, 2009; Salman, 2010; Ghobakhloo *et al.*, 2012; Rashid & Hassan., 2012). The GoM seeks to promote the development of technopreneurs, which are ICT and multimedia SMEs (Juso & Halim, n.d.; Malaysia Investment Development Authority (MIDA), 2012). To this end, the GoM has established the Technopreneur Development Programme (TDP) to facilitate SME involvement in the ICT sector to assist them to become competitive in global markets (Juso & Halim, n.d.). Technological development among SMEs is supported by scientific research conducted by universities and government research institutes (Juso & Halim, n.d.). The support for technopreneurs is premised on the role they play in economic development.

The government also provides grants and funding for SMEs to upgrade their technologies and use the current ICTs to improve the quality of their products and services (CBE, 2011; UNCTD, 2011; Stephen, 2012). Malaysian SMEs currently use the latest technologies, and the country is well connected (CBE, 2011; Gunto & Alias, 2013). The Technology Acquisition Fund is a government facility that covers up to 70% of the costs involved in purchasing technology licenses and patent rights (UNCTD, 2011). In this way the government reduces SMEs' operational costs, thereby making more financial resources available for SME growth.

Specific strategies have been adopted to ensure that the country uses the latest technologies (Pouris, 2012). The Multimedia Super Corridor (MSC) was established in 1996 (Salman, 2010; Soon & Zainol, 2011; Pouris, 2012) to promote the development of ICT SMEs (SEACOOOP, 2010; MIDA, 2012). An institution owned by the government, the Multimedia Development Corporation, was established to facilitate the development of the MSC (Malaysian Ministry of Science, Technology & Innovation, 2009). The MSC, which is 50 km long and 15 km wide, runs from the Kuala Lumpur city centre in north to the new Kuala Lumpur International Airport in the southern part of the city (Salman, 2010; Pouris, 2012). Within the corridor are two cities, Putrajaya and Cyberjaya. Putrajaya is referred to as the "intelligent city" due to its state-of-the-art ICT facilities that are used by both the government

and by business, including SMEs (Salman, 2010). The city of Cyberjaya has created a critical environment for the development of SMEs in the ICT sector (UNCTD, 2011). Cyberjaya has some of the world's biggest companies with innovative multimedia and they manufacture high-quality products and provide a high standard of services for international markets (Salman, 2010; SEACOO, 2010; MIDA, 2012). Thus, the MSC has managed to establish an excellent infrastructure that promotes the development of SMEs (Salman, 2010; MIDA, 2012).

There are certain incentives enjoyed by companies and SMEs in the MSC. SMEs are 100 % exempt from paying tax for a period of five years, have access to R&D grants, and have access to credit capital (MIDA, 2012; Pouris, 2012). Non-financial incentives include world-class R&D facilities, state-of-the-art physical infrastructure and ICT facilities, and no payment of duties when importing multimedia equipment (Salman, 2010; MIDA, 2012; Pouris, 2012). The GoM has also enacted specific laws to protect the intellectual property of SMEs within the MSC (MIDA, 2012; Pouris, 2012).

The use of the MSC has led to the creation of approximately 10 000 jobs (Salman, 2010). SMEs and large companies within the corridor have managed to manufacture and sell world-class ICT products to international markets (Salman, 2010).

In Malaysia's rural areas, the GoM has implemented certain strategies to facilitate the growth of SMEs through access to ICT facilities. Such strategies were outlined in the Ninth Malaysian Plan which focused on transforming Malaysia into a knowledge economy (Rashid & Hassan, 2012). The Universal Service Provision policy, the Rural Internet Centre project, and the Medan InfoDesa initiative were introduced for rural SMEs. These programmes focused on involving the rural population in the ICT and digital world (Rashid & Hassan, 2012). The Malaysian Communications and Multimedia Commission (2011, cited in Rashid & Hassan, 2012), observes that the government has constructed 246 Broadband Community Centres. Internet access in rural areas has promoted the use of electronic transactions among SMEs, such as the payment of bills (Salman, 2010). Rural SMEs have been able to participate in e-procurement through the use of ICT (Soon & Zainol, 2011). Thus, this environment has promoted the growth of SMEs in the ICT sector.

#### ***2.6.5.8 Human resource development***

Human resource development (HRD) involves training and development as well as organisational and employee career development (Omar *et al.*, 2009; Swanson & Holton,

2009; Khan *et al.*, 2012). HRD improves the competence and skills of employees, improves product and service quality, motivates the workforce, creates commitment among workers, changes the attitudes of employees, and leads to business development (Yatim, n.d.; Omar *et al.*, 2009; Khan *et al.*, 2012; Werner & DeSimone, 2012; Yahya *et al.*, 2012). HRD is undertaken to meet the present and future needs of jobs (Werner & DeSimone, 2012). The long-term survival and development of businesses, and therefore a country's economic development, hinges on sound HRD programmes (Khan & Khan, 2011; Yahya *et al.*, 2012). It is against this understanding that the GoM designed the Ninth Malaysian Plan (2006–2010) and the Tenth Malaysian Plan (2010–2015), in which HRD is regarded as one of the key priorities (Yatim, n.d.; Ministry of Human Resources Malaysia (MHRM), 2012). HRD, in the Malaysian context, seeks to produce skilled workers so as to promote economic development, promote economic competitiveness at international level, and create a knowledge economy (Yatim, n.d.; MHRM, 2012). Thus, the government assists SMEs in providing them with employees of high quality. Such a scenario improves the quality of products and services from SMEs.

Lack of management and technical skills has been cited as a key obstacle to SME growth in many countries, and Malaysia is no exception. The GoM has realised that for SMEs to be competitive in the current international business environment, training in management skills, business knowledge and financial management issues is critical (Gisip & Harun, 2013). Thus, technical training programmes, workshops, seminars and conferences have been held with a view to transferring skills to business people and fostering SME development in Malaysia. The types of skills transferred to SMEs include technical, financial management, marketing, human resources management, purchasing and leadership skills (MHRM, 2012; OECD, 2012b).

The GoM introduced the Skills Upgrading Programme, which offers short courses in training centres accredited and identified by SME Corp. Malaysia (SME Corp. Malaysia, 2011b). The programme seeks to impart skills to and improve the capabilities of SMEs in order for them to become more efficient and productive, and to be run professionally (SMIDEC, 2007; SME Corp. Malaysia, 2011c; MHRM, 2012; OECD, 2012a). SMEs are offered a training grant of 50 % of their training costs (SME Corp. Malaysia, 2011b; SMIDEC, 2007), and the acquisition of skills supports innovation and technological development (Malaysian MITI, n.d.; OECD, 2012c).

The GoM has increased the number of higher education institutions (HEIs) in order to address the long-term skilled-labour requirements of SMEs. To address the skills shortage in the short term, 20 skills training centres have been established to provide technical and management

training (OECD, 2012c; Stephen, 2012). A substantial portion of the Malaysian budget (approximately 21 %) is directed towards education and training (Ministry of Education Malaysia, n.d.). This illustrates the seriousness of the government in ensuring an educated and skilled population.

The SME-University Internship Programme was introduced to create an entrepreneurial spirit among students (OECD, 2012; SME Corp. Malaysia, 2014), to give them an experience of the business environment, and to impart business skills needed for operating an SME (Gunto & Alias, 2013). This is a way of encouraging university graduates to start businesses in order to reduce unemployment. Approximately 80 000 university and college graduates across the country are unemployed (Ooi & Ahmad, 2012), and it is therefore crucial that the government implement such strategies to facilitate SME growth, reduce employment, and promote economic development. The programme was also established to create a link between SMEs and universities in order to improve the SMEs' capacities and capabilities (Gunto & Alias, 2013). Upgrading the performance and productivity of SMEs is part of the purpose of the programme, and is achieved through students playing a consultative role under the management and supervision of their lecturers and SME Corp Malaysia's business counsellors or advisors (Gunto & Alias, 2013). An agreement was reached between SME Corp. Malaysia and the Ministry of Higher Education through the signing of a memorandum of understanding so that the programme could be carried out in all public universities in Malaysia (Gunto & Alias, 2013).

Therefore, universities and skills training institutions focus on imparting technical and management skills to SMEs (Kasim, 2011). Such skills are critical for the success of SMEs. A study conducted by Yahya *et al.* (2012) reveals that there is a significant and positive relationship between skills training and SME success.

The failure of SMEs is partly attributed to the lack of financial, marketing, human resource and technical skills. Technical skills encompass the use of ICT and the development and manufacturing of products and services. Hence, the rise or fall of a business is partly dependent on the quality of its management and its technical knowledge. The government has also provided business advisory services, infrastructural support, and market research to SMEs (Gisip & Harun, 2013; Gunto & Alias, 2013). This has been done to equip SMEs to face local and international competition. About 202 schemes involving 598 000 SMEs were implemented in 2007 (SME Report, cited in Gisip & Harun, 2013). For these schemes the government provided funding to the tune of RM3 billion (SME Report, cited in Gisip & Harun, 2013).

### **2.6.5.9 Promotion of access to markets**

The GoM, through the Malaysian External Trade Development Corporation (MATRADE), promotes SME access to markets (Sin, 2010; CBE, 2011; UNCTD, 2011; Stephen, 2012; Gisip & Harun, 2013). Zulkiffli *et al.* (2010) note that MATRADE and the Ministry of Entrepreneur and Co-operative Development (MECD) have designed programmes focused on promoting SME products and services in domestic and international markets. Such programmes have enabled Malaysian SMEs to enter foreign markets. MATRADE, in conjunction with the MECD, promotes the SME attendance at and participation in local and international trade fairs or exhibitions and trade missions through the provision of finance to cover costs (UNCTD, 2011; Zulkiffli *et al.*, 2010; GRIPS Development Forum & Ethiopian Ministry of Industry, 2013). Information about international markets is made available to the SMEs by MATRADE (CBE, 2011; GRIPS Development Forum & Ethiopian Ministry of Industry, 2013). Thus, the government supports SMEs in entering foreign markets or increasing their exports (UNCTD, 2011).

MATRADE also provides grants to support SMEs in developing their international markets (SMIDEC, 2007; UNCTD, 2011). These grants are intended to cover the trade and marketing missions abroad, attendance at international business conferences, and participation in domestic and international trade exhibitions, as well as attendance at export training seminars and workshops in Malaysia (SMIDEC, 2007; UNCTD, 2011). Professional Service Providers have access to the Professional Service Export Development Fund which covers costs such as the preparation of bids to conduct project studies, carrying out feasibility studies in the foreign market, and the costs of carrying out the project (UN, n.d.; SMIDEC, 2007). The grant covers up to 50 % of the project expenditure (UN, n.d.; SMIDEC, 2007). In addition, the GoM promotes access to markets for the service providers by reaching bilateral and regional agreements with other nations (Malaysian MITI, n.d.). The quality of services for export is improved through the involvement of the Malaysian Centre for Service Excellence (Malaysian MITI, n.d.). The centre ensures that the standard of the services being exported is high and that they are competitive on a global scale. Approximately 87 % of the services sector constitutes SMEs (UNITC, 2010). Thus, the service sector has a large number (474 706) of SMEs (UNITC, 2010).

SMIDEC holds the local annual Small and Medium Industries Development Exhibitions (SMIDEX), where SMEs exhibit their products and services (Mahajan 2006; CBE, 2011; SME Corp. Malaysia, 2011b; SME Corp. Malaysia, 2014). It is regarded as an opportunity for large companies to identify potential suppliers from SMEs (SME Corp. Malaysia, 2011c), and it creates business networks and linkages between SMEs and large businesses as well as

transnational companies. An SME Week is held in the fourth week of June every year (SME Corp. Malaysia, 2014). The June 2014 event enabled 1 074 entrepreneurs to exhibit their products and services (SME Corp. Malaysia, 2014). In this way SMEs are encouraged to promote their products and services. Some exhibitions are held for specific sectors and products. For example, the Malaysian International Halal Showcase is held for Halal products (UNCTD, 2011).

Franchising has been used by the GoM in helping SMEs to expand their local and international markets. SMEs have been supported by the government in the area of both local and international franchising (UNCTD, 2011). The SME Corp and the SMEBM offer financial support for franchising through grants (UNCTD, 2011). In 2009 approximately 67 % of the franchises were owned by Malaysians, while the other 33 % were foreign-owned (UNCTD, 2011). The UNCTD (2011) observes that 26 Malaysian-owned retail franchises operate businesses in more than 50 countries.

Governments the world over constitute a large part of their country's economy (Yusoff *et al.*, 2011). They are generally the largest consumers of goods and services (Kaspar & Puddephatt, 2012), making them the biggest local market. From 2005 to 2015, the GoM annual reports have revealed that about 24–33% of the GDP has been government expenditure (Adham & Siwar, n.d.). SMEs in Malaysia have seen the government as part of their market through participation in the public procurement process (APEC, 2010; SME Corp. Malaysia, 2012b).

Public procurement processes in any country are guided by the socio-economic and political context (Kaspar & Puddephatt, 2012). The GoM procurement is guided by certain policies, strategies and objectives (Adham & Siwar, n.d.). Policy objectives related to SMEs include promoting the development of domestic industries, encouraging the involvement of local entrepreneurs, and enhancing the capacity of domestic industries (Adham & Siwar, n.d.; SME Corp. Malaysia, 2011b). SME-related strategies include giving priority to local products and services, and the promotion of the transfer of technology to local entrepreneurs (Adham & Siwar, n.d.; SME Corp. Malaysia, 2011c). Such policies and strategies allow SMEs to participate in the public procurement process, thereby leading to the growth of SMEs due to substantial income derived from government. Therefore, public procurement policies influence business and industry prosperity (Kaspar & Puddephatt, 2012).

The GoM uses various means to invite SMEs to submit tenders for government contracts. In some cases, special invitations are made to specific SMEs (APEC, 2010). These may be those that are already on the government database and are known for supplying quality products. Centralised government websites, newspapers, and government organisation websites are

used for making SMEs aware of government contracts. E-procurement is employed in Malaysia to facilitate SME participation in the tender process (Yusoff *et al.*, 2011; Eei *et al.*, 2012). Key government offices involved in the procurement process are the Ministry of Finance, which deals with the procurement of services and consumable supplies, the Contractor Service Centre, which focuses on the construction sector, and the Development Board, which handles public works procurement (APEC, 2010).

#### **2.6.5.10 Business incubation**

Business incubation is one of the GoM's strategies to facilitate innovation in the high-tech sectors and to strengthen the competitive position of technology-based SMEs (Sin, 2010; Zulkiffli *et al.*, 2010; Khalid *et al.*, 2012a; Stephen, 2012; Gunto & Alias, 2013). Incubators are important for promoting the development of new businesses, and thus for creating employment through the creation of new enterprises (Khalid *et al.*, 2012a). Promoting innovation and technological development is in the GoM's Third Industrial Master Plan (2006–2020). Of the 106 incubators operating in Malaysia, 77 are run by the government and focus on technology and innovation (SME Corp. 2011; Stephen, 2012). SMEs spend four years in incubation (Tim, 2012). The government-run incubators choose innovative and technology-based SMEs with high-quality business ideas and talented entrepreneurs (Fernandez, 2013). According to the Ninth Malaysian Plan (2006–2010), the government identified science-based and innovative SMEs, particularly those in the biotechnology and ICT sectors, as key drivers of the knowledge-based economy (World Bank, 2010). Most of the technology-based incubators operate in the fields of ICT, multimedia, software development, engineering, and biotechnology (World Bank, 2010).

Funding, mentoring, coaching, skills development, and the creation of linkages with other businesses, suppliers and customers are the main services provided by incubators (SME Corp. Malaysia, 2010; World Bank, 2010). Incubated businesses create employment for about 9 250 Malaysians (Stephen, 2012). Incubators in Malaysia help SMEs in incubation to market their products and services at fairs and in showrooms, and through linking production with the needs of customers locally and internationally (CBE, 2011; Stephen, 2012; Gunto & Alias, 2013).

### ***2.6.5.11 Recognition award programme***

The Enterprise 50 Award Programme was introduced in 2010 by the GoM through SME Corp. Malaysia in order to recognise SMEs that are innovative (SME Corp. Malaysia, 2011b, 2012c). These awards recognise 50 of the best performing SMEs in innovation, competitiveness, and expansion, and are intended to encourage SMEs to be innovative (SME Corp. Malaysia, 2013b) in order to promote productivity and quality products and services among SMEs (SME Corp. Malaysia, 2012c). The slogan of the awards is ‘Pioneering Business Transformation through Innovation’, and accordingly innovative SMEs are afforded the opportunity to showcase their products and services, as well as their innovativeness (SME Corp. Malaysia, 2011a). The award programme enables SMEs to be visible in the market and become competitive in the international market (SME Corp. Malaysia, 2011b, 2013). Deloitte Malaysia, an audit and consulting firm, identifies and ranks the top 50 businesses according to their performance in finance, operations, marketing, management, and their previous performance (SME Corp. Malaysia, 2013b).

There are five award categories: manufacturing, engineering and industrial design, ICT, green technology, biotechnology and agro-technology (SME Corp. Malaysia, 2011b, 2012a, 2013a, 2014). The winner in each category is given RM200 000 and the overall winner gets RM1 million (SME Corp. Malaysia, 2011a). In order to be eligible to participate in the annual innovation awards, SMEs must be registered in Malaysia and must satisfy the characteristics of an SME. A minimum of 51 % of the shares in the business must be owned by Malaysian citizens and the business must have operated for at least two years (SME Corp. Malaysia, 2013a). SMEs are also required to be certified by InnoCERT (the Innovation Certification for Enterprise Rating and Transformation Programme) before being considered for the awards (SME Corp. Malaysia, 2013b; SME Corp. Malaysia, 2014). InnoCERT was established to identify, certify and recognise SMEs that are innovative (SME Corp. Malaysia, 2011b).

The Enterprise 50 Awards Programme creates an awareness in SMEs about the need for innovation and for producing high-tech products and services (SME Corp. Malaysia, 2013b). SMEs are motivated to expand, leading to the creation of jobs and to increased output (SME Corp. Malaysia, 2012c). More than 1 726 SMEs participate in the awards every year, and 60 of these SMEs are listed on the Malaysian Stock Exchange (SME Corp. Malaysia, 2013b). Since the introduction of the awards, 550 SMEs have received recognition for their innovations through the awards (SME Corp. Malaysia, 2013b). Award programmes are believed to have motivated SMEs to excel in terms of innovation, productivity, and the quality of their products and services, thereby leading to SME development in Malaysia.

### **2.6.6 South Africa**

SMMEs are the engine for economic growth, provision of employment, poverty alleviation and even political stability, therefore support for SMMEs has been a priority for the South African government (SAGov). The SAGov has put in place policies and schemes to deal with obstacles to SMME growth. SMMEs fall under the Department of Trade and Industry (DTI), which was delegated the responsibility of co-ordinating all government programmes targeted at SMME development (Smorfitt, 2008). Within the DTI, the Enterprise and Industry Development Division (EIDD) deals with SMME issues (Department of Economic Development, Tourism and Environmental Affairs (DEDTEA) and International Labour Organisation (ILO), 2012). The Enterprise Development Unit (EDU), The Enterprise Organisation (TEO) and Trade and Investment South Africa (TISA) are the main agencies under the EIDD that are involved in the promotion of SMME development (DEDTEA & ILO, 2012). The schemes established by the SAGov cater for SMMEs in every sector of the economy. The key national support programmes include Khula Enterprise Finance Ltd (Khula), the National Youth Development Agency (NYDA), the Small Enterprise Development Agency (SEDA), and Tshumisano Trust (DTI, 2010, cited in SANCR, 2011). The DTI has introduced 90 SMME schemes and these are grouped into 18 categories in Table 15.

Table 15 indicates the SAGov's commitment to the development of SMMEs in various sectors of the economy among the youth, women and men. All sectors of the population are encouraged to participate in the economy. Table 15 shows that across the 90 programmes, government support is provided in the form of promoting access to markets, funding, training, incubation, mentorship, awards, and exhibitions. Therefore, the government has invested financial, material, and human resources in efforts to promote the growth of SMMEs.

Table 16 illustrates the impact of selected government selected schemes on SMME development in South Africa.

**TABLE 15. CATEGORIES OF SMME GOVERNMENT SUPPORT SCHEMES IN SOUTH AFRICA**

<b>Scheme category</b>	<b>Number of specific schemes</b>
Key national support programmes	4
Business competitions and awards	5
Credit guarantee schemes	2
Exhibitions	3
Export support scheme	2
Funding – national level	9
Funding – for youth	1
Funding – women	3
Funding – provincial level	8
Grants and incentives	5
Incubation	22
Industry-specific programmes	5
Linkages and partnerships	2
Programmes for mentorship	2
Networking	2
Any other support programmes	3
Infrastructure (premises)	1
Technology advice and transfer	5
Industry-specific support	2
Training and technical assistance	5
Venture capital	1
Women enterprising programme	3
<b>Total</b>	<b>90</b>

Source: The DTI National Directory (2010, cited in NCR, 2011)

**TABLE 16. THE IMPACT OF SELECTED SMME GOVERNMENT SCHEMES**

<b>Scheme</b>	<b>Description</b>	<b>Impact</b>
<b>Enterprise Development Programme</b>	Matching grants are given to small manufacturing companies and small businesses involved in tourism.	164 tourism projects and 290 manufacturing projects were approved as of February 2010.
<b>Support for Industrial Innovation (SPII)</b>	Provides funding for research and development for new innovations in manufacturing.	The scheme has provided funding for 1 025 projects worth R933 million as of March 2010.
<b>Technology &amp; Human Resources for Industry Programme (THRIP)</b>	Supports scientific research and focuses on promoting links between academics and industry through a cost-sharing grant provided by the department.	Between 2006 and 2010, 866 SMMEs were funded to the tune of R240.3 million.
<b>Export Market &amp; Investment Assistance (EMIA)</b>	Assists businesses to participate in international trade fairs and exhibitions through paying for their air tickets, accommodation, etc.	EMIA supported 1 276 businesses in 2008/2009 at a cost of R110.9 million, and in 2009/2010 supported 779 SMMEs at a cost of R106.4 million.
<b>The Black Business Supplier Development Programme (BBSDP)</b>	A cost-sharing grant given to black SMMEs. Grants of up to R1 million are provided to businesses with an annual income of R35 million.	From 2002 to 2010, 9 657 businesses benefited to the tune of R187.5 million.
<b>Workplace Challenge Programme</b>	A cluster-based programme run by the DTI and managed by an agency of the Department of Labour, Productivity SA.	19 clusters with 187 SMMEs were running as of 2010.

Source: Timm (2010, cited in NCR, 2011)

### **2.6.6.1 Finance: Credit Guarantee Scheme**

The 2010 GEM Report (GEM, 2010) notes that access to finance is one of the greatest challenges SMMEs face in South Africa. In an endeavour to address financial obstacles the government has made funding available through the Khula Indemnity Scheme, which provides loan guarantees to commercial finance institutions (Republic of South Africa, 2003, cited in Smorfitt, 2008; Akrong, 2012; Mthimkulu & Aziakpono, 2012). The Khula Indemnity Scheme was set up to assist SMMEs that would like to expand their businesses but lack the needed collateral to access funding (NCR, 2011; DEDTEA & ILO, 2012; Stephen, 2012). Such SMMEs have the ability to pay back loans but lack the required collateral (Akrong, 2012). The Credit Indemnity Scheme was introduced so that the risk could be shared between Khula and the commercial banks, in order to facilitate the flow of funding to SMMEs (Akrong, 2012). The Scheme guarantees loans from R10 000 to R3 million (NCR, 2011; Stephen, 2012). SMMEs in need of funding approach any of the partner banks (Amalgamated Bank of South Africa (ABSA), First National Bank, Nedbank and Standard Bank) with a business development plan (Akrong, 2012). The partner bank assesses the business plan and facilitates the application process. The application for funding is approved provided the applicant meets the specified criteria. An SMME must be able to pay for business expenses and monthly repayment instalments while remaining sustainable (Akrong, 2012). The business must be located in South Africa and the owner must be a South African citizen (Akrong, 2012). If the application for funding is approved, the bank contacts Khula for a guarantee and, where possible, a mentor is appointed to assist with the implementation of the business plan (NCR, 2011; Akrong, 2012). Between 1996 and 2012, the Khula Credit Guarantee Scheme made 6 056 guarantees worth R1.634 billion (Mthimkulu & Aziakpono, 2012). This indicates the SAGov's commitment, through the Khula Credit Guarantee Scheme, to the promotion of an entrepreneurial spirit and the development of the SMME sector (Saadani *et al.*, 2010, cited in Akrong, 2012).

However, studies conducted by Mathibe (2010) and Mago and Toro (2013) reveal that the level of awareness of Khula is low, and that the marketing of the available programmes appeared to be poor. The same study further indicates that SMMEs do not know how to secure the services of Khula (Mago & Toro, 2013). This might be attributed to the poor publicity of the Khula programmes (Mathibe, 2010). SMMEs generally perceive the cost of the loans provided by Khula to be too high (Berry *et al.*, 2002, cited in Mago & Toro, 2013; Mathibe, 2010). SMMEs located in rural areas find it difficult to access Khula's services since the offices are located far away from them (Mago & Toro, 2013). The procedures involved in accessing a loan are cumbersome, and as a result SMMEs feel discouraged from

applying for funding (Mathibe, 2010; Kesper, 2002, cited in Mago & Toro, 2013). Furthermore, Khula does not have complete control over who receives financial assistance, and as a result many SMMEs have been denied access to the Khula funds (Zwane, 2009). It is thus vital that Khula addresses these issues in order to effectively promote SMME development through funding.

#### ***2.6.6.2 Umsobomvu Youth Fund (UYF)***

The Umsobomvu Youth Fund (UYF) was established in January 2001 for the purpose of facilitating and promoting the creation of employment and the development of skills among the youth (defined as citizens aged 18–35 years) (DTI, 2007; UYF, 2008, cited in Mathibe, 2010; RMTI, 2010). The UYF was established in response to the increasing rate of unemployment and its consequences for the youth (Centre for Development Support, 2009, cited in Mathibe, 2010). Between 1995 and 2002 unemployment among graduates rose from 6.4 % to 15.4 % (Budlender, 2008, cited in the South African National Youth Policy (SANYP), 2009–2014). The rate of unemployment for youth who had not completed secondary school stood at 58.5 %, while the unemployment rate for those who had completed matric was not much better, at 50 % (Moleke, 2006, cited in SANYP, 2009–2014). The youth unemployment rate increased from 32.7 % to 36.1 % between 2008 and 2009 (Statistics South Africa, 2014), indicating that a significant number of youth are unemployed and are thus vulnerable to poverty (Dialogue, 2007, cited in SANYP, 2009–2014). Youth unemployment is one of the greatest socio-economic challenges facing the SAGov today (Yu, 2013), and it is in this context that national youth programmes had to be designed in order to promote youth participation in the economy through involvement in entrepreneurship. Thus, the UYF was established for that purpose.

In order to render effective assistance to the youth, 121 Youth Advisory Centres have been established countrywide. The DTI (2005) observes that the UYF has been providing financial support and business development services to youth businesses in South Africa. So far the UYF has managed to run many programmes that have benefited the young people, such as the School to Work and National Youth Service programmes. The School to Work Programme was established for the purpose of imparting technical skills to and facilitating work-based experience for unemployed matric, college and university graduates (UYF, 2005, 2009). The National Youth Service Programme (NYS) was designed to assist unemployed youth who lack a tertiary education to gain the relevant skills and experiences to start their own

businesses (UYF, 2005, 2009). In 2009 the NYS Programme created 34 906 opportunities for young people to gain skills through training and work-based experience (UYF, 2009).

The UYF has also provided financial support to young entrepreneurs through enterprise finance. Loans of up to R5 million have been extended to the youth in order for them to start their own businesses, expand existing businesses, buy into a business, or buy out a business (UYF, 2004, 2005, 2009). As of 2010 financial support had been extended to over 20 000 young people each year for the purposes of starting and expanding enterprises (RMTI, 2010). From 2008 to 2009 the number of loans extended to young entrepreneurs increased from 19 682 to 21 884, indicating growth of 11.2 % (UYF, 2009).

The Business Consultancy Services Voucher Programme was introduced to give young entrepreneurs access to high-quality business support from those who provide the services (UYF, 2009; Youth Portal, 2009, cited in Mathibe, 2010). Such services include accounting and bookkeeping, business plan development, market planning and brokerage, web design for marketing purposes, legal support and tendering, and technical, mentorship and project management services. The vouchers range in value from R1 500 to R23 000 (UYF, 2005, 2009). In its 2009 report the UYF indicated that in the 2008–2009 period 12 095 vouchers were issued through its branch network countrywide, leading to the creation and sustenance of 38 304 youth SMMEs (UYF, 2009). The Business Consultancy Services Voucher Programme also links youth-owned SMMEs to procurement opportunities in large companies, government departments, and government-owned companies (DTI, 2005; UYF, 2009). In 2008–2009 young entrepreneurs were assisted in accessing tenders worth more than R38 million through this programme (UYF, 2009).

The UYF also launched the Take it to the People Project, intended to generate income for young entrepreneurs and to create self-employment in 21 poverty-stricken rural and urban areas (UYF, 2005, 2009). In 2008–2009, 12 980 new jobs were created as a result of such projects (UYF, 2009; Youth Portal, 2009, cited in Mathibe, 2010). In the second half of 2009, the UYF merged with the National Youth Commission (NYC) to form the National Youth Development Agency (NYDA). During the period that the UYF operated on its own, it made a conspicuous impact on the youth in terms of promoting SMME development, providing employment and imparting knowledge and skills.

### ***2.6.6.3 National Youth Development Agency (NYDA)***

The merging of the UYF and the NYC in June 2009 led to the creation of the National Youth Development Agency (NYDA). The mandate of NYDA is derived from the NYDA Act, 2008 and the National Youth Policy (2009–2014) (NYDA, 2013, 2014). Youth ranging in age from 14 to 35 years are the target of NYDA. The key strategic objectives of the agency are as follows: to provide education and skills for youths to start their own businesses and to secure employment; to promote youth participation in the economy; to promote the health and well-being of the youth; and to ensure knowledge and world-class practices in the youth development sector in South Africa (NYDA, 2013, 2014). The primary objective among these, which is linked to SMME development, is to facilitate the participation of young people in the South African economy.

In order to achieve youth participation in the economy, NYDA provides grant finance to young entrepreneurs. The grants are provided for the purpose of providing an opportunity for young business owners to obtain both financial and non-financial business support (NYDA, 2014). Youth who display potential in business are targeted by this grant, which ranges from R1 000 to R100 000 (NYDA, 2013, 2014). Table 17 summarises the achievements of NYDA in promoting small business development in 2012–2013.

Table 17 indicates that the NYDA was successful in the 2012–2013 financial year in assisting the youth in starting and registering businesses. The NYDA also managed to assist young people in securing employment through starting and running SMMEs. In the 2012–2013 period 3 335 jobs were created. In the period under review, funding valued at R30 261 150 was provided to 1 833 young entrepreneurs. The NYDA Annual Report reveals that 57 young people, through NYDA and its Economic Development Programmes, managed to get access to business opportunities to the value of R37 015 456. However, in terms of supporting projects through the Ithubalentsha micro enterprise intervention, NYDA was far below target. Instead of supporting 36 projects, it supported only three projects.

**TABLE 17. THE ACHIEVEMENTS OF NYDA (2012–2013)**

<b>Performance indicator</b>	<b>Target</b>	<b>Actual performance</b>
Support for young entrepreneurs through entrepreneurship awareness, business management skills, consultancy services, mentorship and market linkages	20 000 young entrepreneurs	36 164 young entrepreneurs were supported
Creation of new business and assisting young people in the registration of their businesses	500 new businesses	630 new businesses created; NYDA assisted with businesses registration with the Companies and Intellectual Property Commission
Funding young entrepreneurs through the Economic Development Programmes (NYDA micro finance, SME and external partners)	Funding 400 youths	1 833 youths were assisted financially through the Economic Development Programmes
Creation of jobs through the Economic Development Programmes such as business consultancy, market linkages, NYDA micro finance)	800 jobs	3 335 jobs were created as a result of the implementation of the Economic Development Programmes
Providing access to business opportunities for young entrepreneurs through the Economic Development Programmes such as business consultancy services, co-operatives, community development facilitation, Ithubalentsha and Green Economy	50 young entrepreneurs	57 youth entrepreneurs managed to access business opportunities through the Economic Development Programmes
Supporting projects through Ithubalentsha micro enterprise intervention	36 projects	3 projects were supported
Supporting projects through the Green Economy intervention	50 projects	78 projects were supported
Value of funding availed to young entrepreneurs through the Economic Development Programmes	R30 million	R30 261 150.62
Value of business opportunities availed to young entrepreneurs	R5 million	R37 015 456.81

Source: NYDA Annual Report (2013: 35)

Since May 2014 the NYDA has no longer been providing loans to young entrepreneurs, but it offers grant finance in the form of micro finance grants for survivalist youth entrepreneurs (NYDA, 2014). The NYDA Annual Report of 2013–2014 indicates that 765 new youth-owned SMMEs were established through the NYDA grant funding against a target of 500 SMMEs (NYDA, 2014). In the period under review, 3 370 jobs were created through grant funding and the development of services (NYDA, 2014). The NYDA targeted 2 500 jobs to be created in the period in question (NYDA, 2014). The target for young people’s enterprises that were to be supported through NYDA grant funding was 37 975 (NYDA, 2014). The performance of the NYDA exceeded their target, as 43 390 youth enterprises were funded in this period (NYDA, 2014). Such performance was necessitated by the increasing interest of young people in creating SMMEs. Once again, the NYDA was successful in providing support to young and promising entrepreneurs in the 2013/2014 financial year.

#### ***2.6.6.4 Business incubation and technology transfer***

Tsai *et al.* (2009: 629, cited in DEDTEA & ILO, 2012), views incubation as “a shared office space facility that seeks to provide its incubatees with a strategic, value-adding intervention system of training, monitoring and business assistance, with the objective of facilitating the successful new venture development while simultaneously containing the cost of their potential value”. Incubators make use of resources, knowledge and skills acquired from prior experience in incubation consulting with the aid of government and industry support (DEDTEA & ILO, 2012).

Business incubation is being used by the government of South Africa to promote the development of SMEs. In 2007, SEDA had 13 incubators and by 2011 they had increased to 31 (Stephen, 2012). These incubators are for different sectors of the economy, including the steel incubator in Mpumalanga, the ICT incubator in Gauteng, furniture manufacturing incubators, and a sugar-cane incubator in KwaZulu-Natal (SEDA, 2012a; Stephen, 2012). The total number of SEDA incubatees in 2011 was 958 (Table 18) (SEDA, 2011), while Malaysia in 2010 had 2 650 SMEs in incubation (Malaysia: Global Practice in Incubation, 2010, cited in Stephen 2012). Business incubation in South Africa managed to create 893 jobs, while in Malaysia 9 250 Malaysians obtained employment (Stephen, 2012). Therefore, Malaysia’s business incubation is performing better than South Africa’s. However, if more effort is put into business incubation in terms of resources and government commitment, better results can be obtained in South Africa.

**TABLE 18. PERFORMANCE OF INCUBATORS IN SOUTH AFRICA AND MALAYSIA**

	<b>South Africa's SEDA incubators(2010/11)</b>	<b>Malaysia(2010)</b>
No. of incubators	31	106
No. of incubatees	958	2 650
No. of incubatees per incubator	31	25
Jobs created	893	9 250
Jobs created per enterprise	0.9	3.5

Source: SEDA (2011); Malaysia Global Practice in Incubation (2010, cited in Stephen, 2012)

The Mpumalanga Stainless Initiative, a regional incubator, was established to address the problem of unemployment by taking many SMMEs through the incubation process that focuses on the manufacturing sector (Smorfitt, 2008; DTI, 2010). Candidates receive technical and business training.

The SEDA Technology Programme has created a network of both incubators and technology centres. SMMEs can access funding for the technology and technical services required for their development (DTI, 2005, 2010). Through the SEDA Technology Programme, the South African Business Technology Incubation Association (SABTIA) was set up with a view to achieving the best practices in incubation in South Africa. The Department of Science and Technology set up a small business agency, Tshumisano Trust, which is stationed in universities of technology for the purpose of facilitating the transfer of technology from the universities to small businesses (DTI, 2005, 2010).

South African universities have been instrumental in the creation and development of SMMEs. The SAGov, like other governments all over the world, has encouraged particularly the government-funded universities to play a role in the development of SMMEs and to promote the spirit of entrepreneurship (Nicolaidis, 2011; Moeliodihardjo *et al.*, 2012). Higher education plays a significant role in the economic development of every nation (Moeliodihardjo *et al.*, 2012). South African universities are involved in teaching programmes related to entrepreneurship. For example, the University of Pretoria offers undergraduate, postgraduate and doctoral degrees in entrepreneurship (University of Pretoria,

2014). The University of KwaZulu-Natal (UKZN) also has programmes at undergraduate and post-graduate level that promote entrepreneurship and SMME development. Such programmes include the Post-Graduate Diploma in Entrepreneurship offered by the UKZN Graduate School of Business and Leadership, an Honours Degree in Small Business Development, and Masters and Doctoral degrees in Entrepreneurship (UKZN, 2014). Universities therefore play an important role in the dissemination of entrepreneurial, scientific and technical knowledge (Dubihlela & Van Schaikwyk, 2014).

Some of the government-funded universities have established centres for entrepreneurship. Such universities include UKZN (UKZN, 2014), the University of the Witwatersrand (Wits Business School, n.d.), the University of Cape Town (UCT Centre for Innovation and Entrepreneurship, 2009), the University of Johannesburg (University of Johannesburg, 2014) and the University of Fort Hare (Fort Hare Centre for Entrepreneurship, n.d.). These centres conduct research in entrepreneurship, teach entrepreneurship programmes to students and members of the surrounding community, develop user-friendly reading material, and involve themselves in new venture creation and growth (UKZN, 2014; Wits Business School, n.d.; UCT Centre for Innovation & Entrepreneurship, 2009; University of Pretoria, 2014).

South African universities have been used as important vehicles for business incubation in order to promote SMME development (Dubihlela & Van Schaikwyk, 2014). Universities have partnered with government agencies and departments in establishing SMME business incubators. For example, UKZN entered into a partnership with SEDA, the Eskom Foundation and the DTI to establish an incubator in Durban (DTI & SEDA, 2014a) in May 2014. The South African Chemical Technology Incubator (Chemin) established its Durban Incubation Centre on the UKZN Westville campus. The incubation centre at Westville campus is under UKZN's Graduate School of Business (DTI & SEDA, 2014a). A compact fluorescent light bulb (CFL) pilot plant is stationed at Howard College campus of the same university (DTI & SEDA, 2014b; UKZN, 2014). The centre manufactures CFL bulbs through the use of patented technology (South Africa-Info, 2014). These incubators are funded by SEDA and the Eskom Foundation. Chemical Technology SMMEs in Durban and surrounding areas are assisted by being offered free support services (DTI & SEDA, 2014b; UKZN, 2014). The incubated SMMEs on Westville campus have access to market information in the chemical industry and to clients. While in incubation, SMMEs use modern, high-quality laboratories with specialised analytical equipment (DTI & SEDA, 2014b). On Westville campus, the SMMEs concentrate on the manufacture of chemical detergents, cosmetics and health care products (South AfricaInfo, 2014).

InvoTech business incubator stationed at the Durban University of Technology (DUT) was established through a partnership of the DUT's Enterprise Development Unit (EDU) and SEDA (the funding agency of the centre) (DUT & SEDA, 2011). SMMEs in the innovation and technology field are assisted through mentorship and the development of business management skills. The business support received by the incubatees is in the form of access to national and international business networks, assistance and guidance in business planning, support in tenders and proposals, assistance in the management of financial records, and access to consultants and technical expertise (DUT & SEDA, 2011). Clients of the incubation centre include businesses involved in high-tech manufacturing, ICT, biotechnology, food and nutrition, recycling processes, green technologies, and energy serving (DUT & SEDA, 2011). The centre also trains entrepreneurs in the development of business plans for the National SEDA Business Plan Competition and for the NYDA (DUT & SEDA, 2011). The relationship between universities and business has led to the creation of employment as a result of new businesses and the growth of existing SMMEs (Robson *et al.*, 2008, cited in Dubihlela & Van Schaikwyk, 2014).

Table 19 sums up the involvement of South African universities in SMME incubation in South Africa and their areas of focus, and indicates the provinces they are located in.

The universities of technology, as illustrated in Table 19, concentrate on incubating SMME businesses that are technology-related. Therefore, it is easier for such universities to transfer scientific and technical knowledge to small business owners, as these are their main areas of focus. For example, the Mangosuthu University of Technology incubates SMMEs in the area of engineering. Comprehensive universities such as the University of the Free State and the University of KwaZulu-Natal incubate SMMEs in various different areas. Such universities cover many programmes, including those covered by universities of technology. Therefore, it gives them the leeway to accommodate different areas of focus.

**TABLE 19. UNIVERSITIES INVOLVED IN BUSINESS INCUBATION IN SOUTH AFRICA**

<b>Universities</b>	<b>Areas of focus</b>	<b>Province</b>
Durban University of Technology	High-tech manufacturing, ICT, food nutrition, green technologies, hospitality management	KwaZulu-Natal
Cape Peninsula University of Technology	Clothing technology, textile technology, mechanical and chemical engineering	Western Cape
Nelson Mandela Metropolitan University	Automotive parts	Eastern Cape
Vaal University of Technology	Composite and non-reductive materials	Gauteng
Mangosuthu University of Technology	Chemical and electrical engineering, chemistry	KwaZulu-Natal
Tshwane University of Technology (TUT)	Creative technologies and innovation, manufacturing technologies, advanced tooling, electronics, chemical technology, automotive	Gauteng
University of the Free State	Many different areas are covered	Free State
University of Pretoria	Many different areas are covered	Gauteng
Stellenbosch University	Many different areas are covered	Western Cape
University of Cape Town	Many different areas are covered	Western Cape
University of Johannesburg	Many different areas are covered	Gauteng
North West University	Many different areas are covered	North West
University of KwaZulu-Natal	Many different areas are covered	KwaZulu-Natal

Source: Adapted from Nbabeni (2008: 43, cited in Dubihlela & Van Schaikwyk, 2014: 266); DUT & SEDA (2011: 1)

### ***2.6.6.5 Improving access to markets***

Access to local and international markets is one of the challenges confronting SMMEs in South Africa (Nieman & Nieuwenhuizen, 2009). SMMEs lack sustainable markets for their products and services as well as access to information (Nieman & Nieuwenhuizen, 2009). In response to these challenges, the South African government, through SEDA and other government agencies in different sectors of the economy, have been providing SMMEs with information about local, regional and international markets through different business information centres (DEDTEA & ILO, 2012; SEDA, 2012b). Information dissemination workshops and seminars are held by the government to ensure that SMMEs are informed of the changes in the local and international markets. The DTI conducts research on the local and international markets, and makes the results of these studies available to SMMEs (DTI, 2005; DEDTEA & ILO, 2012).

To further enhance SMMEs' access to markets, SEDA assists businesses in exhibiting their products locally and internationally. For example, in 2008, 32 SMMEs attended local exhibitions and 27 attended international exhibitions (SEDA, 2009). In July 2012, there was an arts exhibition in Mthatha in the Eastern Cape Province, which 14 artists and SMMEs attended (SEDA, 2012a). While at this exhibition, some artists were selected to showcase their work in Chicago in the U.S. (SEDA, 2012a). This was an opportunity for SMMEs to access the South African and U.S. markets. In the same year, South African SMMEs attended the Botswana SMME Conference and Fair that was organised by the Botswana Local Enterprise Authority (SEDA, 2012b). Once again, this was a chance for the SMMEs to exhibit their products. The 15 companies that attended were sponsored by SEDA (SEDA, 2012a), and were involved in clothing, leather, textiles, jewellery, beadwork, construction, décor and ceilings. South African SMMEs achieved the highest sales and received awards for the excellence of their exhibition stands (SEDA, 2012b).

The Durban Business Fair organised by SEDA in 2011 enabled SMMEs to display their products and services, and to market themselves to their potential market (SEDA, 2012a). It was an information-sharing opportunity and allowed people to network. SEDA sponsored 20 SMMEs to showcase their products and services (SEDA, 2012b).

SEDA also assists SMMEs with designing marketing material at subsidised prices. Such a service includes designing company logos, printing business cards, and making letterheads and banners (Maholo, 2009, cited in Mathibe, 2010). SEDA personnel are also involved in designing websites for the SMMEs. In some instances, SEDA provides SMMEs with

vouchers which they use for sourcing these services from private companies (external service providers) (Mathibe, 2010).

SMME participation in the public tendering process is a measure by the government to promote the development of businesses (Loader, 2011). Thus, SMMEs bid for government tenders. The implication is that the SAGov has also become a market for SMMEs (DTI, 2005; SEDA, 2012b). The involvement of SMMEs in the public procurement process enables them to have sustainable revenue streams that lead to business growth. Diale (2009) notes that the government has established Tender Advice Centres (TACs) throughout the country to promote SMME access to government contracts. SMMEs are provided with information regarding government tenders and support services. For example, SMMEs are assisted in the completion of tender documents and given advice and information on government contract opportunities (Diale, 2009; SEDA, 2012). Workshops and seminars about tendering procedures are held for the purpose of providing such services to SMMEs. Accredited service providers or organisations are involved in the TAC programme (Diale, 2009).

The SAGov established a Trade Point Portal operated by SEDA (DTI, 2010; SEDA, 2012a, 2010), as part of the Trade Point Programme managed by SEDA (DTI, 2010). This portal enables SMMEs to have access to the latest market information, to source suppliers, to participate in business networking opportunities, and to advertise their products and services to potential international markets (DTI, 2010; SEDA, n.d., 2010). Offices have been opened in the various provinces of South Africa to ensure that SMMEs have access to international trade information (SEDA, n.d., 2010). SMMEs that are ready to export are registered in the Global Directory System, which gives them global visibility in 70 countries throughout the world in the form of a company profile and photographs of products (Durban Trade Point, n.d.; SEDA, 2010). By the end of 2010, 207 South African SMMEs had registered on the database, 65 % of which were exporting to Australia, India, Germany, France, Chile and the Americas (SEDA, 2010). In the 2009/2010 financial year the value of these exports amounted to R40 million (SEDA, 2010). The Trade Point Portal services focus mainly on agri-based, wholesale and retail sectors, as well as SMMEs involved in chemical manufacturing, wood and forestry, and cultural and mineral products (SEDA, 2010, n.d.). Markets that have been prioritised include those in SADC, the EU, North America and China (Durban Trade Point, n.d.; SEDA, 2010, n.d.).

The services provided by SEDA have led to the creation of employment and have improved the living standards of citizens. In the 2010/2011 financial year, 27 % of the SMMEs assisted by SEDA indicated an increase in their number of employees (SEDA, 2012b).

#### ***2.6.6.6 Skills development***

The skills level of entrepreneurs with lower literacy levels is poor, and this has a negative impact on SMME development in South Africa. Therefore, the government has established Sector Education and Training Authorities (SETAs) in every sector to facilitate skills development (DTI, 2005; DEDTEA & ILO, 2012) by implementing small business development programmes. Some of the SETAs, for example the Media Information and Communication Technology (MICT) SETA, are implementing New Venture Creation (NVC) Learnership Programmes to train participants in business skills so that they can establish and run their own businesses (DTI, 2005; Smorfitt, 2008). The NVC programme was initiated by the Department of Labour, who then handed it over to the services SETA (Smorfitt, 2008). Eskom, a government-owned company, has set up the Eskom Development Foundation, which runs training and an annual SME expo for black-owned SMEs (Eskom online, 2008, cited in Smorfitt, 2008).

SEDA is also involved in skills development through workshops and seminars. SEDA conducts training in basic business skills and financial management, project management, and computer skills (Mathibe, 2010; SEDA, 2012b). The SMMEs are also trained in order to understand the export process (Mathibe, 2010). A course such as “Export Orientation” is run to promote SMME participation in exporting (SEDA, 2009; Mathibe, 2010). Sector-specific training is also conducted in order to meet the needs of a specific economic sector. For example, SEDA in the Eastern Cape is working with the municipalities in the provision of training services to SMEs in the hospitality sector as well as providing them with marketing information (SEDA, 2012b). The National Productivity Institute (NP), a Department of Labour agency, works with SEDA in the provision of training to SMMEs in entrepreneurship, economics, and other important business aspects (DTI, 2005; SEDA, 2012b).

#### ***2.6.6.7 Business development services***

SEDA provides non-financial assistance to SMMEs in the form of the business advisory services that enable them to improve the quality of their products, processes and systems (Mazanai & Fatoki, 2011; SEDA, 2012a). SMMEs are also assisted in the preparation of business plans that are required for funding (Mathibe, 2010; SEDA, 2012a; Mazanai & Fatoki, 2011). SEDA has in-house resources that SMMEs can use to prepare their business plans, such as business plan templates, software, and books (Mathibe, 2010), which are available to the entrepreneurs free of charge. Business plans for entrepreneurs can also be

developed by external service providers (Mathibe, 2010). Entrepreneurs approach SEDA personnel for assistance in developing a business plan. The business is analysed, and if found meaningful and attractive, a voucher is issued for business plan development. A private consultant firm has to be on the SEDA database to provide such a service to SMMEs being supported by SEDA (SEDA, 2007, cited in Mathibe, 2010). SEDA (2007, cited in Mathibe, 2010), notes that SMMEs pay 10 % of the cost of developing a business plan. Provincial government agencies such as the Gauteng Enterprise Propeller (GEP), the Limpopo Business Support Agency (LIBSA), and the Western Cape Red Door provide business development services to SMMEs at provincial level (DTI, 2005; SEDA, 2012a).

Business mentoring and coaching are some of the business development services provided to start-up and existing SMMEs (Mazanai & Fatoki, 2011). For these services, SMMEs pay only 10 % of the costs, while the other 90 % is subsidised by SEDA (Maholo, cited in Mathibe, 2010; SEDA, 2009). Mentoring can be provided by SEDA personnel or SEDA can appoint an external mentor who is paid by SEDA. An external mentor has to have expertise in the field in which he or she is mentoring. Mentors are outsourced for businesses that are in the construction and technology fields, since SEDA does not have experts in these areas (Maholo, cited in Mathibe, 2010). However, the challenge with outsourced mentors is that, in most cases they do not deliver as expected, as most of them are only worried about being paid (Mathibe, 2010).

#### ***2.6.6.8 Business premises and infrastructure***

Infrastructure and business premises have always been a challenge for SMMEs in South Africa. The government has devoted itself to the provision of infrastructure in townships and rural areas in the form of tarred roads, telecommunications and electricity supply (Mbedzi, 2010; DEDTEA & ILO, 2012). The DEDTEA and the ILO (2012) further observe that services such as transport, postal services, health, social services and libraries have been provided with the aim of supporting the SMME sector.

The Khula Property Portfolio is a programme introduced by the government to provide business premises to SMMEs starting up and expanding (DTI, 2010; Mbedzi, 2010). The DTI (2010) further notes that the rents paid by SMMEs are subsidised. The aim is to persuade SMMEs to move into the government premises. In order to qualify for this facility, a business must be small to medium in size, must comply with local government by-laws, must be run

for profit and should be viable, and the owner must be a South African citizen (DTI, 2010; Mbedzi, 2010).

The SME policies and strategies in South Africa have led to an increase in the number of SMMEs from just above 1.2 million in 2003 to 2.5 million in 2009 (RMTI, 2010). To date there are approximately six million SMMEs in South Africa (SEDA, 2009; FinScope, 2010; Amra *et al.*, 2013; DTI, 2012, cited in Ramukumba, 2014). That partly explains why SMEs constitute 95 % of the businesses in South Africa. However, the level of awareness of the government schemes among the SMMEs is still low (Mathibe, 2010). A study conducted in the Free State Province reveals that 1.4 % of SMME owners had benefited from the Basic Entrepreneurship Skills Development Programme, while 42 % had not heard of the programme (Fongwa, 2011, cited in DEDTEA & ILO, 2012). Therefore, the South African government has to raise the level of awareness of its programmes if it is to accomplish its goals. A summary of the SME policies and strategies in various countries is in Table 20.

**TABLE 20. SUMMARY OF THE SME POLICIES AND STRATEGIES ADOPTED IN VARIOUS COUNTRIES**

Country	SME policies and strategies adopted
<b>U.S.</b>	<ul style="list-style-type: none"> <li>– Establishment of the SBA to provide advice, counselling, protection of the interest of small businesses, and to guarantee loans to small businesses.</li> <li>– Support for small businesses through government procurement.</li> <li>– Government financial support through loan-guarantee schemes for small businesses involved in local and international trade. However, funding has been inadequate.</li> <li>– Tax relief intended to reduce the tax burden for small businesses.</li> </ul>
<b>UK</b>	<ul style="list-style-type: none"> <li>– Government provides access to funding through National Guarantee Schemes in which 600 SMEs are assisted every year (loans worth over £2.5 million have been advanced to over 1 600 SMEs).</li> <li>– Provision of export finance through the Export Enterprise Finance Guarantee Scheme (government guarantees 60 % of the loan amount).</li> <li>– Corporate tax for SMEs was reduced from 21 % to 20 %.</li> <li>– There is also Research &amp; Development tax relief to promote innovation and technological advancement among SMEs.</li> <li>– Financial incentives for increasing employment: each company (SME) receives £2 275 as an incentive for providing employment. £1 500 is given to SMEs that agree to take on youth apprentices. This was a move to</li> </ul>

	<p>reduce unemployment and also fund SME operations. It was ineffective in that it could not address the unemployment problem but provided funding to SMEs.</p> <ul style="list-style-type: none"> <li>– SME access to government contracts (participation in the public procurement process): the aim is to provide a market for SMEs, to increase sales, and provide employment.</li> <li>– Business advice through the Business Link: its challenge is that it does not meet the needs and expectation of SMEs, and SMEs are not satisfied with the services rendered by government.</li> </ul>
<b>Russia</b>	<ul style="list-style-type: none"> <li>– Established laws and institutions to support the development of SMEs, such as the SME Bank.</li> <li>– The Russian Agency was established to promote SME development through providing market information, specialised training and consulting services.</li> <li>–The participation of SMEs in the public procurement process.</li> <li>– Special tax regimes for SMEs.</li> <li>– Renting and acquiring property under favourable conditions.</li> <li>– Provision of financial support for exporting SMEs.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>– Establishment of TCs to offer technical, training and consultancy services to MSMEs in India.</li> <li>– Establishment of the IMMSME to deal with MSME challenges such as funding, technology, access to markets and product development.</li> <li>– TBSE formed to facilitate technology transfer to SMEs.</li> <li>– Access to funding through the Credit Guarantee Fund; banks provide loans to SMEs that are collateral-free. Government advised banks to achieve 20 % year-on-year growth in credit to MSMEs. SIBDI was established to provide funding to SMEs and to guarantee loans to MSMEs. Commercial banks were advised by the RBI to provide financial literacy and consultancy support to MSMEs.</li> <li>A Credit Link Capital Subsidy Scheme was established to provide loans for the purpose of improving technology in the Small Scale Industries (SSI) sector.</li> <li>– A Delayed Payment Act was put in place to facilitate quick payment by creditors to MSMEs.</li> <li>– The Market Development Assistance Scheme for MSMEs provides funding to MSMEs for participation in international trade fairs and exhibitions.</li> <li>– MSMEs involved in exporting are trained in the latest international packaging standards and techniques.</li> </ul>

	<ul style="list-style-type: none"> <li>– Participation of MSMEs in the public procurement process to promote access to markets and improve their competitive position. Central government ministries, departments and public enterprises procure at least 20 % of their products, services and raw materials from MSMEs.</li> <li>– Business incubation for emerging technological and knowledge-based innovative ventures.</li> <li>– MSME Cluster Development Programme for technology-oriented businesses to promote the productivity, competitiveness and growth of MSMEs. Clustering facilitates technology transfer, and service provision by government, banks and credit agencies.</li> <li>– IGDC: to promote the adoption of innovation and technology by MSMEs and to create an export market for Indian MSMEs.</li> </ul>
<b>Malaysia</b>	<ul style="list-style-type: none"> <li>– Establishment of National SME Development Council, the apex body, for the purpose of policy formulation, provision of strategic direction on SME policies, and monitoring policy implementation.</li> <li>– Microfinance institutions owned by banks and development finance institutions were allowed by the government to operate and provide funding to SMEs.</li> <li>– Establishment of the SME Corporation Malaysia to co-ordinate SME programmes and SME policy and strategy formulation. It also provides business information, advice and support.</li> <li>– Introduction of the SME@University Programme by SME Corporation Malaysia to provide structured learning programmes to managers of SMEs to improve their level of skill.</li> <li>– Government provision of grants for the Skills Upgrading Programme to equip SME employees with technical and management skills.</li> <li>– Establishment of the SME Bank for providing funding to SMEs and training existing and prospective entrepreneurs in skills for managing SMEs.</li> <li>– NSIFP was established to facilitate the dissemination of technology and innovation-related and R&amp;D information to SMEs.</li> <li>– Access to credit finance was promoted through the loan-guarantee scheme provided by the CGCM.</li> <li>– Promotion of the use of technology and ICT among SMEs through the Technopreneur Development Centre and through scientific research conducted by universities and research institutes. Grants and funding are provided for upgrading technology and the use of ICT.</li> <li>– HRD Programme: was intended to improve the competence and skills of management and employees.</li> <li>– Promotion of access to markets by MATRADE and the Ministry of Entrepreneur and Co-operative Development, through attendance and</li> </ul>

	<p>participation in local and international trade fairs and exhibitions, attendance of export-training seminars and workshops, and covering the costs of trade missions.</p> <p>– Business incubation for technology-based SMEs with high-quality business ideas and talented entrepreneurs.</p>
<p><b>South Africa</b></p>	<p>– Promotion of access to finance through the credit guarantee scheme administered by Khula Finance.</p> <p>– UYF established to support youth involved in business (SMMEs).</p> <p>– NYDA was established to provide education and skills for the youth to start their own businesses (SMMEs). NYDA provides grant finance to youth in business.</p> <p>– Business incubation and technology transfer for SMMEs involved in manufacturing and ICT business. SMMEs are provided with mentorship and business management training.</p> <p>– Improving access to markets through the provision of information about local and international markets, and the exhibition of products locally and internationally.</p> <p>– Skills development programmes for SMMEs through SETAs in every sector to facilitate skills development for companies and SMMEs.</p> <p>– Participation of SMMEs in public procurement.</p> <p>– Business development services are provided by SEDA in the form of business advisory services and the improvement of the quality of products, processes and systems. SEDA assists SMMEs in the preparation of business plans required for funding, and provides mentoring and coaching services.</p> <p>– Business premises and infrastructure: government has provided infrastructure in townships and rural areas in the form of tarred roads, telecommunications and electricity to support SMMEs. Khula Property Portfolio was introduced to provide business premises for businesses starting up and expanding.</p>

## 2.7 CONCLUSION

Globally SMEs face challenges, to which governments have responded by implementing policies and strategies. This chapter has provided a description of SMEs in the global context, and has provided SME definitions according to different international and regional organisations, and different countries, because the way in which a country defines an SME depends on the country's socio-economic context. The chapter has also covered the importance of SMEs in developed, emerging, and developing countries. The challenges faced

by SMEs in the global context have been described, and the SME policies and strategies of the U.S., the UK, Russia, India, Malaysia and South Africa have been described and analysed. These countries were selected by the researcher because of their comprehensive SME policies and strategies. Some developing countries such as Ethiopia and Egypt actually visit countries like Malaysia and India in order to learn about their SME policies and strategies. The researcher draws insights from other countries' policies and strategies in the crafting of the policy and strategy framework for the development of SMEs in Zimbabwe.

The literature has revealed that countries of the world are implementing almost the same policies and strategies in addressing the key obstacles to SME growth. For example, all countries in the literature promote SMEs through participation in public procurement; attendance and participation in local and international exhibitions, trade fairs and trade missions; credit guarantees; and establishing institutions to support SME growth. However, there are certain differences in these policies and strategies. For example, some of the countries, like the U.S., UK and Russia, provide tax relief to their SMEs, while the others do not. Business incubation is common in India, Malaysia and South Africa. Though there are differences in some policies and strategies, the literature reveals that governments are implementing almost the same policies and strategies.

Chapter Three presents a discussion of SMEs in the Zimbabwean context. Major aspects covered include the definition of SMEs in the Zimbabwean context, an overview of SMEs in Zimbabwe, the location of the SMEs, the challenges faced by the SMEs, and the government policies and strategies that have been implemented to address the obstacles faced by the SMEs.

## **CHAPTER 3: SMEs IN THE ZIMBABWEAN CONTEXT**

### **3.1 INTRODUCTION**

SMEs are an important sector in the Zimbabwean economy due to their ability to provide employment (Manuere *et al.*, 2012; World Bank, 2013a), contribute to the GDP (Chadamoyo & Dumbu, 2012), alleviate poverty (GoZ, 2012) and provide opportunities for women and youth to participate in the mainstream economy (GoZ, 2012). However, SMEs are confronted with a plethora of obstacles to their growth — financial, managerial, taxational, infrastructural, and obstacles involving access to markets. The Zimbabwean government has established various policies, programmes and strategies to deal with the key challenges facing SMEs. While the previous chapter focused on SMEs in the global world, this chapter attempts to provide a picture of SMEs in the Zimbabwean context. Aspects covered in this chapter are as follows: the Zimbabwean definition of SMEs, an overview of SMEs in Zimbabwe, the role of SMEs in the economy, the development of SMEs, obstacles to growth faced by SMEs, and the policies and strategies adopted by the Zimbabwean government to address such challenges. Each government institution involved in supporting SME growth has been involved in the implementation of policies and strategies. Therefore, the researcher focuses on these institutions and the various measures they have implemented. An analysis of the effectiveness of these strategies and policies in addressing SME challenges is presented in this chapter.

### **3.2 ZIMBABWEAN DEFINITION OF SMEs**

Commercial banks define SMEs for lending purposes, and they view them as companies with total assets of between US\$250 000 and US\$5 million (Financial Gazette, 2014). This definition is used by commercial banks as a risk-reduction strategy and ensures that they provide financial assistance to viable business enterprises that are capable of servicing their debts (Financial Gazette, 2014). The Small and Medium Enterprise Development Corporation (SEDCO) (2010), the financing arm of the Ministry of Small and Medium Enterprises and Co-operative Development (MSMECD) in Zimbabwe, views an SME as a firm that has no more than one hundred employees and a maximum annual sales turnover of US\$830 000. The MSMECD policy and strategy framework has defined SMEs as those legally registered businesses that employ anywhere between six and 100 workers (Chirisa *et al.*, 2012). The Small and Medium Enterprise Association of Zimbabwe (2012) views small enterprises as

those entities with an annual turnover of less than US\$240 000 or assets less than US\$100 000, while medium enterprises have assets and turnover that are above those of small enterprises but less than US\$1 million. The latest Zimbabwean SME Act (2011) describes SMEs as business organisations that have an asset value of between US\$10 000 and US\$2 million, that employ 2–20 people, and that have an annual turnover that ranges from US\$30 000 to US\$5 million. The same definition has been adopted by the Reserve Bank of Zimbabwe (RBZ) (RBZ, 2013). In this study, the definition of the Zimbabwean SME Act of 2011 has been adopted as it reflects the current scenario in Zimbabwe. In Zimbabwe changes have taken place in terms of business trends as well as structural changes. Therefore, the current SME Act’s definition takes those changes into consideration. This definition encompasses both small and medium enterprises in the Zimbabwean context. Given that the study has been carried out in Zimbabwe, it is suitable to adopt the Zimbabwean government’s definition of SMEs, which is summarised in Table 21.

**TABLE 21. CHARACTERISTICS THAT DEFINE SMES IN ZIMBABWE**

<b>Factor</b>	<b>Indicator (US\$)</b>
Assets	From \$10 000 to \$2 million
Full-time employees	2–20 employees
Annual Income	\$30 000 to \$5 million

Source: RBZ (2013: 43)

### **3.3 AN OVERVIEW OF SMES IN ZIMBAWE**

Zimbabwe has approximately 3.4 million small businesses and 2.8 million business owners (FinScope, 2012). FinScope (2012) further observes that 47 % of the business owners are men, while women business owners constitute 53 %. Business owners with employees constitute 29 %, while individual entrepreneurs make up 71 % of the SME population (FinScope, 2012). SMEs in Zimbabwe are found in various sectors of the economy, including agriculture, wholesale and retail, manufacturing, energy and construction, arts, culture and education, accommodation and food services, transport, and mining and quarrying (Zindiye *et al.*, 2012). Table 22 illustrates the distribution of SMEs in the different sectors of the economy. Of all the SMEs, 43 % are found in the agricultural sector, while 1 % operate in the

mining and quarrying sector (FinScope, 2012). Agriculture has the highest number of SMEs because the Zimbabwean economy is agri-based.

**TABLE 22. SME BUSINESS SECTORS**

<b>Sector</b>	<b>Percentage</b>
Agriculture	43%
Wholesale and retail	33%
Manufacturing	9%
Other services	6%
Energy and construction	3%
Art, entertainment, culture, education & sport	2%
Accommodation & food services	2%
Transport	1%
Mining & quarrying	1%

Source: FinScope (2012: 3)

Zimbabwean SME activities, among others, include the manufacturing of agricultural equipment, mending of tyres, production of garments for export, fence making, metal working, brick moulding, mending shoes, hair salons, sculpturing, retailing, transport, accommodation, and food services (RBZ, 2007a). Figures 8–16 illustrate some of the SME activities in Zimbabwe.

**FIGURE 8. MANUFACTURING FARM IMPLEMENTS**



Source: RBZ (2007a: 24)

**FIGURE 9. TYRE MENDING**



Source: RBZ (2007a: 25)

**FIGURE 10. WOMEN PRODUCING GARMENTS FOR EXPORT**



Source: RBZ (2007a: 2)

**FIGURE 11. FENCE MAKING IN MBARE, HARARE**



Source: RBZ (2007a: 30)

**FIGURE 12. METAL WORKING IN HARARE, ZIMBABWE**



Source: RBZ (2007a: 31)

**FIGURE 13. SALON IN HARARE**



Source: RBZ (2007a: 32)

**FIGURE 14. BRICK MOULDING**



Source: RBZ (2007a: 33)

**FIGURE 15. MANUFACTURING AND MENDING SHOES**



Source: RBZ (2007a: 32)

**FIGURE 16. SCULPTING FOR EXPORT (HARARE, ZIMBABWE)**



Source: RBZ (2007a:32)

Figures 8–16 illustrate the various activities that Zimbabwean SMEs are involved in, and show that many SMEs in Zimbabwe are established for survival through the creation of family income, as the production and service provisions are conducted on a small scale. The pictures showing sculpting, shoe repair, brick moulding and tyre mending show that some SME activities are conducted in the open, signifying the critical shortage of shelter (Chirisa *et al.*, 2012; Karedza *et al.*, 2014).

In Zimbabwe, SME owners or business managers constitute 46 % of the adult population (FinScope, 2012). The FinScope Survey (2012) notes that 56 % of the adult population in Mashonaland East Province is made up of SME owners. This province has the highest proportion of SMEs in Zimbabwe. Harare, where only 38 % of the adult population are SME owners, has the lowest proportion of SME owners (FinScope, 2012). Table 24 indicates the proportion of business owners among the total adult population per province.

Operating space has been a challenge for SMEs in Zimbabwe. That is the reason why 39 % of the SMEs operate from residential premises, while some work from farms, pavements or streets, traditional markets, or move from door to door (FinScope, 2012). Most of the businesses (71 %) have operated for five years or less, while only 8 % are mature (have operated for more than ten years). The growth of Zimbabwean SMEs has been stifled by the macro-economic environment, such as slow and poor economic growth (AfDB, 2011). Government policies such as taxation, import duties, and regulations relating to SME registration procedures, and the personal characteristics of the business operators, such as their level of education, training and other related factors, have also slowed down the development of the SME sector (Mhazo *et al.*, 2012; Zindiye *et al.*, 2012). This indicates that Zimbabwe has young SMEs that require nurturing. A large percentage (85 %) of these

businesses are not registered (FinScope, 2012). Therefore, the Zimbabwean SME sector is dominated by informal SMEs. Such a situation makes it difficult for the government to collect tax (Zivanai *et al.*, 2014). SMEs find it difficult to access credit finance from financial institutions (Bukaliya & Hama, 2012) and to participate in the public procurement process (Mandiyambira, 2013).

Tables 23 presents the proportion of business owners among total adult population per province.

**TABLE 23. PROPORTION OF BUSINESS OWNERS AMONG TOTAL ADULT POPULATION PER PROVINCE**

<b>Province</b>	<b>Percentage of business owners within province</b>
Mashonaland East	56%
Mashonaland Central	51%
Masvingo	50%
Manicaland	48%
Matebeleland South	46%
Midlands	46%
Matebeleland North	44%
Mashonaland West	43%
Bulawayo	42%
Harare	38%

Source: FinScope (2012: 3)

### **3.3.1 The location of Zimbabwean SMEs**

SMEs are found in both the rural and urban areas of Zimbabwe. Though SMEs have similar characteristics, there are some differences between SMEs in rural areas and those in urban areas. The FinScope survey of 2012 reveals that 34 % of Zimbabwean SMEs operate in urban areas, while the majority of them (66 %) are located in rural areas. Rural areas, in the eyes of the government, are regarded as the ‘bedrock’ of Zimbabwe’s economic development.

### ***3.3.1.1 SMEs in rural areas***

Approximately 70 % of Zimbabwe's population lives in rural areas (ZimStat, 2013a). SMEs in rural areas are mainly involved in agriculture and mining, although some are involved in other activities (Bohwasi & Mukove, 2008; RBZ, 2006a). Approximately 86 % of all Zimbabwean women live in rural areas, where they do more than 70 % of all agricultural work (GoZ & UN, 2010). Rural SMEs that are involved in agriculture include poultry farmers, market gardeners, cash crop farmers, dairy farmers, cattle ranchers, tobacco growers, cotton farmers and other plantation farmers (Bohwasi & Mukove, 2008). Rural SMEs are also involved with small-scale mining, leather processing, safari tours, brick moulding, retail shops, and peanut butter production (RBZ, 2006a). There are also some SMEs in the transport sector (Kodero, 2005). These businesses, in most cases, are owned by families.

Most rural SMEs are excluded from the financial system since commercial banks are concentrated in urban areas (RBZ, 2007b; Matunhu & Mago, 2013; Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU), 2013). Approximately 83.8 % of the microfinance institutions are located in Bulawayo and Harare, and only 16.2 % in smaller towns and growth points (RBZ, 2013, cited in ZEPARU, 2013). This means that SME operators in rural areas have limited access to microfinance institutions as well.

Commercial banks are highly concentrated in urban areas and tend to avoid rural areas due to the high costs of running a rural branch, the poor communications and transport infrastructure, the fact that deposits are made on a seasonal basis, and the fact that people do not have collateral for loans (Herald, 2011, cited in Matunhu & Mago, 2013). Given that they suffer from a form of financial exclusion, it is difficult for people in rural areas to access credit from commercial banks (Chronicle, 2013). That is the reason why community cooperative banks, known as Savings and Credit Cooperatives (SACCO banks), have been established with the help of the Ministry of Small and Medium Enterprises and Co-operative Development in partnership with the Co-operative for Assistance and Relief Everywhere (CARE) International (Ministry of Women Affairs, Gender and Community Development (MWAGCD), 2012). For example, in Mubaira, in the Chegutu District of Mashonaland West Province, a SACCO bank was established in around 2000 (MWAGCD, 2012). In Chirumanzu in Masvingo Province, the Chirumanzu-Zimbabwe Women's Savings and Credit Co-operative Society was officially opened in July 2014 (Chronicle, 2013). These small banks were established to provide development capital for SMEs. The SACCO banks have been helpful for local SMEs, especially for those owned by women and youth (MWAGCD, 2012; Chronicle, 2013). To date, there are 329 SACCO banks across Zimbabwe with 2 096 members, and women constitute approximately 86 % of their membership (MWAGCD,

2012). These women are also provided with basic business management training. SMEs that are supported include those involved in mining and agri-based activities (MWAGCD, 2012).

Transport and communication infrastructure is poorly developed (World Bank, 2006, cited in Zimbabwe Institute, 2007). There are gravel roads which are rarely serviced. Delivery vehicles find it difficult to transport goods to rural areas (Mambula, 2002; Kazooba, 2006). This has adversely affected the development of rural SMEs in Zimbabwe. Some areas do not have telephone communication networks, and this affects retailers who need to order stock and have it delivered from urban areas (Mambula, 2002; Kazooba, 2006).

### ***3.3.1.2 SMEs in urban areas***

SMEs in urban areas are mainly found in the city, in high- and low-density residential areas, and light- and heavy-industrial areas. Some of them operate in wooden shelters in open spaces and designated areas. Most of these SMEs are clustered, for example those at Glen View Furniture Complex (Chipangura & Kaseke, 2012). These businesses are usually family-owned and run. SMEs in urban areas mainly concentrate on, but are not limited to, furniture manufacturing, catering, food processing, chemical manufacturing, clothes manufacturing, business services, brick moulding, retailing, engineering, motor mechanics, welding, hair salons, fence making, manufacturing and mending shoes, as well as sculpting, poultry production, market gardening, and pig production (Mbiba, 2001; RBZ, 2007a; Kutiwa *et al.*, 2010).

Urban SMEs have formed very powerful associations that represent them to the government and assist with the dissemination of information to the member SMEs. Those who are involved in cross-border trading have formed the Zimbabwe Cross-Border Traders Association (ZCBTA); SMEs in Harare have formed the Harare Chamber of Small and Medium Enterprises (HCSME), and SMEs at the Glen View Complex have formed the Glen View Furniture Complex Association (GFCA) (Chipangura & Kaseke, 2012).

SMEs in urban areas use technology in manufacturing and providing services much more than rural SMEs in Zimbabwe (Dube *et al.*, 2010; Mashanda *et al.*, 2012), and ICT is used in urban areas more than in rural areas. This creates a gap between rural and urban SMEs. Therefore, geographical location plays a role in determining the type of SME and the pace of development.

### **3.4 THE ROLE OF SMES IN ZIMBABWE**

Currently, SMEs are an indispensable element in the socio-economic life of Zimbabweans. This is because they provide employment and contribute to economic growth (Chirisa *et al.*, 2012; Zindiye *et al.*, 2012), they stimulate competition in the market for the benefit of consumers (Chingwaru, 2014), they initiate the development of technology (Dube *et al.*, 2010), and they provide women and youth with opportunities to participate in the economy, as well as alleviate poverty (GoZ, 2012). SMEs have also played an important part in the indigenisation of the economy (Chingwaru, 2014). Realising the importance of SMEs in the country's economy, the Zimbabwean government has taken measures through policies, strategies and programmes to promote the sector. This section provides a description of the role of SMEs in Zimbabwe.

#### **3.4.1 SME contribution to GDP and economic growth**

The SME sector has been recognised by the Zimbabwean government as key to the country's economic growth, as SMEs are a source of technological improvement and product innovation (Dube *et al.*, 2010; Goriwondo, 2011; Chadamoyo & Dumbu, 2012; Zindiye *et al.*, 2012; Maunganidze, 2013). SMEs are thus the 'heartbeat' or the 'engine' of the Zimbabwean economy (Loader, 2007), and this is largely due to their flexibility to changes in the market environment (ICAZ, 2013). They achieve economic growth with more limited financial resources and at a faster rate than large companies (Chadamoyo & Dumbu, 2012). Ndoro (2012) and Goriwondo (2011), cited in Maunganidze (2013), note that SMEs in Zimbabwe contribute approximately 90 % of the economic growth of the country. The SME sector accounts for above 50 % of the GDP (Zindiye *et al.*, 2012). The FinScope survey of 2012 revealed that approximately 65% of the SME sector contributed about US\$7.4 billion in 2012. Thus, they contribute to the GDP as well as to industrial production (Zoepfel, 2011, cited in Chadamoyo & Dumbu, 2012). SMEs have contributed to the establishment of new companies and have increased the level of competition in the market (RBZ, 2007a). SEDCO (2010) observes that about 80 % of the country's economic activities are controlled by SMEs. Therefore, the SME sector does indeed constitute the heartbeat of the Zimbabwean economy.

### **3.4.2 The contribution of SMEs to employment**

SMEs provide 80 % of the employment in Zimbabwe (RBZ, 2006a; Goriwondo, 2011; Chadamoyo & Dumbu, 2012; GoZ, 2012; Manuere *et al.*, 2012; Mpfu, 1998, cited in Maunganidze, 2013; World Bank, 2013a; Musanzikwa, 2014). In 1980, approximately 20 % of the Zimbabwean working population was employed in SMEs, and this figure increased to 40 % in 2004 (Tibaijuka, 2005, cited in Ndiweni & Verhoeven, 2013). By mid-2005, approximately three million Zimbabweans depended on SMEs for survival (Coltart, 2008, cited in Ndiweni & Verhoeven, 2013). The closure of companies due to the macroeconomic instability and hostile political environment pushed the unemployment rate to 80–94% in the 2007/2008 period (Murisa, 2010; Dekker, 2009, cited in Ndiweni & Verhoeven, 2013; Confederation of Zimbabwe Industries (CZI) Business Intelligence Report, 2010, cited in Dlodlo & Mafini, 2014). This forced the majority of the population to turn to SMEs for survival. A survey conducted by the World Bank (2012b) and FinScope (2012) revealed that approximately 5.7 million people are working in the SME sector. Zindiye *et al.* (2012) observe that SMEs have played a critical role in spreading employment to rural areas, thus reducing the rural-urban migration that leads to overcrowding in towns and cities (Chingwaru, 2014). The FinScope Survey of 2012 revealed that 66 % of SMEs in Zimbabwe are based in rural areas, thus providing the much needed employment.

Every year the Zimbabwean HEIs, universities and technical colleges produce more than 300 000 graduates for the labour market (Rwafa, 2006, cited in Zindiye *et al.*, 2012; Nyoni 2002, cited in Chingwaru, 2014). These graduates join the shrinking labour market caused by the closure of large companies. Therefore, if these graduates are not absorbed by the public sector, their source of employment becomes the SME sector (Chingwaru, 2014). Therefore, SMEs are a substitute for formal employment (Maunganidze, 2013; Chingwaru, 2014). In urban areas approximately 47 % of the economically active population are employed in SMEs (NewsDay, 2012).

### **3.4.3 SMEs' contribution to poverty alleviation**

SMEs provide a livelihood for business owners and their employees (GoZ, 2012; Ndlovu & Ngwenya, 2003, cited in Zindiye *et al.*, 2012), and provide a living for 80 % of the Zimbabwean population (RBZ, 2006b). This became quite evident during the Zimbabwean economic meltdown of 2000–2008 (ICAZ, 2013; Zimbabwe Independent, 2014). Because they provide people with an income, SMEs are critical for poverty alleviation (Cook &

Nixon, 2000; ICAZ, 2013; Goriwondo, 2011; GoZ, 2012; World Bank, 2012c; Zindiye *et al.*, 2012; Mpofu, 1998, cited in Maunganidze, 2013). SMEs are by nature labour intensive, and as such they employ many people and assist with poverty reduction (Hobolm, 2001). Those who work for SMEs generally earn less than US\$200 per month, but this acts as a buffer that prevents them from slipping deeper into poverty (FinScope, 2012). Therefore, SMEs make a modest contribution to poverty alleviation. The level of poverty is high in Zimbabwe, with 75 % of the population living in abject poverty (UNDP, 2000; Manuere *et al.*, 2012).

#### **3.4.4 SMEs: An opportunity for women and youth to participate in the economy**

Economic development occurs when every citizen works hard towards economic growth. Therefore, the involvement of women and youth in the economy is a way of ensuring that every member of society contributes towards economic progress and the alleviation of poverty (MWAGCD, 2012; GoZ, 2013; Manyuchi, 2013) in rural and urban areas. SMES are an important vehicle for the economic empowerment (SEDCO, 2010) of some sectors of the population that were previously inactive. The majority of the population in Zimbabwe is made up of women and youth. In many countries women constitute 50 % of the total population (Bohwasi & Mukove, 2008). In Zimbabwe women constitute 52 % of the population, while the youth constitute 53 % (NewsDay, 2012; GoZ & UN, 2010). Women perform 53 % of all economic activity (UN & GoZ, 2010) but the value of their work is not recognised because it not measured and the payment for it is very low. The majority of women (90 %) are involved in activities such as farming, running informal small businesses, and being involved in community activities (United Nations International Children's Emergency Fund (UNICEF), 2004, cited in UN & GoZ, 2010). In sub-Saharan Africa close to 84 % of the female population is involved in these activities, showing how important women are in these economies.

However, women are still excluded from mainstream economic activities (UN & GoZ, 2010), yet their active participation in the mainstream economy is vital for promoting socio-economic development. That is the reason why the RBZ rolled out a programme in 2006 to assist women and the youth, and other disadvantaged groups (RBZ, 2006). Women and the youth had been disadvantaged for a long time (RBZ, 2013) and they did not participate in the mainstream economy. Therefore, the emergence of SMEs created an opportunity for them to be active in the Zimbabwean economy. Retrenchments which took place as a result of the ESAP led to many women becoming breadwinners through vending and working in SMEs (Nani, 2011). Women also became active in small-scale commercial farming.

The RBZ supported irrigation projects, poultry farming, brick moulding, horticulture, and cash crop farming (RBZ, 2006). Approximately 76 % of informal enterprises and 67 % of SMEs are owned by women, and in the ZCBTA about 72 % of the registered members are women. This indicates that women have become an important asset of the Zimbabwean economy.

Zimbabwean youth are aged 18–35 years, and they are the main economically active group within the population (Ministry of Public Service, Labour and Social Welfare (MPSLSW), 2013). Support structures have been created to promote the youth in business, including the Ministry of Small and Medium Enterprises and Co-operative Development (MSMECD), the Ministry of Youth Development, Indigenisation and Economic Empowerment (MYDIEE), the Zimbabwe Youth Council (ZYC), vocational training centres, and other support mechanisms at district and provincial levels (Bohwasi & Mukove, 2008; Chimucheka, 2012; MYDIEE, 2014). The Informal Sector Training Resource Network (ISTRN), an Entrepreneurship Development Programme, and industry partnerships at tertiary institutions throughout the country are some of the programmes that have been put in place to train youth in how to run SMEs (Bohwasi & Mukove, 2008). This came in the wake of the realisation that the youth could play an important role in the economic development of Zimbabwe. Youth entrepreneurship is a way of incorporating young people into the labour market and reducing poverty (MPSLSW, 2013; Ryan, 2003, cited in Mubaiwa, 2013). The rate of youth unemployment is more than 15 % (MPSLSW, 2013); therefore, involving them in SMEs reduces unemployment.

The Zimbabwean government created the Youth Development Fund (YDF) and the Women's Development Fund (WDF) in order to promote women and youth in businesses (Doro, 2014; NewsDay, 2012). Through the MWAGCD, the government established the WDF, a revolving fund which comes from the National Budget, to finance SMEs owned by women (MWAGCD, 2012; GoZ, 2013; Manyuchi, 2013). In 2011 the fund stood at US\$2 million, while in 2012 it increased to US\$3 million (GoZ, 2013). No collateral is required for accessing loans from the fund as it is meant to promote women's economic empowerment at grassroots level (MWAGCD, 2014). Such a fund is part of the Broad-based Women's Economic Empowerment Framework that was introduced by the government in 2012 to promote the participation of women in every sector of the economy (Manyuchi, 2013; Matanana & Bukaliya, 2015), such as mining, manufacturing, agriculture and tourism (MWAGCD, 2012, 2014). MWAGCD (2012) further notes that 2 545 women benefited from the fund in 2010.

Through the fund urban women have become more self-reliant, for example by growing potatoes as some women in Harare have done (GoZ, 2013). About 1 650 women in the towns and cities of the country are involved in this activity, and these women cover approximately 8 % of the market (GoZ, 2013). Studies have indicated that urban agriculture is dominated by women (Kisner, 2008; Kutiwa *et al.*, 2010; Nyamasoka *et al.*, 2012.)

Women have also taken part in the indigenisation of the economy through the Land Reform Programme (LRP) (MWAGCD, 2014). The LRP is a programme for the redistribution of land among black people to address the past imbalances in terms of land ownership. From the total number of those who would benefit from the programme, the government reserved a 20 % quota for women (MWAGCD, 2014). Women have established small-scale farms, and in order to support the women small-scale farmers 4 770 agricultural extension workers were employed, of which 44.75 % were women (MWAGCD, 2014).

The government has also made strides in promoting the access of women-owned SMEs to markets. This has been done through local and international exhibitions, fairs and expos (GoZ, 2013). SMEs showcase their products at the Zimbabwe International Trade Fair (ZITF) which is held annually (ZITF, 2013), and women-owned SMEs have also attended international trade fairs and exhibitions in China, Botswana, Malaysia, Indonesia and South Africa (ZimTrade, 2014). ZimTrade, formed in 1991 as a joint venture between the government and the private sector, promotes exports and also conducts export-awareness seminars for women (ZimTrade, 2015).

The YDF, a revolving fund which became effective in 2009, was created to fund income-generating projects (SMEs) owned by the youth (Doro, 2014; Mukuhlani, 2014). In order to access loans from the fund, one must be aged 18–35 years and be running a viable business (SME) in any sector of the economy. The maximum loan advanced is US\$5 000 (Doro, 2014). Commercial banks are used by the MYDIEE to administer loans to the youth (MYDIEE, 2013), and once loans have been granted the ministry provides business advisory and extension services through the provincial and district offices. Specialised skills are also sought from other ministries; for example, if a youth is involved in an agricultural project like market gardening, the Ministry of Agriculture is approached for advice (Doro, 2014).

In the 2012/2013 financial year a total of 2 388 youth benefited from the fund and the loans disbursed amounted to US\$3 594 920 (MYDIEE, 2013). The youth SMEs supported were in the agricultural, distribution, manufacturing, services, and mining sectors (MYDIEE, 2013). Therefore, a substantial number of youths benefited from the fund.

However, the MYDIEE faces some challenges in the management of the fund. The loan repayment rates are very low, making it difficult for the fund to keep revolving so that all youth can benefit from the fund (MYDIEE, 2013). There is also a lack of financial resources for monitoring the projects and ensuring that the loans are used for the purposes intended. The impact of the fund on the youth and their projects needs to be evaluated; however, the ministry struggles to get funding for evaluations (MYDIEE, 2013).

### **3.4.5 SMEs' contribution to competition**

Zimbabwean SMEs operate in all sectors of the economy, and government policies such as indigenisation have led to new ventures being developed in every segment of the economy (Mutambanengwe, 2012, cited in Dlodlo & Mafini, 2014). Therefore, SMEs are visible in sectors where there are large companies. SMEs provide competition in all sectors of the economy (Dube *et al.*, 2010; RBZ, 2007b; Tsikirayi *et al.*, 2013) and enhance the spirit of entrepreneurship (Beck *et al.*, 2005; Tsikirayi *et al.*, 2013). In SMEs, individuals have the opportunity to be innovative, leading to the development of new products and services that compete with those of large businesses (Chirisa *et al.*, 2012; Tsikirayi *et al.*, 2013; Chingwaru, 2014; Dlodlo & Mafini, 2014), and they are flexible in the delivery of services (Kendall *et al.*, 2001, cited in Dlodlo & Mafini, 2014). The use of ICT has enhanced the competitive position of the SME sector (Manuere *et al.*, 2012). SMEs charge competitive prices for their products and services (Bohwasi & Mukove, 2008), and consumers are thus presented with a wide-ranging choice of products and services. Such competition removes a monopolistic environment, and leads to the improvement of the quality of products and services (Chingwaru, 2014) that meet customer needs, demands and preferences. Customers stand to benefit, as the businesses are forced to charge competitive prices in order to continue operating.

Competition is fierce, particularly in the manufacturing sector, an example being the level of competition among companies that manufacture furniture (ICAZ, 2013). SMEs also operate in the furniture-manufacturing sector (Zindiye *et al.*, 2012) in competition with large furniture manufacturers. The SMEs involved in furniture manufacturing supply furniture of a high quality and this attracts a large section of the market in Harare. These SME manufacturers sell their products to certain furniture retail shops, such as Callans, Teecherz Furniture, OK, Modern Furniture, Downtown Furniture and Station Furniture (Chipangura & Kaseke, 2012). Therefore, the competitive environment created by the participation of SMES in the economy tends to benefit the Zimbabwean population.

In summary, it is imperative to note that SMEs provide solutions to key national challenges such as unemployment, the closure of companies, lack of investment, and poverty (Chadamoyo & Dumbu, 2012). SMEs are, thus, an indispensable element in the Zimbabwean economy, and government support to SME development is critical to ensure economic growth and sustainability.

### **3.5 THE DEVELOPMENT OF SMES IN ZIMBABWE**

Prior to the independence of Zimbabwe in 1980, the economy was highly regulated, and this was the type of economy inherited by the new black government when it came to power, led by Robert Mugabe (AfDB Group, 1997). The production, distribution, and marketing of commodities were mainly dominated by large companies (Mhazo *et al.*, 2006). Though SMEs existed, there were very few of them, and their impact was insignificant (AfDB, 1997; Chipangura & Kaseke, 2012). This was because in the first decade of independence, government policies did not support SME development, but rather the development of co-operatives (Kapoor *et al.*, 1997; Chirisa *et al.*, 2012). According to the AfDB (1997), as the Zimbabwean economy began to grow, the negative impact of these regulations on production became glaringly obvious. In 1990 Zimbabwe had a balance of payment deficit of US\$257 million (AfDB, 2007) while its budget deficit exceeded 10 % of the GDP (Zhou, 2000). It was against this background that it became necessary to do away with the protectionist and socialist policies that were retarding the performance of the economy (Kanyenze *et al.*, 2011; Matunhu & Mago, 2013). Thus, the government introduced the ESAP in 1991, with the support of the IMF and the World Bank.

The ESAP was an economic policy that the World Bank and the IMF suggested and administered to countries experiencing economic problems and who were in a debt crisis. Zimbabwe introduced the economic reform programme with the aim of reducing its budget deficit, creating employment, improving the standard of living of its people, and promoting industrial development (Kanyenze *et al.*, 2011; Hawkins & Ndhlela, 2009, cited in Gumbe & Chaneta, 2014). This was to be achieved through removing government subsidies on social services, trade liberalisation, reducing government expenditure, removing price controls, and privatising and commercialising state enterprises (GoZ, 1991; Madzivire, 2011; Matunhu & Mago, 2013; Zhou & Zvoushe, 2013).

It was the ESAP that played a significant role in the development of SMEs in Zimbabwe. The economic climate created by the ESAP made the policy makers realise the importance of SMEs in economic growth and the provision of employment (Mhazo *et al.*, 2012; Jongwe,

2013). Therefore, policies and strategies to support the development of SMEs needed to be developed and implemented.

The economic decline in African countries before the end of the twentieth century forced many governments to implement economic reforms (Ngwenya & Ndlovu, 2003). Poor economic policies, mismanagement of the economy, corruption, and political instability were some of the reasons for economic decline. As a result, poverty, unemployment, and poor economic growth became evident (Ngwenya & Ndlovu, 2003). The socialist policies that had been implemented by the Zimbabwean government since 1980 could not promote economic growth and improve the well-being of the population (Matunhu & Mago, 2013). The socio-economic and political landscape played a critical role in the establishment of SMEs in Zimbabwe (Ndiweni & Verhoeven, 2013). The ESAP was rolled out in 1991, and was aimed at dealing with the socio-economic problems the country was facing (Ngwenya & Ndlovu, 2003; Malaba, 2005). Therefore, the ESAP aimed to improve the standard of living of the people of Zimbabwe through rapid and sustainable economic growth.

However, the ESAP was not successful, as it resulted in the loss of jobs in both the public and private sectors (Toriro, 2009; Murisa, 2010; Jongwe, 2011, cited in Jongwe, 2013; Gumbe & Chaneta, 2014), and the GDP declined (Madzivire, 2011). In 1992, a year after the implementation of the economic reform programme, the GDP declined by 11 % (Zeilig, 2002). Zeilig (2002) further notes that between 1991 and 1993 more than 2 000 jobs were lost. In the public sector, approximately 2 500 additional jobs were lost in the public service (Murisa, 2004, cited in Murisa, 2010). In 1992 unemployment stood at approximately 22 %, and by the end of 1996 the economy had declined further, as evidenced by the unemployment figure of 35 % (AfDB Group, 1997).

The manufacturing sector was hit hard and its performance declined, leading to the closure of six companies and the further loss of jobs (Nkala, 2012, cited in Mushanyuri, 2014). Companies such as National Blankets, Cotton Printers, and Merlin, which used to employ about 2 000 workers each, reduced their workforce to approximately 100 (*NewsDay Zimbabwe*, 11 December 2012). The percentage of the population living in poverty increased from 62 % in 1995 to 85 % in 2001 (Ngwenya & Ndlovu, 2003). Some large multi-national companies, as well as large local companies, were forced by the harsh economic circumstances to scale down their production (Kadenge, 2009, cited in Maseko, 2014) while others had to close down entirely, leading to massive retrenchments (Matutu, 2014). For example, nearly 400 companies closed in 2000 (AfDB Group, 1997). The shrinking of the formal job market and the fact that people were becoming poorer, created the conditions for the expansion of the SME sector (RBZ, 2014a). Zeilig (2002) and the IES (2010) rightly

observe that employment collapsed to such an extent that university and technical college graduates could not get employment and lost hope of getting any. This indicates that the ESAP had failed to deliver as expected. The ESAP could not address the macroeconomic factors contributing to economic instability, because inflation and interest rates were rising while exchange rates and the real GDP were declining (ZimStat, 2013b). In 1994/5, the situation became so dire that food riots occurred in Harare due to the rising cost of food (IES, 2010).

A plethora of factors explain the failure of the ESAP in Zimbabwe. The ESAP was an inappropriate policy instrument for Africa, and for Zimbabwe in particular (Carmody & Taylor, 2003; Tamukamoyo, 2009). Saunders (1996) claims that it was imposed by the IMF and the World Bank without consideration for the social and economic realities of Zimbabwe. It placed too much emphasis on the maximisation of profits without paying particular attention to issues such as employment creation, economic expansion, and improving the standard of living of the people (Saunders, 1996). Social services such as health care became prohibitively expensive for the majority of the population (Matutu, 2014). This explains why the socio-economic situation in Zimbabwe deteriorated after the introduction of the ESAP. The situation was further exacerbated by the severe drought of the early 1990s. After two consecutive dry seasons, the GDP decreased by more than 7.5 %, and inflation ballooned to 30 % (Carmody & Taylor, 2003).

The above scenario created suitable conditions for the growth of SMEs in Zimbabwe, as people had to find other ways to meet their everyday needs (Muhande & Matonhodze, 2008; Marunda & Marunda, 2014; RBZ, 2013). SMEs were established for the purpose of supplementing household income, of creating income for people who had been retrenched during the closure of companies, and of providing employment for graduates from HEIs who could not be absorbed into the formal sector (Ngwenya & Ndlovu, 2003; Chipangura & Kaseke, 2012). This is consistent with Mhazo *et al.* (2012), who state that in the mid-1990s there was rapid growth of both formal and informal small and medium-scale enterprises. Credit at this point was given to the ESAP, because the number of SMEs in Zimbabwe grew after its introduction, representing an annual growth turnover of 28 % between 1991 and 1995 (Knight, 1996; Chipangura & Kaseke, 2012). It became clear that the ESAP had failed to achieve its objectives and that the economic situation had become even worse, forcing people to turn to SMEs for survival. This explains why there was an increase in the number of SMEs in Zimbabwe. Thus, after the introduction of the ESAP, SMEs became the major source of livelihood for 80 % of the Zimbabwean population (RBZ, 2006a; Muhande & Matonhodze, 2008; Chandaengerwa, 2014).

The macroeconomic environment, after the introduction of the ESAP, was conducive to the growth and development of SMEs and not large-scale companies (Muhande & Matonhodze, 2008; Chipangura & Kaseke, 2012). Thus, the number of SMEs increased, leading to the creation of employment while large companies were scaling-down operations (Mhazo *et al.*, 2012; Chipangura & Kaseke, 2012; Manuere *et al.*, 2012; Marunda & Marunda, 2014). The loss of business by large companies resulted in retrenchments and even the closure of factories, requiring people to focus their attention on SMEs for survival (Taru & Basure, n.d.; Mhazo *et al.*, 2012; Chipangura & Kaseke, 2012; Moyo, 2010, cited in Mbizi *et al.*, 2013; Tawodzera, 2013; Marunda & Marunda, 2014). Therefore, in the past 10–15 years large companies have disappeared, giving way to the emergence of SMEs (Zimbabwe Ministry of Industry and Commerce (ZMIC), 2014b). Ehinomen and Adeleke (2012) observe that the focus on SMEs was predicated on their contribution to economic development and their provision of employment.

The devaluation of the Zimbabwean dollar, deregulation of the economy, liberalisation of trade, removal of government subsidies, the reduction of central government expenditure, the removal of price controls, and the privatisation of public enterprises negatively affected the economy to such an extent that many Zimbabweans turned to SMEs for survival (Mhazo *et al.*, 2012; Sachikonye, 2007, cited in Muhande & Matonhodze, 2008; Jongwe, 2013; Moyo, 2010, cited in Mbizi *et al.*, 2013; Marunda & Marunda, 2014). The Zimbabwean government found it extremely difficult to reduce its budget deficit and accomplish its goals of implementing the ESAP. Thus, the ESAP failed to deliver what was expected and alternative solutions were needed to bail out Zimbabweans from the economic quagmire. The government therefore shifted its attention towards the SME sector for solutions to unemployment, suffering, and poverty.

The consequences of the ESAP contributed greatly to the changes in government perceptions of the SME sector (Kapoor *et al.*, 1997, cited in Zindiye *et al.*, 2012). Kapoor *et al.* (1997) observe that the SME sector was increasingly viewed as an important engine for employment creation and economic growth. This focus was necessitated by the increasing awareness within the policy making community that large industrial projects were less likely to generate the requisite employment opportunities. This was partly because of the high capital-intensity input in the sector. In the 1996 Parliamentary Budget Speech, a commitment was made by the GoZ to the development of the SME sector (AfDB Group, 1997).

The development of SMEs is also partly attributed to the effects of the HIV/Aids pandemic. Many people, especially women and children, joined the SME sector after the death of the household head, the father, who was the breadwinner (Bhalla *et al.*, 1999, cited in Chipangura

& Kaseke, 2012). Women and children were exposed to so much suffering that they were left with no choice but to turn to the informal sector for employment or to open small businesses for survival.

It was assumed that government support for SMEs would lead to the indigenisation of the economy and employment creation in every part of the country (Kapoor *et al.*, 1997; Ehinomen & Adeleke, 2012). The policies developed at this stage were a clear sign of the government's commitment to developing the SME sector. These policies and strategies were aimed at dealing with the multiplicity of challenges confronting SMEs, which included inadequate finance, poor management skills, unsuitable locations, punitive rules and regulations, poor economic performance, and other challenges such as inappropriate and unsupportive infrastructure. The policy makers responded by creating organisations such as the Small Enterprise Development Corporation (SEDCO), the Venture Capital Company of Zimbabwe (VCCZ), and the Credit Guarantee Company of Zimbabwe (CGCZ) in an effort to assist SMEs so that they would grow. However, the impact of these efforts was ultimately insignificant because the institutions were not co-ordinated to render effective support to the SMEs.

### **3.6 SME CHALLENGES IN ZIMBABWE**

Though SMEs constitute the backbone of the Zimbabwean economy, they are faced with a multiplicity of challenges that for a long time have been obstacles to the growth of the sector. Such challenges include lack of adequate financial resources (Manyani, 2014), inadequate administrative and management skills (Chadamoyo & Dumbu, 2012), poor communication and transport infrastructure, and an unfavourable regulatory environment (Chipangura & Kaseke, 2012). SMEs also face stiff competition from imported products (Mudavanhu *et al.*, 2011). This section discusses the obstacles to SME growth in Zimbabwe.

#### **3.6.1 Financial challenges**

One of the strategic management theories, the resource-based theory, states that the source of a firm's competitive advantage lies in its internal resources (Raduan *et al.*, 2009). Therefore, a firm's success is due to the joint resources and capabilities that an enterprise owns (Olalla, 1999). One such resource is capital or financial resources (Wernerfelt, 1984). It is in the

context of this theory that finance becomes a critical resource for the survival, growth and development of SMEs.

SMEs are faced with financial challenges (RBZ, 2006a, 2007b; Thwala & Mvubu, 2008; Manyani, 2014) that risk crippling their operations. Al Saleh (2012), Mudavanhu *et al.* (2011), Nyangara (2013), Chirisa *et al.* (2012), Chipangura and Kaseke (2012), and Chadamoyo and Dumbu (2012) emphasise finance as one of the most important challenges confronting SMEs, because lack of capital constrains the growth of SMEs (Bowen *et al.*, 2009; Ehinomen & Adeleke, 2012; Mwobobia, 2012).

Zimbabwean SMEs incur higher transaction costs than bigger companies when getting loans from private financial institutions (RBZ, 2013; Ligthelm & Cant, 2003, cited in Manyani, 2014), making it difficult for SMEs to access credit. Where the credit is available, it is often insufficient to fund the operations of the SMEs (Nyangara, 2013; Manyani, 2014). This is also confirmed by a study conducted by Mudavanhu *et al.* (2011), which reveals that the availability and the cost of credit are the most important factors affecting SMEs in Zimbabwe. SMEs require adequate financial support to effectively carry out their operations and to expand their businesses. This is further supported by Chadamoyo and Dumbu (2012), who indicate that without financial support the development of SMEs becomes compromised.

Financial institutions are reluctant to extend credit to SMEs and prefer lending to larger companies for a number of reasons. SMEs are viewed by financial institutions as risky ventures that are not run professionally and whose mortality rate is very high (Nyangara, 2013). SMEs are required by financial institutions to have collateral for loans (Chikomba *et al.*, 2013), but most of them lack collateral (RBZ, 2011; Mago, 2013; ZEPARU, 2013; RBZ). The ability of SMEs to repay loans advanced to them is assessed in terms of their management skills, the nature of their products and services and their marketability, their level of employee skills, and the collateral available (Chikomba *et al.*, 2013).

Most Zimbabwean SMEs fall short of most or all of the requirements for credit finance (Chadamoyo & Dumbu, 2012). Meaningful business plans must be submitted to banks before the processing of the loans starts (Mudavanhu *et al.*, 2014). SMEs often struggle to produce business plans that are able to convince banks and other financial institutions to grant them funding (Mudavanhu *et al.*, 2014), and they often lack the requisite financial records and audited financial statements that are required by banks for the processing of loans (Chirisa *et al.*, 2012; FinScope, 2012; RBZ, 2014b). Financial institutions state that there are higher costs involved in processing loans to SMEs than to larger businesses (RBZ, 2011). After loans are issued, SMEs still need to be monitored to ensure debt repayment (RBZ, 2011, cited in

Chirisa *et al.*, 2012). It is this unfavourable scenario that has caused SMEs to lean on the government for financial support. However, government agencies and ministries have not been effective in addressing the financial obstacles to SME development (Chirisa *et al.*, 2012).

Currently, the Zimbabwean financial sector is experiencing a liquidity crunch that has made it difficult for businesses, including SMEs, to access adequate financial resources to finance production (RBZ, 2013, ZEPARU, 2013). People are unwilling to deposit their money into banks because of the low interest rates on deposits. Therefore, there are few deposits made (ZEPARU, 2013), and money circulates between people and the informal sector without reaching financial institutions. Economic activity has slowed down due to the liquidity crisis (ZEPARU, 2013), and economic growth declined from 4.4 % in 2012 to about 3.4 % in 2013 (Ministry of Finance, 2013, cited in ZEPARU, 2013).

In the Zimbabwean context, even though some SMEs are given access to financial resources, they still fail. This can be partly attributed to the poor financial management and accounting procedures used by SMEs (Manyani, 2014). This means that problems related to finance do not adequately explain the failure of SMEs in Zimbabwe, and that a multiplicity of non-financial challenges need to be considered as well.

### **3.6.2 Administrative and management challenges**

Administrative and management problems have been cited as some of the major causes of failure for small businesses (Thwala & Mvubu, 2008; Zindiye, 2008; Al Saleh, 2012; Chadamoyo & Dumbu, 2012; Zindiye *et al.*, 2012; Gombarume & Mavhundutse, 2014). Mudavanhu *et al.* (2011) note that SMEs in Zimbabwe experience various management challenges. Zimbabwean SMEs lack human resources skills, financial management skills, marketing skills, and various other general management skills (Zindiye, 2008; FinScope, 2012; Karedza *et al.*, 2014; Musanzikwa, 2014; RBZ, 2014b; ZEPARU, 2014). This means that even if SMEs are given access to financial resources, poor management often leads to improper use of those finances, thereby leading to the failure of the SMEs. Management and administrative challenges account for the high mortality rate among SMEs (Derera *et al.*, 2013; Mbizi *et al.*, 2013; Karedza *et al.*, 2014). Poor management approaches lead to 88.7 % of SME failures (Paul, 2008, cited in Gombarume & Mavhundutse, 2014).

Entrepreneurs often lack the appropriate management training in order to run their businesses effectively (Yan, 2010, cited in Karedza *et al.*, 2014). Training equips entrepreneurs with the

requisite knowledge, skills and attitudes to enhance their chances of business success. Therefore, the absence of training leads to poor management and organisation of the business, as well as the poor quality of products and services (Chipangura & Kaseke, 2012). Wastage of resources also occurs due to lack of training, as many errors are made. SME failure therefore becomes increasingly likely when management do not pay close attention to key strategic issues (Nyanga *et al.*, 2013). SME owners do not often attend management training programmes run by the public and private sectors, as they may not deem these programmes to be relevant or important to them. Sometimes training sessions have to be paid for, and SME owners may not be able to afford it (Chipangura & Kaseke, 2012).

SMEs also often lack the relevant technical know-how (Thwala & Mvubu, 2008; Nyanga *et al.*, 2013; Musanzikwa, 2014) that is important in running a business. Lack of technical knowledge and poor quality control can compromise the quality of products and services, and therefore negatively affect the competitive position of a business (Karedza *et al.*, 2014).

Successful SMEs are run with the requisite knowledge and management skills (Mbizi *et al.*, 2013; Gombarume & Mavhundutse, 2014). Therefore, the growth and profitability of an SME hinges on the level of competency and skill of its management. From the perspective of resource-based theory, some of the resources mentioned include in-house knowledge or technology, as well as the employment of skilled personnel (Wernerfelt, 1984). Resource-based theory emphasises the importance of the human element in the strategy development of an organisation (Raduan, 2009). It is in this context that a skilled labour force and management with business acumen are critical for the survival, growth and development of SMEs.

### **3.6.3 Lack of adequate infrastructure**

Infrastructure plays a key role in the development of businesses in every nation, and Zimbabwe is no exception. SMEs require adequate infrastructural support in order to realise growth, and often depend on the infrastructure provided by government (Chipangura & Kaseke, 2012). However, Zimbabwean SMEs contend with infrastructural challenges that include poor roads, bridges, buildings and communication facilities (RBZ, 2012; Gombarume & Mavhundutse, 2014; Karedza *et al.*, 2014; ZEPARU, 2014). Accessing transport facilities has been a challenge for SMEs (Zindiye, 2008; Karedza *et al.*, 2014), particularly for those in the manufacturing sector that face the challenge of transporting their finished products to the

market and raw materials to their factories (Al Saleh, 2012; Karedza *et al.*, 2014). Therefore, poor transport infrastructure limits SME access to markets (Chipangura & Kaseke, 2012).

Basic shelter is vital for trading in goods and services, and although the Zimbabwean government has constructed some sheds and factory shells for SMEs, they are inadequate. Most SMEs lack adequate shelter to protect their products against the sun and rain (Maunganidze, 2013; Karedza *et al.*, 2014). Thus, trade is conducted in the open for some SMEs that sell fruit and vegetables or clothes, or who offer mechanical services, or who manufacture or upholster furniture. At the Glen View Furniture Complex, the shelter is inadequate for the furniture manufacturers (Maunganidze, 2013). Trading markets are overcrowded with SMEs (Chirisa *et al.*, 2013), indicating a shortage of shelter for entrepreneurs. Overcrowded places include Mupedzanhamo, Siyaso, and Glen View Furniture Complex.

Basic sanitation infrastructure is another essential factor in a trading environment, and it is often not available. In Harare, at Mupedzanhamo Market, for example, there are no adequate toilets for the use of all traders and their customers (Maunganidze, 2013). This exposes SME owners and their customers to cholera outbreaks. Such a situation poses a threat to business growth as customers feel unsafe in that type of environment.

A stable electricity supply is also a serious problem for large companies and SMEs in sub-Saharan Africa (Fjose *et al.*, 2010). The electricity generation capacity of the region is far below the demand for electricity. The generation capacity for electricity has not increased over the years, but the demand for electricity has risen (Fjose *et al.*, 2010), which has led to increases in the electricity price that have resulted in its becoming prohibitively expensive for businesses. Given that Zimbabwean SMEs fall within the sub-Saharan region, they are confronted with the same problem. Water and electricity supply has always been a challenge for SMEs in Zimbabwe. Some SMEs have no access to electricity and water, and those that do are negatively affected by frequent power cuts or load shedding (Fjose *et al.*, 2010). To avoid overuse or overexploitation of some transmission lines, the government deliberately switches off power on some transmission grids or lines. Thus, the supply of electricity to SMEs has been unreliable (Chipangura & Kaseke, 2012). Such a situation negatively affects the ability of SMEs involved in manufacturing to fulfil their orders on time. As a result, SMEs can appear to be unreliable suppliers of products and services to their customers (Chipangura & Kaseke, 2012). Local municipalities also sometimes cut the water supply to SMEs due to water shortages (Zimbabwe Institute, 2007; Chipangura & Kaseke, 2012). The GoZ (2010) notes that at Msasa, Luxury and Leather Zimbabwe there is a critical shortage of water and electricity. The tariffs for water and electricity are too high for the SMEs in such

places. The inadequate and unreliable supply of such key services from the parastatals and local authorities stifles production (RBZ, 2014b), and hence SME growth is slowed down.

The World Bank (2006), cited in Karedza *et al.* (2014), notes that the quality of roads and railways, and the supply of electricity and water in both rural and urban areas have deteriorated over the years. Though some national roads or highways are being upgraded, the condition of most of the roads remains deplorable (World Bank, 2006, cited in Zimbabwe Institute, 2007). The government finds it difficult to repair the roads properly due to financial constraints, and water and sanitation facilities are operating at 30 % below capacity (World Bank, 2006, cited in Karedza *et al.*, 2014). Infrastructural shortages and poor services compromise the viability and competitiveness of all Zimbabwean businesses (RBZ, 2014b), including SMEs.

#### **3.6.4 Domestic and international competition**

A study conducted by Madavanhu *et al.* (2011) found that the SME sector in Zimbabwe is also affected by competition from imports. Imports from neighbouring countries such as South Africa, Botswana and Mozambique have flooded the Zimbabwean market, and locally produced commodities are subjected to a high level of competition (CZI, 2010, cited in Chipangura & Kaseke, 2012; Chirisa *et al.*, 2012). Commodities from Asian countries such as China, Dubai and Malaysia are also common on the Zimbabwean market. It is not easy for Zimbabwean SMEs to penetrate Asian or European markets due to the high costs of production (RBZ, 2014c). Therefore, the local market becomes the only option. The challenge is that customers prefer to buy imported goods instead of domestically manufactured products due to competitive prices (Mapaure, 2014; RBZ, 2014c). For example, Chinese clothes and furniture are sold at a quarter of the price charged at market departmental stores or SME shops (Mapaure, 2014). The globalisation of markets has therefore hampered Zimbabwean SMEs' access to markets. It is also difficult for SMEs to carry out a competitor analysis of their international opponents (Chipangura & Kaseke, 2012). It is important to analyse a competitor in order to develop relevant strategies to deal with a competitive environment. International and local large business competitors are experienced and have developed skills and tactics to handle competition, and their products are high quality. Thus, the local manufacturing companies struggle to capture the attention of the local market.

Zimbabwean SMEs also do not use appropriate technology (Gombarume & Mavhundutse, 2014). Product and service quality may not therefore meet international standards, putting the

SMEs at a competitive disadvantage. Financial constraints prevent SMEs from using the latest or the most appropriate technology in manufacturing their products and providing their services (Nyangara, 2013).

Competition from imports mostly affects firms in the manufacturing and processing sectors, and to a lesser extent in the construction and transport sectors (Madavanhu *et al.*, 2011), as it is primarily manufactured products that constitute imports (Chirisa *et al.*, 2012). Transport and construction services are mostly provided by the local people. Therefore, companies in the transport and construction sectors do not face much competition from foreign companies.

### **3.6.5 Lack of information about markets and government support**

SMEs sell products that they see other businesses selling, and usually do so without conducting market research (Dube, 2013). This results in a lack of market information about the needs, demands and preferences of customers. SMEs tend to manufacture and market products that they are able to produce, rather than those that they know they can sell, creating a mismatch between consumer needs and what is supplied by SMEs. Consumer tastes and preferences change over time, and these changes are influenced by product quality and innovation, by increasing consumer knowledge and education, and by the level of competition in the market (Marumbwa, 2014). SMEs that lack information about the market usually sell products and services that are obsolete, resulting in dwindling sales that dramatically affect the survival of SMEs, because cash flow is the prime controller of business viability (UKDBIS, 2013). The health of a business is partly measured by its cash flow.

SMEs also face the challenge of accessing information on government tenders (Chipangura & Kaseke, 2012; Uromi, 2014), and if they are able to obtain information about government contracts, the process of bidding for and being awarded a government tender is cumbersome and discourages SMEs from bidding for government contracts. The government regards public procurement as a way of promoting SME growth (Chingwaru, 2014); however, the lack of information about the contracts and the tender processes prevents SMEs from being participants in the procurement process.

Information about international markets is also not easily accessible for most SMEs, making it difficult to compete at the international level (Dube, 2013). The Zimbabwean government has devised an export-promotion strategy for SMEs that includes subsidising the costs involved in their attending local and international exhibitions and trade fairs (ZITF, 2014; ZimTrade, 2015), facilitating their entry into the EU market through the Zimbabwe-EU

Business Information Centre in Harare (The Standard, 2015), and conducting research and providing information about international markets (ZimTrade, 2011). It is important to note that not all SMEs benefit from these facilities, particularly those located in rural areas. It is urban SMEs that benefit most from these facilities. Rural areas lack the facilities and the communications infrastructure that inform people about government programmes for enhancing SME growth. Rural entrepreneurs visit towns and cities once in a while, and it is therefore difficult for them to keep up to date with what is occurring in the SME sector.

### **3.6.6 The legal and regulatory environment**

Some government laws, regulations and policies tend to stifle SME growth and development (Dawson & Simalenga, 1994, cited in Mhazo *et al.*, 2012; Nyanga *et al.*, 2013). Such statutory instruments are not supportive enough to effect positive changes on SMEs. Government laws, regulations and the taxation system are so hostile that they actually hamper the growth of SMEs (Klapper *et al.*, 2006, cited in Munyanyi, 2013; Nyanga *et al.*, 2013; Karedza *et al.*, 2014).

It is a requirement of the law (Income Tax Act (Chapter 24:06); Finance Act (Chapter 23:04)) that all businesses in Zimbabwe, including SMEs, pay tax (Maseko, 2014). Tax constitutes part of the government revenue that is important for the infrastructural and socio-economic development of the nation. Increasing unemployment and the closure of large companies have made the government turn to SMEs for tax revenue (Mangoro, 2007, cited in Maseko, 2014), as they constitute 90 % of all businesses in Zimbabwe (Goriwondo, 2011 & Ndor, 2013, cited in Maunganidze, 2013).

High taxation has been cited as one of the challenges that stifle SME growth in Zimbabwe (Chipangura & Kaseke, 2012). An unfavourable tax environment forces SMEs to continue to remain small and invisible in the eyes of the central government. Once they become bigger and more formal, they become liable to pay tax, which increases business expenditure (Ishengoma & Kappel, 1997, cited in Chipangura & Kaseke, 2012). In Zimbabwe, there is no difference between the tax rate of SMEs and that of large companies (Kapoor *et al.*, 1997; Maseko, 2014). This discourages SMEs from registering and formalising their business operations. The Zimbabwe Revenue Authority (ZIMRA) moves around cities and towns, and around high-density and low-density suburbs, as well as rural areas, collecting tax from SMEs. These SMEs are already experiencing financial challenges; therefore, forcing them to

pay tax pushes them deeper into a financial crisis, hence hampering their survival and growth potential (Zimbabwe Independent, 2015).

Payment of tax increases business costs (OECD, 2008, cited in Maseko, 2014). SMEs also have to pay tax to local authorities. Such taxes include stamp duties, property tax, business permits and licenses (Maseko, 2014). Increasing the tax burden reduces profitability and the development of SMEs is therefore stifled. SMEs also have the burden of keeping proper and adequate records of taxation.

The documentation required for a business to operate legally is administered centrally in Harare. This includes operating licenses, permits, registration documents, and also the registration of vehicles. There is no decentralisation of service provision in terms of documentation. If an SME is in the transport sector, for example, and needs a route permit for a taxi, a representative needs to go to Harare (Mloyi, 2011). Tender documents are found at the State Procurement Board (SPB) located in Harare. If an SME would like to supply a government ministry or department in Bulawayo, which is approximately 500 km from Harare, the only option is to go to Harare for documentation (Mloyi, 2011). Tender documents are also submitted in Harare. The centralisation of documentation in one city inconveniences SMEs, and is very expensive for them in terms of travel costs (Mloyi, 2011). SMEs in other towns and cities therefore become discouraged from participating in government tender processes.

The procedure for the registration of businesses is a tedious process that is unnecessarily long and expensive. The process of registering a business in Zimbabwe takes approximately 106 days at a cost of US\$780 (World Bank, 2014b). Table 24 below illustrates the registration procedure, the average time taken, and the costs involved in the registration of a business with up to 50 workers.

In sub-Saharan Africa, on average, countries take about 46 days to complete the business registration process (Afrbiz, 2010). Table 24 shows that Zimbabwean SMEs are confronted with many bureaucratic and legal obstacles in the registration of businesses. SMEs therefore become reluctant to formalise their businesses through registration. Such a scenario prevents them from enjoying government support and incentives. Therefore, the registration process is an obstacle to SME growth in Zimbabwe.

**TABLE 24. BUSINESS REGISTRATION PROCEDURE IN ZIMBABWE**

<b>Step</b>	<b>Procedure</b>	<b>Number of days taken to complete</b>	<b>Cost</b>
<b>1</b>	Reservation of company name with the Registrar of Companies	7	US\$5
<b>2</b>	Filing the memorandum and articles of association with the Registrar of Companies	14	US\$105
<b>3</b>	Register with ZIMRA for Income Tax, VAT & PAYE	14	Free of charge
<b>4</b>	Register with the National Social Security Authority for pension & Accident Prevention & Compensation Scheme	Is done simultaneously with procedure 3	Free of charge
<b>5</b>	Register with the Manpower Development Fund	1	Free of charge
<b>6</b>	Obtaining a license application form from the City Health Department	1 (But is done simultaneously with procedure 5)	US\$20
<b>7</b>	Advertisement of the application for a trade and business license in a local newspaper	34	US\$30
<b>8</b>	Submission of an application form for the issuance of a new license to the licensing office (in the local municipality)	34	US\$30
<b>9</b>	The business premises are inspected by the licensing officers to establish if the premises are suitable for the intended use	1 day	Free of charge
<b>10</b>	A trading license is obtained after inspection	1 day	Free of charge

Source: WBG (2014: 1b)

The Environmental Management Act (Chapter 20:27) (2002) restricts the operations of SMEs in the mining sector, as mines have to comply with the Act in the protection of the environment. The Act protects the environment against environmental pollution and degradation. The requirements are so stringent that mining has become difficult for SMEs

(Holder, 2013). The Environmental Management Agency (EMA), a government agency, imposes strict regulations that stifle the operations of SMEs (Chipangura & Kaseke, 2012; Herald, 2013, cited in Maunganidze, 2013). It is a requirement of the Act that the mining SMEs submit an Environmental Impact Assessment Report prior to the commencement of the mining operations. In the report an SME has to state the impact of its operations on the environment and the surrounding communities, and how it may reduce the negative effects (Herald, 2012). An SME must have a plan to monitor and manage the effects of mining on the environment. The report must be approved by the EMA. This is time consuming and expensive for SMEs whose financial resources are limited.

When minerals are sold by SMEs, the government takes a substantial amount of the money. When gold is sold, Fidelity Printers and Refiners takes 15 % of its selling price (Holder, 2013). The 15 % is made up of commission (6 %), royalty (7 %) and presumptive tax (2 %) (Holder, 2013). Fidelity Printers and Refiners is a company that is fully owned by the RBZ, which prints securities, and refines and buys gold from mining companies. The amount taken by them is too much, considering the fact that SMEs incur operational costs during the mining of gold. Therefore, this constitutes an additional cost for SMEs. Increasing costs reduces profitability for mining SMEs, and growth becomes difficult.

### **3.7 INSTITUTIONS, POLICIES AND STRATEGIES TO ADDRESS SME CHALLENGES**

Having realised the importance of SMEs, the GoZ formulated and implemented a multiplicity of policies and strategies in order to address the key challenges confronting the SME sector and to promote its survival, growth and development (Munyanyiwa, 2009, cited in Maunganidze, 2013). Institutions have also been set up to facilitate SME development in Zimbabwe.

#### **3.7.1 Institutions to promote SME development**

The GoZ has identified and established ministries, agencies and financial institutions to enhance the growth of SMEs in Zimbabwe. Such a move indicates the government's commitment to the sector. The Ministry of Industry and Commerce (ZMIC) was initially identified to assist the SME sector before the establishment of the MSMECD (Chivasa, 2014). The MSMECD became responsible for the SME sector in 2002 when it was established

(Chivasa, 2014). SMEDCO was established as the financing arm of the MSMECD, and to provide management, counselling and training to SMEs (Chirisa *et al.*, 2012; Maunganidze, 2013; Manyani, 2014). The Credit Guarantee Company of Zimbabwe (CGCZ), the Zimbabwe Development Bank (ZDB), the Venture Capital Company of Zimbabwe (VCCZ), the Agricultural Bank of Zimbabwe (Agribank) and SMEDCO are the key financial institutions funding SMEs (Chowa & Mukuvare, 2013; Nyoni, 2002, cited in Chingwaru, 2014; Chivasa, 2014).

Agribank is intended to provide financial support to small-scale farmers. SEDCO, CGCZ, ZDB and the VCCZ were established well before the establishment of the MSMECD (Nyangara, 2013). The RBZ also provides loan facilities through commercial banks and FISCORP (Pty) Ltd to support SME development (RBZ, 2005; Nyangara, 2013). ZIMRA, the government revenue authority, also plays a part in supporting the SME sector through education and training on tax issues and the incentives available to SMEs (Mutambanengwe, 2013). The main aims of supporting SMEs are to promote economic growth, to facilitate industrial development, and to reduce unemployment (Chivasa, 2014).

### ***3.7.1.1 The Ministry of Industry and Commerce***

Prior to the formation of the MSMECD, SMEs were placed under the responsibility of the Ministry of Industry and Commerce (ZMIC) (Chivasa, 2014). Between 1991 and 1995, the ZMIC focused more on the implementation of government policy for SME development, and would conduct research, distribute information, and co-ordinate enterprise development programmes. Kapoor *et al.* (1997) note that a number of ministries had departments to support the development of SMEs, including the ministries of National Affairs, Employment Creation and Co-operatives; Local Government, Rural and Urban Development; Public Service, Labour and Social Welfare; Lands and Water Development; Agriculture; Transport and Energy; Education; and the President's Office. Efforts to deal with SME challenges and to promote SME development were ineffective because each ministry and department did what it thought would assist SMEs without consultation with other ministries or departments, resulting in a lack of communication and co-ordination among the government departments and ministries (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007). Such a scenario could not effectively address the obstacles faced by SMEs.

Even if the MSMECD is now directly responsible for SMEs, the ZMIC still has a role to play in promoting the growth of the sector. The ZMIC promotes SME access to regional and

international markets through negotiating bilateral and multilateral agreements, provides information about foreign markets, and organises international trade fairs, missions and exhibitions for Zimbabwean companies, including SMEs (ZMIC, 2011, 2015). The ministry is also involved in enhancing the quality of products and promoting the competitiveness of SMEs involved in international trade through ensuring that the products and services meet international standards (ZMIC, 2011).

### ***3.7.1.2 Small and Medium Enterprise Development Corporation (SMEDCO)***

The Small Enterprise Development Corporation (SEDCO) was established in 1984 by the SEDCO Act of Parliament (Chapter 24:12) as a parastatal under the MSMECD to offer effective assistance to SMEs in the form of financial assistance, management counselling and training, and information and advice on business issues (SEDCO Act, 2001; Zimbabwe Association of Microfinance Institutes (ZAMFI) & SNV Netherlands Development Organisation (SNVNDO), 2009; Chirisa *et al.*, 2012; FinScope, 2012; Manyani, 2014; GoZ, 2015). On 7 February 2014, the name of the corporation changed from SEDCO to the Small and Medium Enterprises Development Corporation (SMEDCO) (SMEDCO, 2015). This occurred after the publication of Statutory Instrument 34 of 2014, the SMEDCO Act (Chapter 24:12) (SMEDCO, 2015). The change was in line with the MSMECD's decision to assist medium enterprises, and not only small enterprises. The government has supported SMEs through SMEDCO so as to increase industrial production, provide employment for the jobless, and promote economic growth (Mumbengegwi, 2007, cited in Ijeoma & Matarirano, 2011). The corporation provides the finances needed for fixed and working capital for SMEs to use to grow their businesses (Chivasa, 2014; Manyani, 2014). The interest rate for the loans was fixed by government at 25 % per annum (Kapoor *et al.*, 1997). For business people in the SME sector to access the loans, they were expected to provide collateral security. The need for collateral meant that not every business person could access the loans (Chikomba *et al.*, 2013), as some did not have the required collateral. This suppressed the growth of SMEs, as the financial challenge could not be adequately addressed.

In the early years of its establishment, SMEDCO was involved in leasing machinery and equipment for short-term (three months), medium-term (12 months) and long-term (24 months) periods. However, only SMEs that were already financially strong could afford access to the leased machinery and equipment (Kapoor *et al.*, 1997), as it was generally too expensive for emerging businesses. Furthermore, when SMEs leased equipment for very long

periods, other businesses did not have access to it. Thus, the efforts of SMEDCO at this time were ineffective in addressing SME challenges.

The First Report of the Portfolio Committee on Youth, Gender and Women Affairs (2007) indicates that SMEDCO received an allocation in the 2007 National Budget to enable it to lend money to the SMEs, but the funding could not fully be accounted for. This raised questions about the transparency mechanisms in place to ensure that the intended beneficiaries of the programme actually benefited. According to the Portfolio Committee (2007), a large part of the budget allocation was being used for salaries and administration costs (Zimbabwe Parliament Portfolio Committee on Youth, Gender & Women Affairs, 2007). Thus, insufficient financial resources were available for lending to the SMEs.

The Zimbabwe Parliament Portfolio Committee on SMEs (2009) indicates that SMEDCO had no budget allocation in 2010 as the government was working on a shoe-string budget due to the unfavourable macroeconomic environment; therefore, SMEs had nowhere to borrow money. In the report the Committee expressed concern that the interest rates charged by SMEDCO were too high, and noted that SMEs had complained about that (Maunganidze, 2013). Some SMEs could not repay the loans due to high rates of interests, and some entrepreneurs lost assets they had used as collateral to obtain the loans (Maunganidze, 2013). In 2012, SMEDCO was allocated US\$200 000, which was not enough to support SMEs effectively in that year (Maunganidze, 2013). In 2013 the budget allocation for SMEDCO decreased by 3.6 % (GoZ, 2014). The allocation of US\$300 000 for infrastructural development for SMEs was inadequate, as SMEDCO had many projects to be run that needed much more funding (GoZ, 2014). Regardless of the inadequate funding, the corporation has continued to provide loans from US\$500 to US\$5 000 (FinScope, 2012). However, the late disbursement of funds from the Ministry of Finance further cripples the operations of SMEDCO (GoZ, 2014). It is against this background that SMEDCO has not been able to address the financial challenges confronting SMEs in Zimbabwe effectively. That partly explains why finance has continued to be an obstacle to the SME sector.

Whilst it is clear that SMEDCO has failed to address SMEs' financial challenges, it has achieved successes in some areas. SMEDCO has played a critical role in the construction and provision of factory space for SMEs. Examples include Nyika Growth Point, Gweru (Mkoba), Chitungwiza and Gazaland in Harare, and Bindura Artisan Hives in Bindura (Bohwasi & Mukove, 2008; Mhuka, 2011; SMEDCO, 2015). SMEDCO has also provided entrepreneurs with access to machinery in Chitungwiza, where it has machinery for metal fabrication and woodwork provided by the Indo-Zimbabwe Project (Chirisa *et al.*, 2012; SMEDCO, 2015). The Chitungwiza factory (Litefold Engineering), a company owned by SMEDCO which

started operating in 2008, is a profit-generating entity (SMEDCO, 2015) but trains SMEs using the latest technology (Mabhanda & Kurebwa, 2013). SMEDCO also promotes SME access to markets through the creation of linkages (SMEDCO, 2015). SMEs are linked to suppliers, customers, and large companies in similar businesses. Such a move strengthens the position of SMEs.

Regardless of the high interest rates and the need for collateral, SMEDCO managed to advance loans to 4 900 SMEs in 2010 (Moyo, 2011), even though funding from the National Budget was inadequate. The government agency could not financially assist all the SMEs, but managed to support some entrepreneurs even if it was grossly underfunded. Therefore, the role of SMEDCO in this regard needs to be appreciated. Even today SMEDCO continues to offer loans and technical services (Mhizha, 2014), notwithstanding the fact that it lacks adequate resources itself.

SMEDCO has also been involved in business incubation (Bohwasi & Mukove, 2008; Mhuka, 2011; Chirisa *et al.*, 2012) in centres such as Gazaland (Harare Province), Gweru (Midlands Province), Nyika (Masvingo Province) and Bindura (Mashonaland Central Province) (SMEDCO, 2015). Business incubation provides SMEs and those starting their businesses with a suitable environment to develop and grow their businesses. The objective of incubation is to enhance a business's chances of success, shorten the development period, and reduce the costs of starting and growing a business (Diogenes Business Incubator, n.d.). Since SMEDCO has been grossly underfunded, its incubation activities have been negatively affected. Therefore, some of its structures, like the one at Gazaland, are being rented out to SMEs. Hence, SMEDCO has not been very effective in business incubation in its own centres, except at the Chitungwiza factory.

### ***3.7.1.3 The Credit Guarantee Company of Zimbabwe (CGCZ)***

The Credit Guarantee Company of Zimbabwe (CGCZ) was established in 1977 after it was realised that SMEs, particularly those owned by the indigenous population, were battling to access credit finance from the formal banking system due to a lack of adequate collateral security (Reserve Bank of Zimbabwe (RBZ, 2007b). With the advent of Zimbabwe's independence in 1980, the new government saw the need to set up the CGCZ, and it has continued to operate as an institution for providing funding to SMEs (Chivasa, 2014).

The Reserve Bank of Zimbabwe and five commercial banks formed the Finance Trust to assist viable emerging businesses (Gangata & Matavire, 2013). The commercial banks

provided loans at concessional rates to viable SMEs, while the Reserve Bank provided guarantees of 50 % in the event of the borrower defaulting (RBZ, 2007b). The CGCZ could guarantee up to 75 % if the business was owned by a woman (RBZ, 2007b). The extra 25 % guarantee was provided by a Canadian International Development Agency (CIDA) (Kapoor *et al.*, 1997). CGCZ also disbursed Z\$400 million which was provided in 1994 under the Small Business Sector Facility at an interest rate of 5 % at a time when the market lending rate exceeded 35 % (RBZ, 2007b).

However, the funds were inadequate as a large number of SMEs needed funding. Given the fact that the loans were highly subsidised, the interest rate charged was artificially low, and was in fact the lowest interest rate on the market (Mago, 2013). Mago (2013) further observes that some SMEs regarded the loans from government agencies as “gifts” and did not feel that they had to pay them back. Some borrowers could not repay the loans, and some paid them back after a long time when the money was of no value due to inflation. The money could not therefore revolve to other SMEs who were in need of funding.

#### ***3.7.1.4 Zimbabwe Development Bank (ZDB)***

The Zimbabwe Development Bank started its operations in 1984 for the purpose of providing debt finance to SMEs (Kapoor *et al.*, 1997; Sibanda, 2005; ZAMFI & SNVND0, 2009; Nyangara, 2013). As much as the ZDB was keen to assist SMEs, it was heavily crippled by a lack of adequate financial support from the state. Before accessing debt finance, SMEs were expected to provide collateral, which the majority did not have. Some SMEs could not repay the loans that were advanced to them by the ZDB. The bank was established for the purpose of addressing the financial challenges of SMEs. However, it could not meet expectations due to limited finances and did not fulfil its mandate. Therefore, the ZDB as a strategy to support SMEs became ineffective.

The bank was transformed into the Infrastructure Development Bank of Zimbabwe (IDBZ) in 2005 through the IDBZ Act (Chapter 24:14) after the amendment of the ZDB Act (IDBZ, 2013). The amendment of the ZDB Act led to the broadening of the mandate of the IDBZ to include the provision of financial support to businesses in the transport and construction industries (ZAMFI & SNVND0, 2009; GoZ, 2015; Norsad Finance, 2015). In addition to providing finance, the IDBZ became involved in the leasing of equipment and other assets to businesses (ZAMFI & SNVND0, 2009). Therefore, the bank focuses on long-term

infrastructural development and finance (IDBZ, 2013), and SME development through funding and technical assistance (FinScope, 2012; Norsad Finance, 2015).

Between 2000 and 2008, Zimbabwe experienced an economic crisis (ZEPARU, 2013) which crippled the operations of the IDBZ. During the period in question, the macroeconomic environment was characterised by hyperinflation, high interest rates on loans, a liquidity crisis, and a critical shortage of foreign currency that rendered the financial sector ineffective, and the IDB was subject to these pressures. Such an economic climate made it difficult for SMEs to access credit finance from the IDBZ.

Currently, the IDBZ concentrates on the development of infrastructure such as houses, large company offices and commercial banking activities at the expense of SME support in the form of loans (ZAMFI & SNVND0, 2009; Chenga, 2015). Support for SMEs is no longer its main focus, and it could be argued that the IDBZ has neglected SMEs.

### ***3.7.1.5 The Agricultural Finance Corporation (AFC) and Agricultural Bank of Zimbabwe (Agribank)***

Prior to independence there were no meaningful credit facilities that were available to smallholder farmers (Malaba, 2005). After independence, the Agricultural Finance Corporation Act was passed in 1980, mandating the Agricultural Finance Corporation (AFC) to make more funds available to smallholder farmers under the small-farm credit scheme (Development Bank of Southern Africa (DBSA), 2012). Communal, resettled and small-scale commercial farmers had access to the AFC's credit facilities (Malaba, 2005; DBSA, 2012), and the AFC concentrated on assisting communal, resettled and small-scale commercial farmers who farmed full-time, had land to work on, and held a marketing card that would enable them to market their produce (DBSA, 2012). The marketing card would enable the farmers to market their produce to the government's marketing boards such as the Grain Marketing Board (GMB) and the Cotton Marketing Board (CMB).

In the 1985/1986 agricultural season, the AFC provided over 100 000 loans to both large and small-scale commercial farmers in Zimbabwe (Malaba, 2005; DBSA, 2012). As a result, 45 % of the maize sold to the GMB was produced by communal, resettled and small-scale commercial farmers (DBSA, 2012). Between 1981 and 1985 there was a high default rate on the loans advanced to small-scale commercial farmers (Malaba, 2005). Farmers had poor harvests because a significant number of them were still developing their skills. Due to the high default rate, the AFC, with the assistance of the World Bank, introduced a group-lending

pilot scheme for three years, from 1987 to 1989. This was successful and became the main means of making finance available to smallholder farmers between 1990 and 1995.

The main challenge that the AFC faced was the high default rate on their loans (Malaba, 2005). It is against this background that the growth of SMEs in the agricultural sector became compromised, because the available funds were not revolving and the AFC had no extra financial resources to continue supporting the farmers. That could explain why financial challenges are still so evident among SMEs in the agricultural sector. The policy initiatives at this time emphasised the provision of credit facilities without considering training the farmers on how they were supposed to handle the financial resources. Some of the beneficiaries of the credit schemes did not have an understanding of commercial agriculture. Under such circumstances, efforts to grow SMEs were not successful.

The AFC provided finance for small-scale agricultural projects for the purchase of agricultural equipment and other inputs (Kapoor *et al.*, 1997; ZAMFI & SNVND0, 2009). Medium-term finance was provided after the payment of a deposit of 25 % of the loan (Kapoor *et al.*, 1997). The challenge with this condition was that some of the small-scale farmers could not afford to pay 25 % of the loan, even though they were deeply in need of finance. This condition risked crippling the development of SMEs in the agricultural sector.

The government transformed the AFC into the Agricultural Bank of Zimbabwe (Agribank) in 1996, which started operating fully in 2000 (Malaba, 2005; DBSA, 2012; Herald, 2013) with the primary purpose of offering credit finance to communal, resettled, small-scale and commercial farmers (ZAMFI & SNVND0, 2009; CPI Financial, 2013; Herald, 2013). Agribank was registered as a commercial bank in terms of the Banking Act (Chapter 24:20) (ZAMFI & SNVND0, 2009; Herald, 2013). The Bank works with the Tobacco Industry Marketing Board (TIMB) to provide smallholder tobacco growers with credit finance (CPI Financial, 2013).

The government introduced the Agricultural Input Procurement Scheme (AIPS), which was used for the purchase of seeds, fertilisers, herbicides and pesticides (Ijeoma & Matarirano, 2011). The funds for these agricultural inputs were disbursed through Agribank. There was also a mechanisation programme that made farm implements and tractors available to farmers who were newly resettled (Mumbengegwi, 2007, cited in Ijeoma & Matarirano, 2011). Loans were extended to SME farmers for the purchase of machinery at concessionary rates (Mumbengegwi, 2007, cited in Ijeoma & Matarirano, 2011). Agribank, on behalf of the RBZ, disbursed funds to small-scale farmers under the Public Sector Investment Programme (PSIP). This funding did not require collateral as the loans were guaranteed by the

government (ZAMFI & SNVND, 2009). However, less than 50 % of the loans were repaid (ZAMFI & SNVND, 2009), indicating a high default rate. Currently, the bank has capitalisation problems, partly due to the non-repayment of the loans advanced to small-scale farmers.

Agribank has faced a multiplicity of challenges. Because it was not adequately capitalised, it has inadequate working capital and has performed poorly. The loans extended to farmers have not been paid back (Kapoor *et al.*, 1997; Malaba, 2005; ZAMFI & SNVND, 2009), and between 2002 and 2003 the government did not provide funding for the Bank, which incurred losses of between Z\$374 million and Z\$1.7 billion (Malaba, 2005). Agribank became too financially weak to finance SMEs in the farming sector. Malaba (2005) observes that inappropriate micro and macroeconomic policies led to foreign-exchange shortages as well as shortages of fuel and electricity. Seed and fertilizer were also in short supply. Inflation levels were high — in June 2004, for example, inflation was at 164 % (Malaba, 2005). All these factors militated against the growth of the SMEs in the agricultural sector. This partly explains the poor performance of the farming sector in Zimbabwe.

Agriculture is the mainstay of the Zimbabwean economy and 70 % of the population live in rural areas and rely on agriculture, but only 5–10 % of SMEs involved with farming have had access to credit (Matunhu & Mago, 2013). Most rural areas lack financial intermediaries to make the financial resources available to smallholder farmers (RBZ, 2007b; Matunhu & Mago, 2013; ZEPARU, 2013). Under such circumstances it is not surprising to note that most SMEs in this sector fail.

### ***3.7.1.6 The Reserve Bank of Zimbabwe (RBZ)***

Towards the end of 2004 and June 2005, the Reserve Bank of Zimbabwe made available loan facilities for livestock production, irrigation, mechanisation, crop production, and tobacco ban rehabilitation, and also funded programmes such as the Agribank Tobacco Scheme (Z\$240 billion), the Winter Wheat Programme (Z\$480 billion) and the Public Sector Investment Programme (Z\$410 billion) (RBZ, 2005). All these programmes were focused on assisting SMEs in the agricultural sector. The interest rate on the loans was 20 % and the repayment period was 180 days (RBZ, 2005).

In the 2004–2005 agricultural season, farmers found it difficult to repay loans due to the devastating drought, and some farmers wilfully defaulted on their repayments (Malaba, 2005). Some of the farmers who received the loans bought expensive cars instead of investing

in the land, while others did not have the required skills and knowledge about farming (GoZ, 2014). Thus, valuable resources were wasted. Small-scale farmers were assisted with fertilizers, chemicals, seed, and fuel (diesel) for ploughing, but the majority of the farmers sold these inputs to get money. The policy makers did not devise an effective monitoring system to ensure that all the inputs were used for production purposes. Therefore, the poor performance of the agricultural sector could be further attributed to a lack of farming skills, the improper use of resources, as well as natural factors such as drought.

In 2006, the RBZ devised a measure to help address the financial challenges confronting the SME sector, and made Z\$16 trillion available to promote activities and projects in the sector (RBZ, 2006a). The interest rate was 70 % per annum. The RBZ (2006a) notes that the funds were allocated to provinces in accordance with their population size and their level of economic activity. The activities funded included agri-processing, construction, mining, and animal husbandry and poultry. The rate of interest charged on the loans (70 %) was unsustainably high for the SMEs and was not conducive to the development of SMEs.

The RBZ also introduced the Agricultural Sector Productivity Enhancement Facility (ASPEF). The scheme provided subsidised credit finance to farmers with the aim of improving food security (Ijeoma & Matarirano, 2011). Loans obtained through the scheme assisted farmers in buying farming inputs such as fertilisers, chemicals and seed (DBSA, 2012).

In its 2013 monetary policy statement, the RBZ stated that banking institutions would be required to design their portfolios in such a way that loans to the SME sector would constitute at least 30 % of the total loan book. The RBZ would conduct monthly assessments to monitor compliance, and failure to comply would attract severe penalties. This policy places much emphasis on financial support and pays little or no attention to other critical aspects, such as skills training and development in various areas of management. Financial support alone may not yield the anticipated result of achieving SME growth and development. The failure of SMEs in Zimbabwe is due to a multiplicity of factors which need consideration. Since 1991, SMEs have had access to various forms of financial support but most of them have still failed (Mudavanhu *et al.*, 2011).

### ***3.7.1.7 Ministry of Small and Medium Enterprises and Co-operative Development (MSMECD)***

The establishment of the MSMECD in 2002 occurred after policy makers realised the importance of the SME sector (Chirisa, *et al.*, 2012). The MSMECD was established for the purpose of creating and maintaining a conducive environment for the development of SMEs, in order to facilitate economic growth and the creation of employment (Chirisa *et al.*, 2012; Chivasa, 2014; Mushanyuri, 2014). To this end, the MSMECD was tasked with addressing issues that negatively affect the growth of SMEs, and with developing policies to enhance the development of the sector. The MSMECD had two funds that it disbursed through SMEDCO: the Productive Sector Fund (PSF) and the SME Fund (SMEF) (Chirisa *et al.*, 2012). The PSF was intended for large businesses, while the SMEF was specifically for SMEs. Part of the SMEF (25 %) was earmarked for the rural sector (MSMECD, 2005). In its 2007 report to the Portfolio Committee on SMEs, the MSMECD stated that it had engaged in a lot of activities, including marketing and trade promotions, training workshops, the SME study, the construction of infrastructure and the relocation of SMEs to the infrastructure, and the construction of factory shell in Gwanda and Bindura (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007).

In its first report to parliament in November, 2007, the MSMECD presented figures on how it had used the financial resources allocated to it in the National Budget, but most of its achievements existed purely on paper, and there was no evidence on the ground (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007). The Portfolio Committee on SMEs observed that the MSMECD was virtually non-existent on the ground, and that only a few people were confirmed to have benefited from its operations (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007). People in rural areas did not have access to the MSMECD, as it only had offices in towns and cities. Therefore, only a few entrepreneurs in urban areas benefited from the services of the MSMECD. The 65 % rural majority of Zimbabwe's population did not benefit from the services of the ministry (Bohwasi & Mukove, 2008; ZimStats, 2012). The MSMECD (ZMIC, 2011) stated that an officer had been stationed in every district to assist the development of SMEs. However, a district is too big for a single officer to attend effectively to all the SMEs that need assistance. This setup was not effective in addressing the challenges confronting SMEs.

The Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007 (2007) also noted with regret that there was replication of functions in some ministries. This was the case with the MSMECD and the Ministry of Women Affairs, Gender and

Community Development (MWAGCD). The duplication of activities led to confusion on the ground and the ineffective utilisation of scarce resources. According to the Portfolio Committee's report, these two ministries were grossly underfunded, which partly accounted for the ineffectiveness of the MSMECD. From the foregoing, it can therefore be concluded that the MSMECD could not effectively deliver on its mandate after it was established.

The operations of the MSMECD have continued to be crippled due to inadequate funding from the national budgets. In 2013, the MSMECD had budgeted for US\$9 479 000, but was allocated US\$3 605 977 by the Ministry of Finance (GoZ, 2014). Therefore, what the MSMECD had planned to do for SMEs during that year could not be adequately executed due to inadequate funding. In the National Budget Statement of 2014, the MSMECD needed US\$81 269 937 but was allocated US\$8 695 000 (GoZ, 2014; Makoshori, 2014). The ministry could therefore no longer consider certain activities planned for that year, such as training SMEs, building shelter for SMEs, and providing funding for SMEs through SMEDCO. Maunganidze (2013) observes that in every budget statement the MSMECD has been underfunded, because it is not viewed as a very important ministry. Such an attitude towards the MSMECD hampers its operations and planning, and its effective development of the economy through supporting SMEs.

Even though its funding from the National Budget was inadequate, the MSMECD managed to make significant achievements in 2013. The ministry provided shelter to 6 363 SMEs, trained 11 936 SMEs, acquired buildings for business incubation, and mobilised US\$4 million from development partners (GoZ, 2014; Makoshori, 2014). The financial resources mobilised were used for the growth of SMEs. However, the MSMECD's performance could have been much better had it received adequate funding.

The MSMECD is also involved in capacitating SME associations so that they are able to play a role in dealing with the issues negatively affecting SMEs (ZMIC, 2011). These associations have been identified as important for the advancement of SMEs through their promotion and development of markets, sourcing of loan capital and equity investors, and education and training (ZMIC, 2011). Associations are also important in that they can lobby the government, municipalities and other relevant authorities for policies, programmes and strategies that encourage SME growth.

The SME Act was passed in 2011 (ZMIC, 2011), and it guides the MSMECD in the formulation of programmes and strategies for SME development. The Act mandates the Minister to develop schemes that promote SMEs in Zimbabwe. One of the important provisions of the Act is that 25 % of state contracts for goods and services must be allocated

to SMEs. The intention is to empower SMEs and provide them with opportunities to grow their own businesses. However, the challenge has always been that the government takes time to pay its debts. The Act also provides for an advisory council to conduct research into issues that negatively affect SME development and then advise the Minister accordingly.

### **3.7.2 Government partnership with other countries and non-governmental organisations**

The Zimbabwean government realised that they could not successfully promote the growth of SMEs alone, and have therefore partnered with other governments and NGOs. Assistance rendered to SMEs in Zimbabwe has been in the form of equipment, finance, and training, and countries that have been instrumental in supporting Zimbabwean SMEs include China, India, and France (GoZ, 2008; Dube, 2011; NewsDay, 2011a; ZMIC, 2011; Kazunga, 2013; Mandizha, 2014). The UN through Empretec have played a critical role in promoting SME growth in Zimbabwe (Empretec, 2011). Foreign development financial institutions that have funded Zimbabwean SMEs are the China Development Bank (CDB), the Arab Bank for Economic Development in Africa (BADEA), and Promotion et Participation pour la Co-operation Economique (PROPARCO) (Dube, 2011; GoZ, 2015).

#### ***3.7.2.1 Government partnerships with other countries***

Zimbabwe and India signed a Memorandum of Understanding in 2006 in which the Indian government promised US\$5 million for the development of SMEs in Zimbabwe (GoZ, 2008). Equipment to the value of US\$4 million was procured from India to be used by SMEs. The project was initiated by the GoI, and was embraced by Zimbabwe (ZMIC, 2011). The project aims to achieve technology transfer through the introduction of new technologies in the areas of carpentry and metal fabrication, and also aims to give SMEs access to machinery that individuals cannot afford. The Indo-Zimbabwe technology centres were first established at the Harare Institute of Technology, the Bulawayo Polytechnic College, and SMEDCO's Chitungwiza factory shells (GoZ, 2008; Kangondo, 2012). More technology centres have been established in Chinhoyi, Harare, Bulawayo, Gokwe, Marondera, Magamba, Plumtree, and Lupane for the purpose of assisting SMEs in product development (ZMIC, 2011).

The training centre at the Harare Institute of Technology offers SMEs the opportunity to access training in technology programmes to improve their skills and knowledge affordably

(GoZ, 2008; Kangondo, 2012). The GoI dispatched a team of experts to assist with training and to ensure the proper transfer of technology to SMEs in the manufacturing sector. The quality of the products manufactured by SMEs, like furniture and grinding mills, has significantly improved (ZMIC, 2011), and companies are going to the Indo-Zimbabwe Technology Centre (Harare Institute of Technology) to source spare parts for machinery. This is in line with the Medium-Term Plan (2011–2015), which seeks to establish industrial incubation centres to enable the development of innovations in collaboration with universities and research institutions.

The GoZ, through the MSMECD, has also entered into an agreement with India's NSIC to establish an incubation centre (Daily News, 2012; Mandizha, 2014). The incubation centre is worth US\$2 million and is intended to transfer technology to SMEs (Kazunga, 2013; Mandizha, 2014; Maromo, 2015). This agreement was mentioned in the 2013 National Budget Statement in which the Ministry of Finance indicated that the government was working jointly with the GoI in facilitating the transfer of technology through incubation (Daily News, 2012). For the establishment of the India-Zimbabwe Africa Incubation Centre (IZAIC), the GoZ has contributed US\$1 million and India has contributed the same amount (Mandizha, 2014). Mandizha (2014) observes that the centre is meant to promote technology transfer in southern Africa, and focuses on manufacturing SMEs (Maromo, 2015). The incubation centre covers 27 disciplines whose projects include baking, manufacturing toilet paper, canning tomatoes, drying vegetables, making plastic containers, and making solar panels (Kazunga, 2013; Mandizha, 2014; Maromo, 2015). Such a facility reduces the cost of starting a new business, and reduces the chances of the business failing, as advisory services are provided and SMEs are introduced to world-class technology (Tsai *et al.*, 2009; Kangondo, 2012; NewsDay, 2012). Studies conducted in the U.S. reveal that 87 % of businesses that go through an incubation process persevere and ultimately succeed in business (Kangondo, 2012).

In 2011, the China Development Bank (CDB), a wholly Chinese government-owned financial institution, extended a credit facility of US\$30 million to the IDBZ for the support of SMEs in Zimbabwe (Dube, 2011). Such assistance is a result of socio-economic and political co-operation between the governments of China and Zimbabwe. US\$10 million of the loan was intended for capital expenditure that benefits SMEs, while US\$20 million was intended for working capital (Dube, 2011; NewsDay, 2011b). Loans were disbursed to SMEs at an interest rate of 10 % per annum for a period of five years. The repayment period provided SMEs with a form of long-term finance. However, the bank requirements were so stringent that some SMEs could not access the loans (Dube, 2011). Dube (2011) further notes that SME owners

loyal to the ruling party, ZANU PF, were the ones who were able to access the loans. Therefore, SME owners who were non-partisan or were inclined towards the opposition could not access the loans. This excluded SMEs that could effectively contribute to the country's economic development.

### ***3.7.2.2 Government partnership with non-governmental organisations***

Another strategy that has been adopted is the creation of strategic partnerships with NGOs to support the SME sector, after the government realized it could not effectively address all the challenges faced by SMEs alone. According to the MSMECD (ZMIC, 2012), resources are being mobilised through partnerships with the private sector and NGOs in an endeavor to address the financial challenges confronting small-scale farmers and agri-businesses. SME support has become the shared responsibility of the MSMECD and TechnoServe in relation to the provision of financial support to the small-scale farmers and agri-businesses (ZMIC, 2012).

Further partnerships have also been forged with Empretec Zimbabwe, an NGO that was established in 1992 (Empretec, 2011) by the UNDP and the GoZ. As explained in its policy document, the mandate of Empretec is to develop an entrepreneurial culture among the people and to work closely with the relevant government ministries (UNCTD, 2012). Empretec is engaged in the entrepreneurship development process in Zimbabwe and is always in dialogue with ministries such as the Ministry of Economic Planning and Investment Promotion, the MSMECD, and the Ministry of Education. Empretec Zimbabwe has assisted women in the arts and culture sector to penetrate foreign markets through designing proposals for women-empowerment programmes (Empretec, 2011).

In its efforts to assist SMEs in Zimbabwe, Empretec has achieved spectacular successes that includes the training of 15 000 entrepreneurs (85 % of whom have established vibrant businesses or have expanded them, and 35 % of whom are exporting goods), and creating over 20 000 jobs (Empretec, 2011). Therefore, since 1992 many of the entrepreneurs who are successful today have passed through the hands of Empretec Zimbabwe. Empretec has started training youth aged 18–35 years so that they can impart entrepreneurial skills. The partnership with Empretec has therefore managed to yield meaningful results. Therefore, this strategy can be considered a success (Ncube, 2013).

Some foreign development finance institutions have partnered with the Zimbabwean government to support the SME sector. PROPARCO, a French development finance

institution which is owned by the French Development Agency and some private shareholders, has provided financial resources for the development of Zimbabwe's SMEs (GoZ, 2015). In 2014 the institution provided loan facilities to the National Merchant Bank of Zimbabwe Limited (NMB) and the Central African Building Society (CABS) worth US\$20 million for the support of SMEs (GoZ, 2015). The loan facilities, which are five years in duration, have provided much needed long-term financing for the growth of SMEs.

The Zimbabwean government has also sourced funds from foreign international financial institutions in order to fund SMEs. One such institution is the Arab Bank for Economic Development in Africa (BADEA). BADEA is an independent international financial institution that is owned by eighteen Arab countries in the League of Arab States. In February 2011, the GoZ entered into an agreement with BADEA for a loan facility of US\$5 million (GoZ, 2015). The government and the Commercial Bank of Zimbabwe (CBZ) were to contribute US\$5 million each to the SME fund so that the amount available for loans to SMEs would be US\$15 million (GoZ, 2015). At the end of September 2014, SMEs received a total of US\$7 884 204 from the loan facility (GoZ, 2015). Table 25 below illustrates the distribution of the funds to SMEs per sector.

**TABLE 25. DISTRIBUTION OF BADEA PARTNERSHIP LOANS TO SMES PER SECTOR**

<b>Sector</b>	<b>Amount (US\$)</b>
Agriculture	4 954 704
Manufacturing	1 172 500
Services	835 000
Distribution	372 000
Tourism & hospitality	345 000
Construction	205 000
Transport	
<b>Total amount</b>	<b>7 884 204</b>

Source: CBZ Limited, cited in GoZ (2015: 59)

The information in Table 25 indicates that the agricultural sector received the largest portion of the amount, which could be considered appropriate since the Zimbabwean economy is agri-based and 65 % of the population is located in rural areas where they depend on the land for survival (ZimStat, 2012). In the urban areas, the government is placing a great deal of emphasis on the manufacturing sector to boost the economy. Therefore, SMEs in the manufacturing sector received more than the other sectors operating in urban areas. The transport sector could not benefit from the loan facility. Table 25 indicates that the GoZ's partnership with BADEA has assisted SMEs through funding.

### **3.8 OTHER POLICIES AND STRATEGIES**

In addition to establishing institutions and creating partnerships with other governments and NGOs, the GoZ has also implemented various other policies and strategies with the aim of promoting economic development through SME growth. Establishing the Medium-Term Plan (which ran from 2011–2015), granting tax holidays for companies in the Export Processing Zones, promoting SME access to local and international markets, encouraging SME participation in the public procurement process, and involving HEIs in SME development were some of the steps taken by the GoZ to support SMEs.

#### **3.8.1 The Medium-Term Plan (2011–2015)**

The Medium-Term Plan was established to render support to viable pro-poor projects by providing SMEs with financing (GoZ, 2011). The major challenge faced was the limited availability of funds in micro-finance institutions and banks, as these were the institutions intended to fund the programmes under the plan. The objective of the policy was to create a conducive environment for SMEs to grow and develop so that they could make meaningful contributions to the economic development of Zimbabwe. According to the GoZ (2011), the policy targets included increasing market opportunities for SMEs by 2012, and improving SMEs' access to infrastructure through the construction of vendor markets, as well as factory shells and flea markets, by the end of 2011. Financial packages and incentives targeting disadvantaged groups, including women, the youth, rural SMEs, and disabled people (GoZ, 2011), were introduced. The promotion of value addition and technology transfer, so that SMEs could export to regional and international markets, was also one of the critical policy goals.

Policy measures or strategies were established in order to realise the targets. The MSMECD provided training in business planning, management, and financial management (GoZ, 2014). Such training was considered a necessity in order to ensure the effective utilisation of the resources allocated to the SMEs. In the past, the focus had been on the provision of finance, without little consideration given to equipping the entrepreneurs with the requisite skills critical for business success.

Another policy strategy has been to restructure and commercialise SMEDCO so that it becomes responsive to market demands (GoZ, 2011). However, the challenge with the commercialisation of SMEDCO is that its interest rates on loans will be charged at market rate, since the philosophy behind commercialisation is profit generation. According to the First Report submitted to parliament by the Portfolio Committee on SMEs in November, 2007, SMEs have already been complaining about the high interest rates on loans issued by SMEDCO (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007). Once SMEDCO commercialises, interest rates on loans could be even higher than before. Therefore, SMEs may not be able to access the loans because they will be expensive to repay, and this may stifle SME growth. Such a move may not address the financial challenges confronting SMEs in Zimbabwe at the moment.

SMEDCO also plays a role in the training of SMEs in Zimbabwe's towns and cities (FinScope, 2012; GoZ, 2015; SMEDCO, 2015). Training takes place at its Chitungwiza factory shells (SMEDCO, 2015). The commercialisation of SEDCO could mean that this training will become prohibitively expensive for SME owners. Under such circumstances technology transfer becomes compromised and ineffective (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women's Affairs, 2007).

The provision of workspace for SMEs through the construction of vending stalls, sanitary facilities, and factory shells is another policy strategy (ZMIC, 2011). For a long time, infrastructure has been a challenge for SMEs (Maunganidze, 2013; Gombarume & Mavhundutse, 2014; Karedza *et al.*, 2014). This strategy may go a long way in addressing the challenge of inadequate infrastructure that has stifled the growth of the sector for a long time. However, the policy emphasises the manufacturing and retail sectors, and does not make mention of SMEs in the agricultural and mining sectors of the economy. Approximately 65 % of the Zimbabwean population is found in rural areas (ZimStat, 2012), and these people are actively involved in agriculture and mining. The policy should focus on SMEs in all sectors of the economy, and should deal with challenges faced by the various sectors.

Creating an awareness of regional and international markets is a further policy strategy (GoZ, 2011). This entails providing information on regional and international markets. In 2010 some SMEs participated in the Business Expo in China while some attended a regional business exhibition in Zambia. ZimTrade, the national trade promotion organisation, provides an Export Marketing Training Programme for SMEs with a view to inculcating an export culture within these SMEs (ZMIC, 2012). The MSMEDC also arranged for its members to participate at the ZITF in Bulawayo (Chirisa *et al.*, 2012). There have therefore been multiple efforts to expose SMEs to regional and international markets. The policy also focuses on promoting links between SMEs and large, established companies through facilitating subcontracting arrangements between them (GoZ, 2011). Such linkages would enable SMEs to grow and develop.

### **3.8.2 Promotion of access to local and international markets**

The Export Processing Zone Authority (EPZA) was established in 1996 (Jauch, 2003; KPMG, 2013) for the purpose of promoting the export of manufactured and processed goods and services, stimulating economic growth, and generating employment through the creation and administration of Export Processing Zones (EPZs) (UNDP, 2010, cited in Gumbe & Chaneta, 2014). EPZs were demarcated geographical areas within which the regulation of business activities and specific policies applied to companies specialising in products and services for export, were different from those applied to companies outside the zone (World Bank, 1992, cited in Gumbe & Chaneta, 2014). These special regulations were designed to create an export-friendly policy environment.

Though EPZs were mainly dominated by large companies, a few SMEs were involved, especially those in the agricultural and mining sectors (Gumbe & Chaneta, 2014). Companies exporting from EPZs were offered incentives such as a corporate tax holiday for five years, duty-free importation of capital equipment and machinery for EPZ operations, duty-free importation of raw materials and intermediate goods required in the production process and construction, as well as exemption from withholding tax dividends (EPZ Act, 2002; KPMG, 2013; Gumbe & Chaneta, 2014). EPZs were deemed to be a suitable strategy for creating a niche in the global market. The incentives were intended to allow SMEs to develop into larger companies. However, according to Muchinguri (2003), the EPZA failed to reach its target of contributing significantly to the economy. Though incentives were provided to the companies and SMEs operating within the zones, no meaningful contribution to the economy had been

made by these companies in the EPZs ten years down the line (UNDP, 2010, cited in Gumbe & Chaneta, 2014). Therefore, the programme has been abandoned.

The GoZ seeks to promote exports through trade missions, trade fairs, and other mechanisms for facilitating trade; through marketing and advertising in the media; through training SMEs for export; and through the certification of products that meet international standards (Mudzonga, 2009; ZITF, 2014). The ZITF is an exhibition which is held annually and which offers SMEs and other businesses the opportunity to display their products and services, and to have a chance to establish ties with local and international companies (ZITF, 2014). SMEs also have the opportunity to find markets locally and abroad (ZITF, 2014). ZimTrade, a national trade development and promotion organisation, assists SMEs through training for export, providing information about foreign markets, and developing new markets for SMEs (ZimTrade, 2011; ZMIC, 2014; ZimTrade, 2015). Such assistance partly explains why SMEs contribute about 90 % of the economic growth in the country (Zindiye *et al.*, 2012).

In order to promote SMEs and large companies in the manufacturing sector, and to protect local industries from stiff competition from Asia and South Africa, import tariffs were increased in February 2007 (AfDB, 2007). There was a reduction in import tariffs on raw materials, and customs duty on capital goods was removed to allow locally produced goods to be more competitive internationally. However, between 2008 and 2010, import duties were temporarily removed to allow people to import food and other basic commodities that were scarce in Zimbabwe. In the 2011 Mid-year Fiscal Policy Review, the Zimbabwe Ministry of Finance reintroduced the import duties on basic goods, such as cooking oil, mealie-meal (maize meal), jam and baked beans, and increased the duty from 10–25 % (GoZ, 2011; Ndlovu, 2011). Zimbabwe had relied heavily on imports (RBZ, 2013) and this was a move to protect local industries from foreign competition (GoZ, 2014). Import tariffs were also imposed on clothes, as the clothing industry had faced stiff completion from cheap imports, especially from the Asian countries (Zimbabwe Broadcasting Corporation (ZBC), 2012), South Africa, Botswana, and Mozambique (GoZ, 2014).

ZIMRA seeks to assist SMEs through reducing compliance costs, helping them to benefit from international trade, increasing exports, and reducing taxable income (Mutambanengwe, 2013). ZIMRA conducts workshops in association with ZimTrade and the ZMIC, with the aim of educating SMEs on their rights and obligations, and assisting them to comply with regulations (Mutambanengwe, 2013). In the workshops, ZIMRA explains taxes for specific small businesses, and incentives and tax breaks that will assist startups and small business to grow into medium or large enterprises.

### **3.8.3 Participation of SMEs in the public procurement process**

The Zimbabwean government has put in place a policy to encourage SMEs to participate in the public procurement process. SMEs can tender for supply contracts directly from the government, or indirectly through being subcontracted by large firms (Chingwaru, 2014). This was a move to promote SME growth by providing a market for SMEs and improving their cash flow (Mandiyambira, 2013). Statutory Instrument 171 of 2002 provides that:

- (a) Locally based contractors and suppliers should be given a 10 % preference on purchase price or contract price over external suppliers, and
- (b) Previously economically disadvantaged contractors should be allowed a 10 % preference on the purchase or contract price over external contractors.

SMEs are considered to be among previously economically disadvantaged suppliers or contractors. Therefore, they bid for government contracts. The Indigenisation Policy has also made it possible for local SMEs to participate in the government tendering process (Tsabora, 2014). The Indigenisation and Economic Empowerment Act, 2007 requires all government departments and companies to procure a minimum of 50 % of their goods and services from companies owned by black Zimbabweans or companies where black Zimbabweans hold 51 % of the shares.

Government tenders in Zimbabwe are handled by the SPB, which falls under the Office of the President and Cabinet (Zimbabwe Star, 2013; Tsabora, 2014; Shumba, 2015). The SPB is a government institution charged with the responsibility of purchasing goods and services on behalf of the government ministries, departments, parastatals and companies (GoZ, 2014; Tsabora, 2014), and members of the SPB are appointed by the president (Tsabora, 2014). Tenders worth US\$300 000 or less are awarded by the procuring department, ministry or company. Contracts worth more than US\$300 000 go through the SPB. Therefore, about 80 % of the tenders are awarded by the accounting officers in government departments or companies, such as permanent secretaries, while the other 20 % of the tenders are awarded by the SPB (Bwititi & Towindo, 2014). As the government departments and companies award tenders, the SPB supervises and monitors them to ensure that the tendering process complies with the Procurement Act (Bwititi & Towindo, 2014; Tsabora, 2014).

There are four legal instruments that govern the public procurement process in Zimbabwe. These are the Procurement Act (2001) as amended (Chapter 22:14); the Procurement Regulations (2002); the Procurement (Amended) Regulations (2003); and the Urban Councils Act (1995) (Chapter 29:15). The Procurement Act (2001) outlines the rules governing the

SPB, the procurement regulations guide the process of awarding tenders, and the Urban Councils Act (1995) governs the way the municipal tenders should be handled.

Tenders are submitted in writing and in a sealed envelope or any suitable container. The bidder, as part of the bid, is required to supply the government with a bid bond of US\$10 000. This should either be a cash deposit, a guarantee from a bank, or a bond supplied by an insurance company or any other bonding company. Suppliers are expected to have the requisite professional and technical qualifications and competence, financial resources, equipment, facilities, and personnel to deliver the goods or services specified in the procurement contract. Suppliers are also expected to pay all the taxes and duties required by the GoZ. In addition, they should be registered business entities.

In their participation in the public procurement process, SMEs are confronted with a myriad of challenges. Musanzikwa (2014) observes that SMEs lack the managerial and technical competencies to deliver on government contracts. Due to the lack of technical competence and inadequate capital, SMEs often supply substandard products, which has a negative impact on their future ability to win government tenders (Mandiyambira, 2013; Nyoni, 2014). Consequently, they are driven out of business by large competitive businesses from China and South Africa (Nyoni, 2014). Tsabora (2014) notes that in the previous five years most construction tenders have been given to companies from China. SMEs may also not have adequate financial resources to meet the financial requirement of bidding for government contracts (Mandiyambira, 2013; Nyoni, 2014). Zimbabwean SMEs lack an awareness of the government procurement processes, procedures and opportunities (EC, 2008; Uromi, 2014), and this limits their participation in the public procurement process. The time allocated for them to submit tenders is inadequate (OECD, 2006), and thus many SMEs fail to obtain government contracts, leading to disappointment and frustration. Consequently, SMEs stop bidding for government tenders (Mandiyambira, 2013). The government takes a long time to pay SMEs for services rendered or goods supplied. This is partly due to inefficiency caused by the centralisation of the payment system. All payments for work done for the government are carried out by the Ministry of Finance, which in many cases is inundated with a lot of work (Stiftung, 2000; Zinyama, 2014).

The procurement process is flawed, and has many irregularities. Corruption is rampant in the awarding of tenders (Zimbabwe Star, 2013; Bwititi & Towindo, 2014; Tsabora, 2014; Zinyama, 2014). Bwititi and Towindo (2014) observe that about 70 % of the tenders that pass through the SPB have an element of corruption in them. For example, in 2014 the SPB issued a US\$2 million tender to two security companies owned by one person (Bwititi & Towindo, 2014). Such a move prevented a competent SME in the security sector from getting a tender.

Some officials at the SPB provide consultancy services to bidders by preparing tender documents for them to meet specific requirements, in order to receive kickbacks after the tender is awarded to them (Bulawayo Progressive Residents Association (BPRA), 2010; Bwititi & Towindo, 2014). Politicians have also manipulated the tender process by using their power to influence SPB officials to award tenders to companies belonging to them, their friends or relatives (BPRA, 2010; Zinyama, 2014).

The tender process is often delayed by the local authorities and the central government (BPRA, 2010; GoZ, 2014; Zinyama, 2014), and the process of awarding tenders becomes cumbersome and time-consuming (Bwititi & Towindo, 2014). This delays service delivery and illustrates the inefficiency of the government in relation to service provision (Tsabora, 2014). Some accounting officers responsible for awarding tenders in government departments or companies do not adjudicate and award tenders within 15 working days, as required by the Procurement Act (BPRA, 2010), but take 60 days or more (Bwititi & Towindo, 2014). Such a process creates frustrations for SMEs and discourages them from participating in the state tendering process.

Realising the challenges encountered in the public procurement process, the Office of the President and Cabinet has decided to introduce reforms. The GoZ intends to decentralise the procurement of all goods and services for government departments, companies and local authorities (Zimbabwe Star, 2013; GoZ, 2014; Mugabe, 2015; Shumba, 2015). The SPB will supervise and monitor the procuring institutions to ensure that they abide by the Procurement Act (Zimbabwe Star, 2013; GoZ, 2014, 2015). Through such reforms, the government intends to put a halt to corrupt practices in the tendering process, and to promote the participation of SMEs in government purchasing (Zimbabwe Star, 2013). In the 2014 Mid-year Policy Review Statement, the Ministry of Finance indicated that the decentralisation of the procurement process would improve the efficiency and effectiveness of the government in service provision (GoZ, 2014).

### **3.8.4 The role of higher education institutions**

Universities operate in an environment that is constantly changing. Therefore, the HEIs' curricula also change in order to address short-term and long-term societal challenges (Gordon & Jacks, 2010; Kurasha & Chabaya, 2013). Education is a critical, indispensable element of entrepreneurship (EC, 2013). Therefore, the success of entrepreneurship in any society depends on the quality of its higher education. Higher education plays a significant

role in economic development (Moeliodihardjo *et al.*, 2012). HEIs established by the GoZ have played a significant role in the establishment and development of SMEs in Zimbabwe through training, technology transfer, and the provision of research information (Technopolis Review, 2011).

In this context, the HEIs being referred to are the universities. Zimbabwe has 15 universities that are operating, of which nine are public institutions while six are privately owned. These institutions were established for the purpose of imparting tertiary education in the form of skills and knowledge, in order for graduates to find employment and thereby contribute to the development of Zimbabwe. However, the job market is shrinking due to the closure of companies. On realising this, HEIs have had to train the graduates in such a way that they start their own businesses (SMEs) in order to create employment rather than seek employment. Bukaliya and Hama (2012) observe that universities, through their community service programmes, assist in addressing societal challenges. One of the challenges facing Zimbabwe is unemployment, which universities must help solve.

The GoZ encourages universities to be actively involved in the country's economic development (Moeliodihardjo *et al.*, 2012). That explains why universities like the Harare Institute of Technology (HIT) and Chinhoyi University of Technology (CUT) have become centres of technical training for SMEs (Technopolis Review, 2011). Thus, universities are important for training, knowledge and technology transfer (Freitas *et al.*, 2012). The HIT has a technology centre where students and SMEs are trained in order to understand the stages of product development, from invention to commercialisation (Technopolis Review, 2011; Kangondo, 2012). The technology centre at HIT is the heart of the 'science park project' in Zimbabwe. The university also has a Technopreneurship Development Centre where technical students and SMEs are taught entrepreneurial skills. These skills have assisted manufacturing SMEs (GoZ, 2008; Kangondo, 2012). The Indo-Zimbabwe Project is housed within the technology centre of the HIT. Manufacturing SMEs approach the Indo-Zimbabwe Project at HIT to source spare parts for their machinery (ZMIC, 2011). Other universities are also actively involved in research, training and technology transfer to SMEs (Ryan & Faridi, 2013). HEIs also create a high-calibre workforce for the SMEs (Illinois University Outreach, 2005). In Zimbabwe, large companies are closing due to the unstable macroeconomic environment. Therefore, the university graduates from universities are being absorbed by the SMEs (Rwafa, 2006, cited in Zindiye *et al.*, 2012). Universities also provide a cheap source of labour for SMEs through industrial attachments with students for approximately 12 months (Gibb *et al.*, 2013).

SMEDCO entered into a contract with the Harare Poly-technical College in 2009 in order to assist the corporation with the management of Litefold Engineering based in Chitungwiza (SMEDCO, 2015). Harare Poly-technical College, which has an excellent Engineering Division, provides technical expertise to Litefold Engineering (SMEDCO, 2015). This is one example of the commitment of Zimbabwean HEIs in promoting SME development.

HEIs have also made their research findings freely accessible on the Internet (Gibb *et al.*, 2013). The number of online academic journals and of academics who publish their work online has increased (Gibb *et al.*, 2013). These research findings provide an important source of valuable information for SMEs. Zimbabwean academics are an important part of SME growth in Zimbabwe. For example, Professor Muranda, the Executive Dean of the Faculty of Commerce at CUT, delivered a presentation at Marketers Suppliers Expo 2014 (MASXPO) on 11 April, 2014, where SMEs attended and exhibited their products (ZimMarketer, 2014). Muranda also presented at a Marketing Conference at Caribbea Bay in Kariba, Zimbabwe (ZimMarketer, 2014), which SMEs also attended.

Table 26 presents a summary of the main policies and strategies adopted by the GoZ to address the key obstacles to SME growth. The table shows the institutions, the relevant policies and strategies, and the effectiveness of those policies and strategies in dealing with the challenges faced by SMEs.

**TABLE 26. SUMMARY OF THE POLICIES AND STRATEGIES ADOPTED BY THE ZIMBABWEAN GOVERNMENT**

<b>Institution</b>	<b>Policies and strategies</b>	<b>Effectiveness of policies and strategies</b>
<b>ZMIC</b>	ZMIC has focused on implementing industry policies and strategies including SMEs, has conducted research, has distributed information to SMEs, and has co-ordinated programmes for SME development.	Though a few SMEs have benefited, efforts have been largely ineffective due to a lack of proper communication and co-ordination among government ministries.
	ZMIC has also promoted SME access to regional and international markets through bilateral and multilateral agreements.  It has also organised international trade fairs, missions and exhibitions for SMEs, and has ensured that SME products and services meet international standards.	Some SMEs attended exhibitions and trade fairs locally (Bulawayo) and internationally (China).  However, a lack of awareness on the part of most of the SMEs renders these policies and strategies ineffective. Very few SMEs have had access to the services of the ministry.
<b>SMEDCO</b>	A public corporation and the financing arm of the MSMECD, it concentrates on providing financial assistance, infrastructure, management counselling, training, advice, and business information to SMEs.	SMEDCO has managed to construct and provide factory space for SMEs in Nyika Growth Point, Gweru, Chitungwiza and Gazaland (Harare) and Bindura. SMEDCO has managed to advance loans to over 4 900 SMEs, and has provided SMEs with access to machinery for metal fabrication and woodwork. SMEs have been trained at the Litefold Engineering Company in Chitungwiza.  SMEDCO could not do much due to gross underfunding. In 2010, SMEDCO had no budget allocation. Funds allocated from the National Budget in 2013 were inadequate for infrastructural development. Loans from the corporation required collateral, which most SMEs did not have, so very few SMEs have benefited from SMEDCO operations. Interest rates for the loans were too high for SMEs, and the leased machinery was deemed too expensive.

<b>CGCZ</b>	CGCZ provided credit finance to SMEs without collateral, through guarantees. CGCZ could guarantee up to 75 % of the loans	Though some SMEs benefited, most of them did not due to inadequate funding from the government. The demand for loans far exceeded the funding available. The default rate on the loans was high and the fund could not revolve to other SMEs.
<b>ZDB</b>	The ZDB was established to provide funding to SMEs.	Most of the SMEs could not access loans from the bank due to collateral requirements. The bank operations were also crippled by a lack of adequate funding from the state.
	The bank was transformed into the IDBZ to continue providing funding and technical assistance to SMEs and to promote infrastructural development in Zimbabwe.	The IDBZ was ineffective in assisting SMEs due to the unfavourable macroeconomic environment characterised by hyperinflation. Support for SMEs is no longer the core business of the IDBZ, which now concentrates on infrastructural development and neglects SMEs.
<b>Agribank</b>	A commercial bank whose purpose was to provide credit finance to communal, resettled and small-scale commercial farmers. Funding did not require collateral as loans were guaranteed by the government.	Only 5–10 % of the farmers had access to funding. The default rate on the loans was extremely high: less than 50 % of the loans were repaid and the funds could not revolve to other farmers. The bank had capitalisation problems due to the non-repayment of the loans, and the unstable macroeconomic environment characterised by high inflation weakened the bank's financial position further.
<b>RBZ</b>	The RBZ assisted SMEs through the provision of loans to support agricultural activities, such as livestock production, mechanisation, crop production, and irrigation.	Loans assisted small-scale commercial farmers in purchasing farming inputs such as fertilisers, chemicals, and seed. Some farmers managed to purchase farm equipment. Farmers could not pay back the loans due to natural disasters such as drought. Some farmers wilfully defaulted. There was also mismanagement and misappropriation of funds loaned to farmers. Farmers lacked farming and management skills, and the funds were mismanaged. Farmers continue to face financial challenges.
	RBZ made a policy that loans to the SME sector should constitute at least 30 % of the	SMEs did not benefit much from the policy because of the stringent requirements of securing loans. The policy placed much emphasis on

	total value of loans issued.	financial support, and neglected critical aspects such as financial literacy, and training and development in various areas of management.
<b>MSMECD</b>	The purpose of the ministry was to develop policies and strategies to enhance the development of SMEs. The ministry is also involved in the promotion of SME access to markets, training SMEs and the construction of factory shells in Gwanda and Bindura.	The MSMECD managed to build factory shells in Bindura, Gwanda, Nyika Growth Point and Chitungwiza. Some SMEs managed to attend trade fairs in China. However, only a few people confirm having benefited from the operations of the MSMECD. Rural SMEs did not have access to the services of the MSMECD, as the ministry offices are in towns and cities. Duplication of activities among ministries led to confusion on the ground and ineffective utilisation of scarce resources. The MSMECD was grossly underfunded by the National Budget and could not build shelter for SMEs in other areas, and could not train SMEs or provide funding as planned.
	The SME Act of 2011 states that 25 % of government tenders should be allocated to SMEs.  Medium-Term Plan (2011–2015): to support pro-poor viable projects by providing SMEs with funding, constructing vending stalls, sanitary facilities and factories, and facilitating access to markets.	SMEs have not benefited much from government tendering due to corruption, lack of adequate finance to provide services, and a lack of awareness of the government tender procedures.  The limited availability of funds in the microfinance institutions and banks hindered the success of the project. The policy placed great emphasis on the retail and manufacturing sectors, and neglected the agricultural sector.
<b>Government partnership with India</b>	The GoZ partnered with India in the Indo-Zimbabwe Project to promote SME access to technology and machinery. SMEs were trained in technical skills at an affordable cost.	The Indo-Zimbabwe Project improved the quality of furniture and grinding mills manufactured by SMEs. SMEs had access to machinery and the latest technology. The Indo-Zimbabwe Technology Centre (HIT) was a centre for spare parts of machinery.
<b>Government (MSMECD) partnership</b>	The partnership was entered into for the purpose of setting up an incubation centre (India-Zimbabwe Africa Incubation Centre)	Though results have not been realised, it would be assumed that such a move would reduce the failure rate of SMEs.

<b>with the NSIC of India</b>	worth US\$ 2 million for technology transfer to SMEs.	
<b>IDBZ partnership with China Development Bank</b>	The IDBZ received a credit facility of US\$30 million from the China Development Bank to extend loans to SMEs.	Bank requirements were so stringent that most of the SMEs could not access the loans. Loans were advanced to SMEs loyal to the ruling party (ZANU PF), and excluded other SMEs that could contribute to economic development.
<b>MSMECD partnership with TechnoServe</b>	The partnership was meant to provide financial support to small-scale farmers and agri-based SMEs.	The partnership promoted SME access to funding, particularly those in the agricultural sector.
<b>MSMECD partnership with Empretec</b>	The partnership sought to develop an entrepreneurial culture among Zimbabweans.	Empretec assisted women in the arts and cultural sector to penetrate foreign markets through designing proposals for women and empowerment programmes. Empretec has trained over 1 500 entrepreneurs, 85 % of which have established vibrant businesses. Among the trained entrepreneurs, 35 % of them are exporting products and services. Over 20 000 jobs were created.
<b>Government partnership with PROPARCO, a French Development Institution</b>	The purpose of the partnership was to provide funding to SMEs. NMB and CABS received a loan facility worth US\$20 million to support SMEs through funding.	The stringent requirements for the loans, such as collateral, made it difficult for most SMEs to access the loans.
<b>EPZA</b>	Promotion of access to local and international markets through the provision of incentives (corporate tax holiday for five years, duty-free	It was dominated by large companies and very few SMEs were involved, especially those in agriculture and mining. SMEs did not benefit much. The EPZs failed to make a meaningful contribution to economic growth and

	importation of capital equipment and machinery).	employment.
<b>ZITF</b>	Promotion of access to domestic and foreign markets. SMEs are afforded an opportunity to display their products and services, and to create ties with local and international companies.	Some SMEs really benefited. However, most of the SMEs lack an awareness of the services provided by the ZITF. Participation in the ZITF programmes is also expensive for SMEs.
<b>ZimTrade</b>	Conducts training on exports, on the provision of information about foreign markets, and on development of new markets for SMEs.	The services of ZimTrade are accessed by SMEs in Harare and other big cities like Bulawayo. SMEs in rural areas and small towns find it difficult to benefit from ZimTrade. Some SMEs lack awareness of ZimTrade's services.
<b>SPB</b>	Participation of SMEs in the public procurement Indigenisation Policy requires all government departments and companies to procure a minimum of 50 % of their products and services from SMEs.	The policy has been ineffective due to a number of reasons. SMEs lack the managerial and technical competence to deliver on government contracts (and therefore often supply substandard products/services). SMEs lack the financial resources to meet the financial requirements of bidding for government contracts. SMEs lack awareness of the procurement process, procedures and opportunities. Corruption is rampant in the awarding of tenders. Politicians have manipulated the tender process.
<b>HEIs</b>	HEIs are involved in training SMEs, technology transfer, provision of research information and business incubation	HEIs have created a high-calibre workforce for SMEs. HEIs have imparted technical and management skills to SMEs, and the quality of the products produced by SMEs has improved significantly. Research by universities has assisted SMEs. However, not many SMEs are aware of the role played by HEIs in promoting SME development.

### **3.9 CONCLUSION**

This chapter has focused on SMEs in the Zimbabwean context. Aspects covered included the Zimbabwean definition of SMEs, the role of SMEs in the country, the development of SMEs, and the challenges facing SMEs. Institutions, policies and strategies to address obstacles to the growth of SMEs have been mentioned. The policies and strategies implemented by the GoZ have been, to a large extent, ineffective in addressing the key challenges confronting the SME sector. Though serious efforts have been made, challenges still continue to negatively affect the operations of the sector. Such obstacles include lack of finance, lack of infrastructure, and lack of management and technical skills. Some SMEs still need space for their activities as evidenced by the overcrowding of trading shelters. However, there have been some successes in the area of technology transfer, in the establishment of technology centres, in providing training, and in creating strategic partnerships with other countries and NGOs with a view to addressing the challenges confronting the SME sector. With Zimbabwe's high unemployment rate, many of its people are now self-employed, with others having chosen to be economic migrants in other countries such as South Africa, Zambia, Botswana, the UK, the U.S., Saudi Arabia, China, and Australia, among others. Those who have remained in Zimbabwe survive through trading activities in SMEs and informal-sector enterprises. This has become a route to survival for many people in Zimbabwe, and therefore, it is of paramount importance to develop the SME sector.

Chapter Four covers the conceptual and the theoretical frameworks guiding the study. The conceptual framework includes the challenges facing SMEs, the government policies and strategies to address the challenges, and the effectiveness of the policies and strategies in dealing with the challenges facing SMEs. The resource-based view (RBV), institutional theory, human capital theory (HCT), systems theory, and contingency theory constitute the theoretical underpinning of the study.

## **CHAPTER 4: CONCEPTUAL FRAMEWORK**

### **4.1 INTRODUCTION**

The previous two chapters dealt with literature on SMEs. Chapter 2 focused on SMEs on a global scale, that is, in developed, emerging and developing economies. The purpose of the chapter was to provide a global overview of SMEs. SMEs in the Zimbabwean context were examined in Chapter 3, which presented the challenges Zimbabwean SMEs face, how the government has responded to these challenges, and how successful the government has been in addressing the obstacles to SME growth.

Such an extensive literature review created the need for the development of a conceptual framework to guide this study. This concurs with Seepersaud (2012), who observes that the conceptual framework is derived from the literature review. This chapter synthesises the literature review into a conceptual framework that guides the current study. The conceptual framework of this study is presented diagrammatically in order to illustrate the relationships between the challenges faced by SMEs in Zimbabwe, the government policies and strategies implemented to address these challenges, and the success of these policies and strategies in dealing with the key obstacles confronting SMEs. All this was done with the aim of developing a policy and strategy framework for developing SMEs in Zimbabwe.

### **4.2 CONCEPTUAL FRAMEWORK**

A conceptual framework refers to how a researcher conceptualises relationships between variables in a study, and shows those relationships graphically or diagrammatically (Svinicki, 2010). It shows independent and dependent variables, and how they are related to one another (Mugenda, 2003, cited in Ardjourman & Asma, 2015: 145). Therefore, a conceptual framework is a map of ideas for a study (Sari *et al.*, 2008; Svinicki, 2010; Goldblatt, 2011). This study adopted a conceptual framework for identifying the challenges confronting SMEs in Zimbabwe and the government policies and strategies implemented in addressing these challenges, and for assessing how effective the policies and strategies have been in dealing with these obstacles.

### **4.2.1 The role of the conceptual framework in this study**

The conceptual framework assisted the researcher in explaining the research problem, identifying the data to be collected, and providing a base for analysing the data. In addition, the conceptual framework established a link between the research objectives and the methods of data collection (Goldblatt, 2011). Thus, the research process is made explicit by the conceptual framework (Arttachariya, 2005; Sari *et al.*, 2008). In this study a factor analysis was not used but literature was evaluated to compare the different constructs (policies and strategies) used in various countries with Zimbabwe. This was done in order to identify the constructs that form part of the developed framework, and the associations among these constructs, by determining how many countries are using similar policies and strategies and the success of these.

### **4.2.2 Conceptual framework guiding the study**

This section presents the conceptual framework guiding the study. It is a diagrammatical representation of the relationship between the SME challenges, the government policies and strategies to address these challenges, and how effective the policies and strategies have been. These relationships will also be tested using inferential statistics, and the conceptual framework will be evaluated again after the study to indicate if it can be accepted or not.

#### ***4.2.2.1 Challenges facing SMEs***

Discussions in the preceding chapters have indicated that SMEs provide the backbone for all economies of the world (Stefanovic, *et al.*, 2009; Al Saleh, 2012; Bank of Japan & IFC, 2012; Adama *et al.*, 2013; IMF, 2013; Uppong *et al.*, 2014). However, SMEs are confronted with a myriad of challenges. The framework argues that SMEs in the global world as well as in Zimbabwe are confronted with challenges such as lack of access to finance (Dalberg, 2011; Chadamoyo & Dumbu, 2012; Chipangura & Kaseke, 2012; IFC, 2012a; United Nations Economic Commissions for Africa, 2012; Mulanga, 2013), a lack of management and administrative skills (Shafique *et al.*, 2010; Okpara, 2011; Amarjit & Nahum, 2012; Gombarume & Mavhundutse, 2014), infrastructural challenges (RBZ, 2012; Kihimbo *et al.*, 2012; Zaidi, 2013; Karedza *et al.*, 2014), competition in the local and international markets (Ekeledo & Bewayo, 2009; Davidson *et al.*, 2010; Mudavanhu *et al.*, 2011), lack of access to appropriate technology (Sidik, 2012), as well as the punitive regulatory environment (Mloyi,

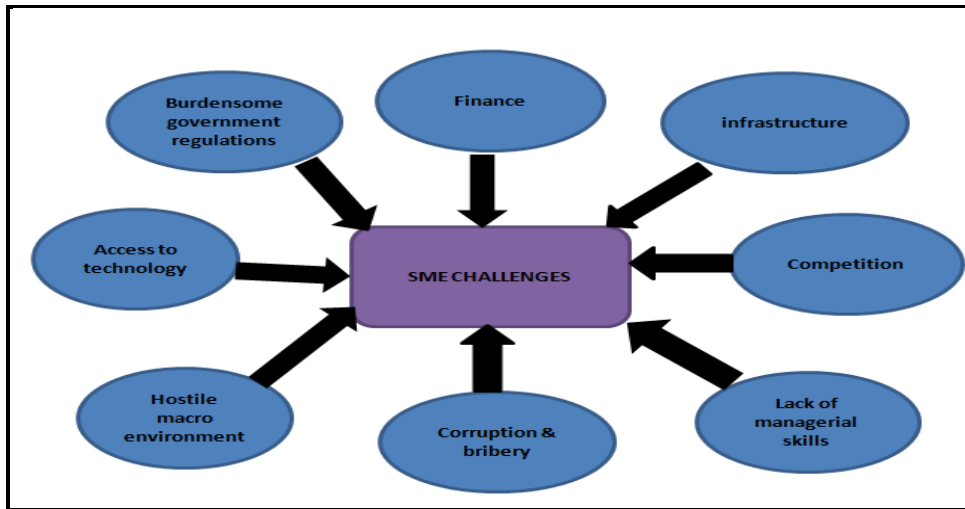
2011; Ahiawodzi & Adade, 2012; Chipangura & Kaseke, 2012; Maseko, 2014). The macroenvironment has also been mentioned as one of the factors that have negatively impacted on the growth of SMEs (Caner, 2010; Olawale & Garwe, 2010; Simpson *et al.*, 2012; TI, 2012; AfDB & ADF, 2013). Many researchers have conducted studies on challenges facing SMEs in developed, emerging and developing economies (Aidis & Estrin, 2006, cited in Peir *et al.*, 2012). Due to these challenges SMEs do not perform well, which leads to slow economic growth (Peir *et al.*, 2012).

A survey conducted by the International Bank for Reconstruction and Development (IBRD) and the World Bank revealed that lack of finance was the greatest obstacle to SME growth (Ganbold, 2008, cited in Mazanai & Fatoki, 2012). This concurs with Peir *et al.* (2012) who observe that the most common challenge among SMEs in developing countries is lack of access to finance. A study conducted by Green (2003) indicates that limited access to finance by SMEs in developing and emerging economies was caused by a lack of fully developed financial systems, a lack of experience in providing funding to SMEs, high risk levels in lending to SMEs, and the high costs of lending to SMEs (Mazanai & Fatoki, 2012). In South Africa, approximately 75 % of applications for bank loans are unsuccessful due to the high costs of lending to SMEs and the high risk of failure among SMEs (Fatoki & Odeyemi, 2010).

The lack of management skills and experience leads to business failure (Martin & Staines, 2008, cited in Fatoki & Odeyemi, 2010). Therefore, the education, training and experience of SMEs play a critical role in promoting business success. Studies conducted by Smallbone and Weller (2001) and Hisrich and Drnovsek (2002) indicate that a lack of management skills negatively affects the operations of SMEs (Fatoki & Odeyemi, 2010). A survey conducted in Canada in 2000 revealed that about half of the SMEs went bankrupt due to a lack of management experience, knowledge and vision (Arasti *et al.*, 2014).

‘The physical infrastructure is the totality of the basic physical facilities upon which all other economic activities in the system significantly depend’ (Ukpong & Iniodu, 1991, cited in Aruwa, n.d.). Such infrastructure covers transportation, communication, electricity and water supply (Aruwa, n.d.). The availability of infrastructure promotes economic growth through supporting the private sector in ensuring access to water, electricity and raw materials, and the market for finished products (Tsauni, 2005, cited in Aruwa, n.d.). Lack of infrastructure stifles the growth of SMEs (Karedza *et al.*, 2014; ZEPARU, 2014). Infrastructural shortages have been recognised as one of the major impediments to SME development in emerging and developing economies (Mwega, 2011; AfDB & ADF, 2013; Zaidi, 2013). Figure 17 provides a diagrammatical representation of the challenges facing SMEs.

**FIGURE 17. CHALLENGES FACING SMES**



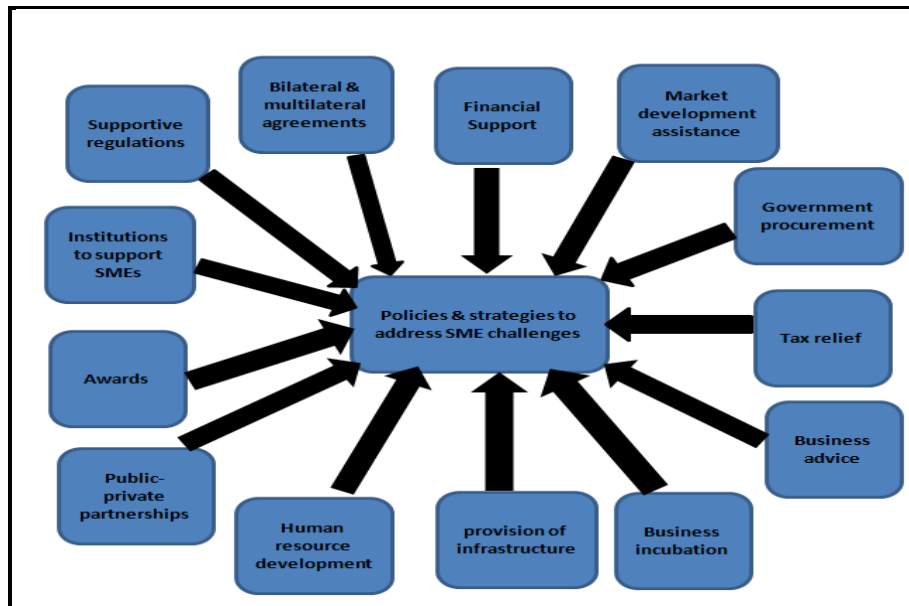
Adapted from RBZ (2007: 25a), Chipangura & Kaseke (2012: 47–52); Mudhokwani (2012: 1–3)

The challenges to be tested in the study include financial, administrative and managerial skills; marketing; a hostile macroenvironment; a lack of infrastructure; competition; and burdensome government regulations. These have been identified in the literature as key challenges confronting the SME sector in the Zimbabwean context (Mudavanhu *et al.*, 2011; Chadamoyo & Dumbu, 2012; Chipangura & Kaseke, 2012; Karedza *et al.*, 2014; ZEPARU, 2014).

#### ***4.2.2.2 Government policies and strategies to deal with challenges***

The extant literature also indicates that governments develop policies and strategies to address the key challenges confronting SMEs. Peir *et al.* (2012) observe that the government plays a crucial role through designing policies, strategies, and rules and regulations that promote (or hinder) the growth of the SME sector. Therefore, the role of creating a conducive business environment for SMEs is in the hands of government institutions. Such institutions can either stimulate or stunt the development of SMEs (Elsrich *et al.*, 2005, cited in Peir *et al.*, 2012). Thus, the growth of the SMEs relies heavily on the appropriateness and relevance of the policies and strategies for the sector (Bianchi, n.d.). An illustration of the policies and strategies adopted by governments to address SMEs is shown in Figure 18.

**FIGURE 18. GOVERNMENT POLICIES AND STRATEGIES TO ADDRESS SME OBSTACLES**



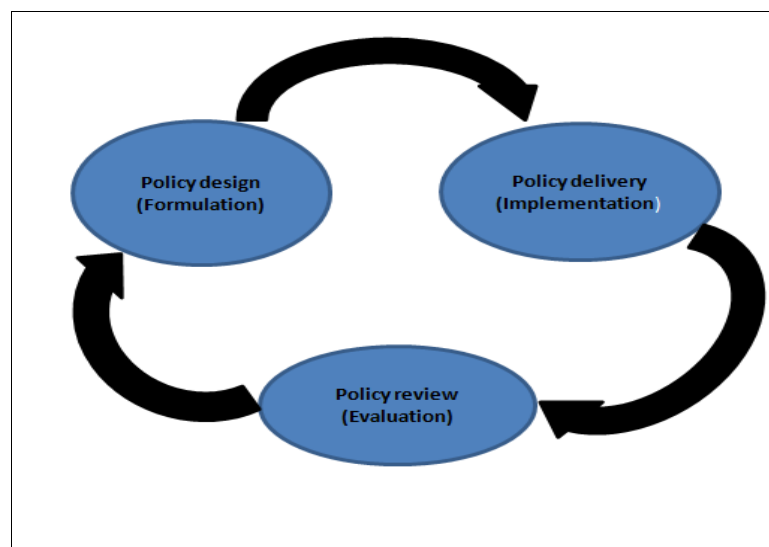
Adapted from Maunganidze (2013: 1–7); Nyangara (2013: 219); Chivasa (2014: 3); Manyani (2014: 13); Mushanyuri (2014: 278); St. Maarten Department of Economic Affairs, Transport & Communication (2014:10–16)

Various government policies and strategies aim to address the challenges facing the SME sector. Government financial support for SMEs, the provision of access to local and international markets, SME support through government procurement, tax relief, business advice, business incubation, supportive regulations (especially tax incentives), and HRD through training will be tested for effectiveness in this study. Bilateral agreements, public-private partnerships, and institutions for supporting SMEs were established by the GoZ to provide infrastructure, training, finance, business advice, business incubation, and the promotion of access to domestic and foreign markets (Chowa & Mukuvare, 2013; Mutambanengwe, 2013; Nyangara, 2013; Chingwaru, 2014; Chivasa, 2014; Mushanyuri, 2014). Therefore, the policies and strategies being tested for effectiveness have been identified in the literature as key steps taken by the GoZ to address obstacles to SME development (GoZ, 2011; Moyo, 2011; ZMIC, 2011; Chirisa *et al.*, 2012; ZITF, 2014; ZimTrade, 2015).

#### 4.2.2.3 The concept of government policy

Policy is a broad statement of the goals that a government aspires to achieve, and general guidelines as to how the goals can be realised (Osman, 2009; Roh, 2012). Public policy can be viewed as deliberate and purposeful action taken by the government to address societal challenges. O’Toole (2003: 266) defines policy as, ‘the connection between the expression of governmental intentions and actual results’. Thus, policy bridges the gap between the government’s goals and aspirations, and the realisation of those goals. Policies are formulated in response to the specific challenges confronting a nation. Actors who play a critical role in policy formulation are the executive branch, the legislature and the courts, and private actors such as interest groups and citizens (O’Toole, 2003). Once a government is put in place, running the affairs of a nation involves policy formulation, implementation, and evaluation, as indicated in Figure 19. In this study the researcher focuses on an assessment of the SME policies established by the GoZ to address the challenges confronting the SME sector in Zimbabwe.

FIGURE 19. THE POLICY CYCLE



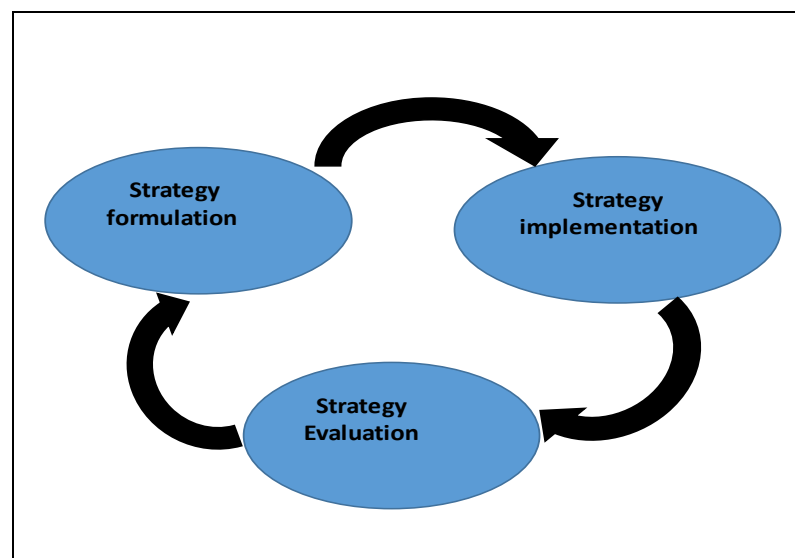
Adapted from Burke *et al.* (2012: 3); Freeman (2013: 1–5)

Figure 19 shows the policy cycle, in which policy evaluation is a key stage. Public policies are assessed to establish if they have been relevant, effective and efficient in addressing the needs of society. In this study policies are evaluated to assess whether they have managed to address the needs and challenges of SMEs.

#### **4.2.2.4 The concept of strategy**

Strategy refers to the direction and scope adopted by an organisation over the long term to achieve its objectives and meet the expectations of its stakeholders through the proper allocation of resources in a constantly changing environment (Masum & Fernandez, 2008; Louw & Venter, 2012: 10). The key focus areas of strategy include improving the competitive position of a business, developing the capabilities of an organisation, promoting the growth of businesses, and achieving set targets (Louw & Venter, 2010). Therefore, governments formulate and implement SME strategies to improve the competitive edge of SMEs, promote the growth of the sector, address SME challenges (as part of their targets), and improve the internal capabilities of SMEs. Figure 20 illustrates the strategic management process or cycle.

**FIGURE 20. STRATEGIC MANAGEMENT PROCESS/CYCLE**



Adapted from Nedelea & Paun (2009: 95–105); Vasile & Iancu (2009: 407)

In the strategic management process or cycle illustrated in Figure 20, strategies are formulated, implemented, and then evaluated or assessed. Strategy evaluation is performed after the implementation of the strategy. The current study focuses on the last part of the strategic management cycle, where the strategies implemented are assessed. Assessment of strategies sheds light on the effectiveness of the strategies adopted by the government in addressing obstacles to SME development in Zimbabwe. Such an evaluation also establishes the appropriateness of the strategies that have been implemented.

#### ***4.2.2.5 Assessment of government policies and strategies***

Government policies and strategies are formulated, implemented and subsequently evaluated (Hartsenko & Sanga, 2013). Figures 19 and 20 above illustrate that the implementation of policies and strategies is followed by an evaluation or assessment of their success (Vasile & Iancu, 2009; Burke *et al.*, 2012). The process of running public affairs involves the formulation, implementation, and evaluation of public policies. Therefore, the policy and strategy cycles are incomplete without an assessment to establish whether they have achieved their intended outcomes (Leentvaar, n.d.; Freeman, 2013; Dubihlela & Sandada, 2014).

Governments formulate SME policies and strategies to promote the development of the sector. In the preceding chapters, an assessment of the policies and strategies was performed for developed and emerging countries, as well as for Zimbabwe. The policies and strategies assessed for Zimbabwe were related to access to finance, training of SMEs, access to local and international markets, provision of infrastructure, the participation of SMEs in the public procurement process and the role of HEIs. Such policies and strategies were assessed to establish their appropriateness, efficiency, and success in addressing the needs of SMEs (Leentvaar, n.d.; United Republic of Tanzania, 2003; NCR, 2011; Dubihlela & Sandada, 2014).

#### ***4.2.2.6 Development of alternative policies and strategies to address obstacles faced by SMEs***

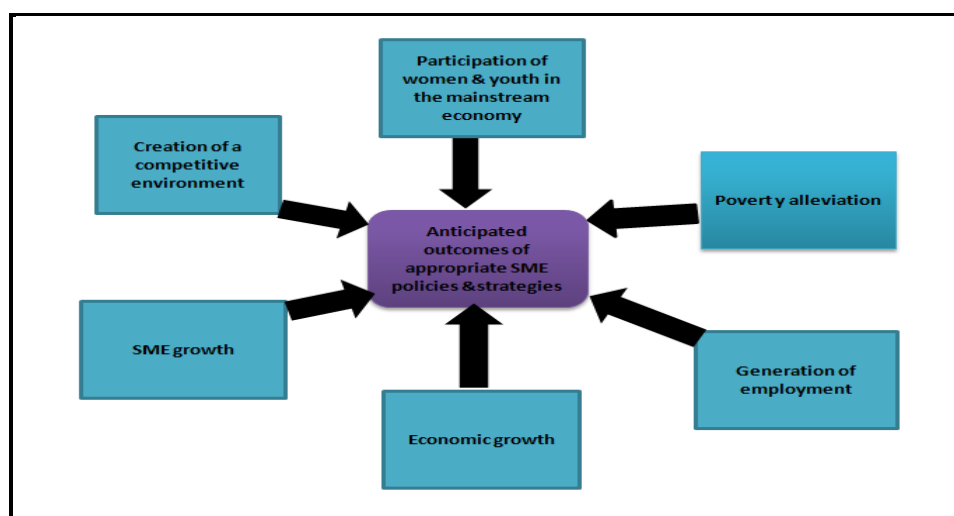
The assessment of existing policies and strategies leads to their refinement (Nedelea & Paun, 2009) or to the development of new policies and strategies that will effectively support the SME sector (DTI, 2005; NCR, 2011; Dubihlela & Sandada, 2014). An assessment of policies and strategies provides information on the reasons for a government's failure to meet its intended objectives, such as addressing SME needs or challenges (Dubihlela & Sandada, 2014). The previous chapters also assessed the success of government SME policies and strategies in developed, emerging, and developing economies. It emerged from the literature that policies and strategies have been a success in developed economies (FSB, 2008; Hatton, 2012; UKDBIS, 2013) and in some emerging economies like India (Iyer *et al.*, 2011; Jahanshahi *et al.*, 2011; IMMSMEs, 2014) and Malaysia (CBM, 2011a; OECD, 2012b; SME Corp. Malaysia, 2012a). However, developing countries like Zimbabwe still struggle to stimulate SME growth (Chipangura & Kaseke, 2012; Gombarume & Mavhundutse, 2014).

Therefore, an assessment of the success of the policies and strategies paves way for the development of an effective policy and strategy framework that leads to the growth of SMEs.

#### 4.2.2.7 Anticipated outcomes of appropriate SME policies and strategies

The development of appropriate policies and strategies promotes SME growth, thus leading to economic development, because SMEs are the engine for economic growth (Al Saleh, 2012) and create employment (GoZ, 2012). Zimbabwean SMEs contribute approximately 90 % of the economic growth of the country (Goriwondo, 2011; Ndoro, 2012; Maunganidze, 2013) and provide 80 % of the employment in Zimbabwe (Goriwondo, 2011; Chadamoyo & Dumbu, 2012; GoZ, 2012). Therefore, further development of the SME sector would lead to the provision of more jobs for the Zimbabwean population (Manuere *et al.*, 2012) and the alleviation of poverty (World Bank, 2012a). Women and the youth, as a result of supportive policies and strategies, would be able to participate fully in the mainstream economy. A competitive environment among businesses could then be created as a result of the growth of the SME sector (Chirisa *et al.*, 2012; Chingwaru, 2014). Such competition benefits the Zimbabwean population, who are the consumers of the products and services (Chingwaru, 2014). Figure 21 illustrates the anticipated outcomes of appropriate government policies and strategies.

**FIGURE 21. ANTICIPATED OUTCOMES OF APPROPRIATE GOVERNMENT POLICIES AND STRATEGIES**



Adapted from St. Maarten Department of Economic Affairs, Transport & Communication (2014: 8)

#### ***4.2.2.8 Refining, overhauling or discarding the policies and strategies***

If policies and strategies prove to be successful, no changes may need to be made to them, or very minor alterations may be made (Akrofi, n.d.; Nedelea & Paun, 2009). However, the failure of SME policies and strategies should prompt a government to completely overhaul its policies in order to address the challenges (Akrofi, n.d.), or to conduct further analysis of the challenges in order to design appropriate policies and strategies. Successful strategies and policies may be improved to meet the current needs of SMEs or to adapt to the changing macro-environmental conditions (Nedelea & Paun, 2009).

Literature in the previous chapters indicates that SME policies and strategies in Zimbabwe have been a failure due to inadequate funding for government institutions that work with SMEs (Zimbabwe Parliament Portfolio Committee on Youth, Gender & Women Affairs, 2007; Maunganidze, 2013), a lack of co-operation among government ministries (Kapoor *et al.*, 1997), high interest rates on loans to SMEs (Moyo, 2011), high default rates on loans to SMEs (Malaba, 2005), SMEs' lack of access to information about government programmes and tenders (Uromi, 2014), and corruption in the awarding of tenders (Bwititi & Towindo, 2014). Such an environment requires the GoZ to revisit its SME policies and strategies in order to promote growth in the sector. The study seeks to assess the success of the Zimbabwean SME policies and strategies with a view to developing a new policy and strategic framework that could be used by the Zimbabwean government to promote SME development. Zimbabwean policies and strategies show little evidence of feedback loops or assessment of how they address the key challenges confronting the SME sector. This lack of assessment has led to the implementation of irrelevant or inappropriate policies and strategies. Hence, this study is critical and indispensable.

### **4.3 CONCLUSION**

The purpose of this chapter was to present and discuss the conceptual framework underpinning the study. Key issues in the conceptual framework include the challenges confronting SMEs in Zimbabwe, the government policies and strategies implemented to address the challenges, and the effectiveness of these policies and strategies. If policies are successful, they may not need to be changed, or they may be improved. However, if the policies and strategies are ineffective in addressing the challenges confronting the SME sector, they may be refined, overhauled, or discarded to give way to the formulation of more relevant and effective policies.

Chapter 5 addresses the research methodology employed in the study. Critical aspects in the chapter include the research process, the philosophy adopted by the study, the research design, research approach, research strategy, study site, population and sampling, data collection, and analysis and interpretation.

## **CHAPTER 5: RESEARCH METHODOLOGY**

### **5.1 INTRODUCTION**

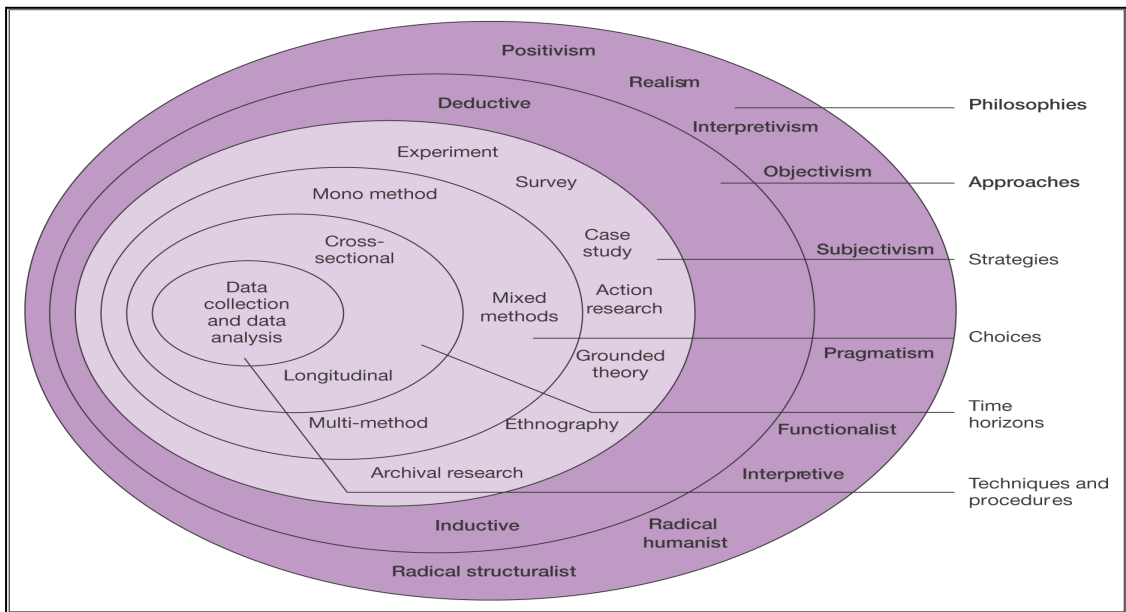
Chapter Four presented and discussed the conceptual framework guiding the study. The conceptual framework covered the challenges confronting SMEs in Zimbabwe, the government policies and strategies implemented to address these challenges, the success of the government policies and strategies in dealing with the challenges, and the need for the development of a policy and strategy framework for promoting SME development in Zimbabwe.

This chapter presents and describes the research methodology employed in this study. Research methodology can be seen as the model according to which a study is conducted in the context of a given paradigm (Wahyuni, 2012: v). In addition, the chapter unpacks the research process guiding the researcher. An understanding of research methodology enabled the researcher to make an appropriate choice of the methodology for gathering and analysing empirical and secondary data. Hence, the methodology adopted had to address the research questions and objectives. Aspects such as the study site, target population, sampling procedure, data collection, and analytical tools constitute a component of what this chapter presents. The chapter ends by discussing the ethical considerations upheld by highlighting issues of consent, anonymity, privacy, and confidentiality.

### **5.2 RESEARCH PROCESS**

The research process follows clear steps (Nani, 2011) and this is important for ensuring that studies are conducted in an orderly manner (Cooper & Schindler, 2008, cited in Nani, 2011). Saunders *et al.* (2009) view the research process as an ‘onion’, with the outer layer being the research philosophy. The research philosophy is the starting point in the research process. This is confirmed by Bryman (2008), cited in Ha (2011), who notes that researchers all over the world agree that it is important to start the research process by unequivocally stating the research philosophy. After establishing the research philosophy, the research approach has to be defined, which then leads to the research strategy (Kulatunga *et al.*, 2007; Saunders *et al.*, 2009). The research strategy involves determining which data collection methods to use, and these include multi-method, mixed methods, and mono methods. A researcher then considers the time horizon before the collection and analysis of data (Saunders *et al.*, 2009). Figure 22 illustrates the research process as a research ‘onion’.

**FIGURE 22. RESEARCH ‘ONION’**



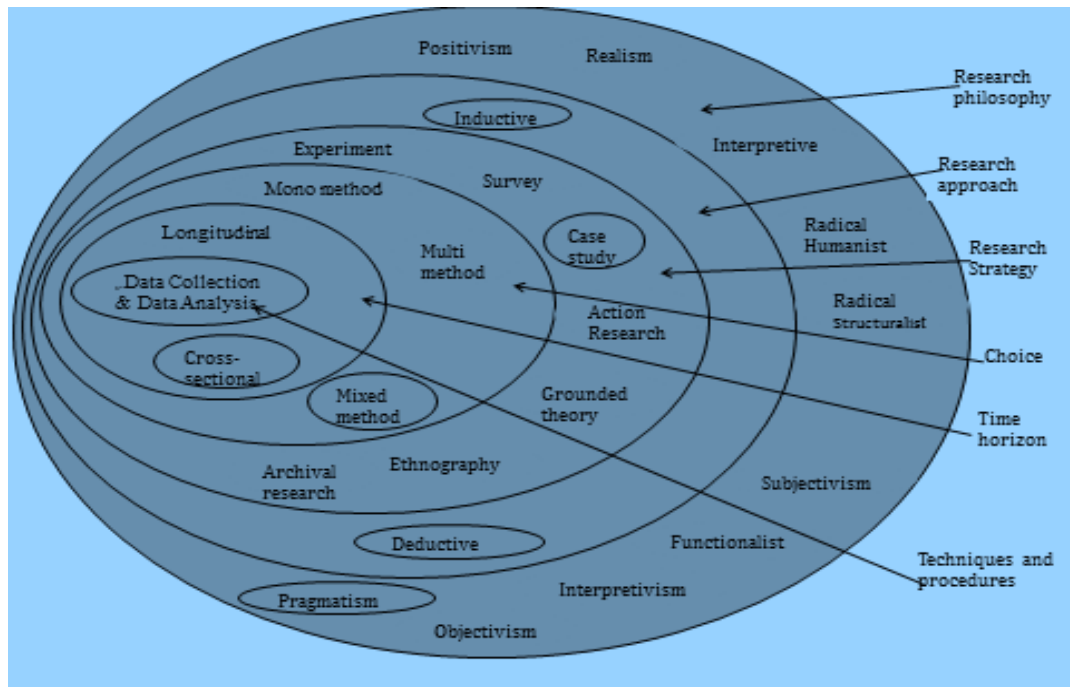
Source: Saunders *et al.* (2009: 108); Saunders *et al.* (2012: 143–149)

Figure 26 shows how the steps in the research process are related to each other. A preceding step influences the next step. For example, the research philosophy influences the research approach to be employed in a study (Saunders *et al.*, 2009). The purpose of a research philosophy is to guide the data collection and analysis (Ha, 2011). The research onion also indicates that the research approach determines the strategies to be employed. Such strategies include experiment, survey, case study, action research, grounded theory, ethnography, and archival or historical research. The collection and analysis of data is centred on the research strategy and the ‘choice’ (mono-method, mixed methods, and multi-methods) based on the research onion.

### 5.2.1 Research ‘onion’ for this study

Figure 23 below shows the research onion used in this study. Some terminology may not be exactly the same. For example, the case study is not a research strategy, as in Figure 26, but a research design in this study. The researcher regards mixed methods as a suitable research approach. The deductive and inductive approaches that have their own ring in the research onion are included in the mixed methods in this study. Therefore, the study adopted an abductive approach. Though different terms are used, basically all the layers in the research onion were used in this study.

**FIGURE 23. RESEARCH ‘ONION’ FOR THIS STUDY**



Adapted from Saunders *et al.* (2009: 108); Saunders *et al.* (2012: 143–149)

In this study, as illustrated in Figure 27, the research philosophy (paradigm) adopted was pragmatism, since mixed methods were used in the collection of data. Both deductive and inductive approaches were implemented as qualitative and quantitative data were collected.

This study focuses on SMEs in Harare, Zimbabwe. Harare has many SMEs operating in the primary, manufacturing, and tertiary sectors of the economy. The primary sector includes mining, quarrying, agriculture, and any other businesses involved in the extraction of raw materials. The tertiary sector is the service-providing sector. The city contains all the sectors in which SMEs operate. Therefore, the case study, which sought to collect rich and in-depth data about SMEs in Harare, was used as a research design. In terms of the time horizons, the study was a cross-sectional case study in the sense that empirical evidence was collected in the month of July 2014, over a period of 30 days. Quantitative data was analysed using descriptive and inferential statistics. Data from interviews and documents was analysed qualitatively. The following sections explain the research process in detail.

### **5.2.2 Research paradigm (philosophy)**

A research paradigm refers to shared beliefs, values and assumptions that researchers have about carrying out research (Creswell, 2010). Rossman and Rallis (2003) view a paradigm as

a shared understanding of what is real. Weaver and Olson (2006: 460) define a paradigm as ‘patterns of beliefs and practices that regulate inquiry within a discipline by providing lenses, frames and processes through which investigation is accomplished’. A paradigm is also viewed as a worldview (Creswell & Plano Clark, 2007; Teddlie & Tashakkori, 2009; Creswell, 2010), or a shared belief among researchers, or a model according to which research is conducted (Ha, 2011). In other words, a paradigm is a generally shared set of beliefs, values, and practices that guide the way in which data should be collected and analysed. A research paradigm underpins the research and influences the choice of the methodology to be employed. Therefore, there is a link between a research philosophy and the methodology used in the collection and analysis of data. This view is reinforced by Trautrim *et al.* (2013) who observe that the most important question that researchers should ask themselves is not about the method to be used but about the paradigm from which to work.

A research paradigm allows the researcher to know and understand their role in the research process and the course of an investigation (Mertens, 1998, cited in Ha, 2011). The choice of a research paradigm is very important for the researcher. It is in this context that paradigms play a critical role in conducting research. There are many different research paradigms used in the social sciences and in business research. Paradigms frequently used are positivism, postpositivism, interpretivism, and pragmatism (Wahyuni, 2012). The research paradigm for this study is pragmatism. Section 5.2.2.2 explains pragmatism in detail and the rationale behind the use of this research philosophy.

#### ***5.2.2.1 Comparison of research paradigms***

Guba and Lincoln (1994, cited in Ha, 2011) observe that understanding a research paradigm can be achieved through a discussion of its assumptions using three questions: the ontological question (‘What is the nature of reality?’), the epistemological question (‘What is the nature of the relationship between the researcher and the researched?’), and the methodological question (‘How is data collected from the subjects?’). These questions are referred to as ‘paradigm-defining questions’ (Ha, 2011). The ways in which paradigms respond to these questions illustrate the differences between them. Table 27 shows a comparison of the different paradigms.

**TABLE 27. COMPARISON OF THE RESEARCH PARADIGMS**

<b>Paradigm defining question</b>	<b>Positivism</b>	<b>Postpositivism</b>	<b>Interpretivism</b>	<b>Pragmatism</b>
<b>Ontology</b>	<ul style="list-style-type: none"> <li>– Knowledge is external and objective</li> <li>– It is independent of social actors</li> <li>– It is governed by natural laws</li> <li>– Reality can be observed as well as predicted</li> </ul>	<ul style="list-style-type: none"> <li>– Objective reality exists but there is no absolute truth</li> <li>– Interpretation of reality is through social conditioning</li> <li>– It is independent of human perceptions and beliefs</li> </ul>	<ul style="list-style-type: none"> <li>– Reality is subjective</li> <li>– Reality changes</li> <li>– Many perspectives exist for one event or situation</li> <li>– Situations or events are unique and cannot be generalised</li> <li>– Reality is constructed through social interaction</li> </ul>	<ul style="list-style-type: none"> <li>– Reality is external and multiple</li> <li>– A perspective is chosen that best addresses the research question</li> </ul>
<b>Epistemology</b>	<ul style="list-style-type: none"> <li>– Researchers and subjects under study are independent and do not influence each other</li> <li>– Findings are replicated and subject to approval or falsification</li> </ul>	<ul style="list-style-type: none"> <li>– Researchers are neutral to avoid biases and follow procedures rigorously</li> </ul>	<ul style="list-style-type: none"> <li>– Researchers and subjects are involved in interactions</li> <li>– Researchers and respondents influence each other in the research process</li> </ul>	<ul style="list-style-type: none"> <li>– Researchers and subjects can be independent of each other or otherwise, depending on the nature of research</li> <li>– A kind of relationship is chosen that best assists in coming up with data that addresses the research question</li> </ul>
<b>Methodology</b>	<ul style="list-style-type: none"> <li>– Experimentation</li> <li>– Observation</li> <li>– Manipulation</li> </ul>	<ul style="list-style-type: none"> <li>– Modified experimentation</li> <li>– Observation</li> <li>– Manipulation</li> </ul>	<ul style="list-style-type: none"> <li>– Interaction between the researcher and research participants</li> <li>– Different constructions are interpreted</li> </ul>	<ul style="list-style-type: none"> <li>– Experimentation, observation and manipulation</li> <li>– Interaction between the researcher and research participants</li> </ul>

				– Methods which best address the research questions are used
<b>Research design</b>	Quantitative research approaches	Quantitative approaches are dominant with some qualitative approaches	Qualitative research approaches	Quantitative and qualitative research approaches

Adapted from Bryman, as cited in Grix (2004: 64); Hughes & Sharrock, as cited in Grix (2004: 64); Mack (2010: 7), Wahyuni (2012:70)

### 5.2.2.2 *Research paradigm for this study*

Pragmatism, as indicated in Table 27, is a research paradigm that focuses on a mixture of methods and procedures for data collection and analysis that adequately addresses research questions (Creswell, 2010; Saunders & Tosey, 2013). Research methods are combined in such a way that meaningful solutions that address a research problem are provided (Johnson & Onwuegbuzie, 2004; Saunders & Tosey, 2013). This research paradigm is based on the belief that positivism, postpositivism and interpretivism working individually cannot provide adequate knowledge about the social world. Pragmatism is the philosophical underpinning of the mixed-methods approach (Johnson & Onwuegbuzie, 2004; Saunders & Tosey, 2013), where both quantitative and qualitative data are collected to enhance the understanding of social phenomena (Wahyuni, 2012). Therefore, researchers are not restricted in their choice of research approaches as they use many approaches to achieve the various research objectives (Creswell & Plano Clark, 2007) and solve practical problems (Creswell, 2010; Feilzer, 2010).

Researchers, therefore, have the freedom to select research methods and procedures that address their needs. Pragmatic researchers start with the research problem, and then choose a mixture of approaches to collect and analyse data to solve the problem. It is in this context that pragmatism has become an attractive alternative to positivism, postpositivism and interpretivism (Denscombe, 2008; Creswell, 2010). However, it is important to note that the reasons for mixing research approaches must be clearly defined. Pragmatic researchers understand that investigations are conducted in various contexts. These include, but are not limited to, social, economic, political and historical contexts (Creswell, 2010).

In this study, the researcher adopted the mixed-methods approach to answer the research questions. Therefore, the theoretical underpinning of this study was pragmatism. The use of

mixed methods enabled the researcher to collect detailed data for the study. The use of quantitative and qualitative data addressed the weaknesses of one method of data collection.

### **5.2.3 Abductive approach**

For the purposes of achieving a deeper understanding of the SME challenges, policies and strategies, and the success of these policies and strategies, the researcher had to employ a mixed-methods approach. The mixed-methods approach is in line with the abductive approach, which uses both deductive and inductive approaches. Dubois and Gadde (2002) observe that using the logic of the abductive approach is more useful than using only the purely inductive or deductive approach.

### **5.2.4 Research design**

A research design is an outline of the methods implemented in the collection and analysis of data used to address the research questions or test the research hypotheses (Cooper & Schindler, 2008; Polit *et al.*, 2001, cited in De Langen, 2009). Therefore, it provides details on what data is to be collected, how the collection is going to proceed, as well as when and where data collection and analysis are to be conducted (van Wyk, n.d.; Parahoo, 1997, cited in De Langen, 2009; Zucker, 2009; Macmillan & Schumacher, 2010). The research design is useful because it guides researchers on the procedures for conducting research, and it is important for specifying a procedure for collecting data that addresses the research questions (Macmillan & Schumacher, 2010).

It is critical that a research design be established before proceeding with the collection and analysis of empirical evidence. There are many research designs used in research and these include the survey, case study, action research, descriptive, archival (historical), cohort, exploratory, experimental, and ethnographic research designs (Saunders *et al.*, 2009; Saunders *et al.*, 2012). A case study research design was adopted for this study. Zimbabwe has many towns and cities, but Harare was chosen by the researcher for the study. Harare is the capital city of Zimbabwe with a cross-section of all the types of SMEs in the country. Therefore, studying SMEs in Harare assists one in understanding the nature of SMEs in Zimbabwe. SMEs in Harare were studied in order to gain a deeper understanding of the challenges they face, the government policies and strategies employed to deal with these challenges, and the success of these policies and strategies in addressing the challenges.

#### 5.2.4.1 Case study

A case study involves an in-depth study of a phenomenon in its setting using a variety of sources of data (Baxter & Jack, 2008; Zucker, 2009; Macmillan & Schumacher, 2010; Yin, 2014). A researcher can conduct an in-depth study of an event, a programme, an activity, a process, or an individual or individuals in a specific geographical location, company, team, department, or industry (Farquhar, 2012). A case study may focus on a single case or on many cases (Yin, 2014). In this study, the focus was on a single case: SMEs in Harare. Any SME outside Harare was not part of the study. Therefore, the researcher conducted an in-depth study of SMEs in Harare. SMEs in Harare constitute ‘individuals in a specific geographical location’, according to Farquhar (2012). Case study research designs are used in all disciplines (Crowe *et al.*, 2011; Creswell, 2013; Denzin & Lincoln, 2011, cited in Hyatt *et al.*, 2014), including management, business studies, and entrepreneurship. This study is in the field of management and entrepreneurship, and therefore the case study research design is appropriate.

Sources of data used include documentation, archival records, interviews, observations, and artefacts (Yin, 2009; Zucker, 2009), and, where possible, questionnaires are used (Yin, 2009; Crowe *et al.*, 2011). Therefore, in order to achieve an in-depth understanding of a case, multiple sources of data are employed (Crowe *et al.*, 2011). The viewpoints of respondents are also considered important in a case study (Zucker, 2009). To gather these viewpoints, this study used questionnaires for collecting quantitative data from owners or managers of SMEs in Harare, while in-depth interviews were conducted to gather qualitative data collection from officials of the MSMECD, SMEDCO, and key informants from three public universities. Documents such as SME policies and published articles on SMEs in Zimbabwe provided qualitative data for the study. Crowe *et al.* (2011) note that such data triangulation promotes the internal validity of the study. A holistic picture of the SME challenges, government policies and strategies in dealing with SME challenges, and the effectiveness of the policies and strategies, was created by using multiple sources of data. A case study was considered appropriate for this study since it provides an in-depth analysis of the study problem. Therefore, this study is a holistic, descriptive case study, as it focuses on the holistic description and explanation of SME challenges, government policies and strategies to address these challenges, and how effective these policies and strategies have been.

‘What’, ‘how’ and ‘why’ questions are used in the collection of data in a case study (Zucker, 2009; Yin, 2014). This study used questions like ‘What are the challenges of SMEs in Zimbabwe in terms of start-up and development?’, ‘What are the government policies and strategies to address the challenges?’, ‘How effective have the strategies been?’, and ‘Why

did the strategies fail or succeed?’ These questions guided the researcher in collecting data from the case.

The use of a case study has strengths which attracted the researcher. A case study uses many sources in the collection of empirical evidence and this promotes the triangulation of research results (Yin, 2009; Crowe *et al.*, 2011). The use of many sources improves the internal validity of the study (Davis, 2011) and the phenomenon under study is studied in detail and in a real-life context (Crowe *et al.*, 2011; Davis, 2011; Yin, 2009, cited in Rose *et al.*, 2015).

Using a case study has its own challenges. For example, research results for Harare SMEs may not be applied to all SMEs in Zimbabwe, especially the rural SMEs. SMEs in cities are different from those in rural areas due to the different socio-economic and cultural environments that influence the operations of businesses in different locations. Therefore, research findings may not be applied to the whole country or society (Yin, 2009; Crowe *et al.*, 2011; Rose *et al.*, 2015). However, the study results may be applicable to SMEs in towns and cities like Bulawayo, Gweru, and Mutare, as they have a similar socio-economic and cultural environment.

### **5.2.5 Research approach**

A study can use a quantitative, qualitative, or a mixed-methods approach. In this study, the researcher used the mixed-methods approach. The mixed-methods approach involves the combination of quantitative and qualitative research approaches in the collection and analysis of data in the same study (Johnson *et al.*, 2007, cited in Angell & Townsend, 2011). This is done in order to provide a comprehensive analysis of the population under study (Creswell, 2003, 2010). Therefore, it improves the quality and precision of the data. The use of both approaches achieves a breadth and depth to the understanding of the phenomena under investigation. Both quantitative and qualitative data are collected at the same time during the research process. They are also combined in the interpretation of research findings. Combining the approaches reduces bias, reduces the impact of weaknesses, and takes advantage of the strengths found in each approach (Creswell, 2010). Byrne and Humble (2007) observe that every data collection method has weaknesses, and mixing methods neutralises the demerits of some methods. That is the reason why this approach has gained preference over quantitative and qualitative research studies specifically.

The mixed-methods approach is employed when the researcher finds that a single approach cannot produce adequate and convincing results for a specific study (Johnson *et al.*, 2007;

Angell & Townsend, 2011). Both small and large samples can be used in this approach. Data is presented numerically, textually, and pictorially (Angell & Townsend, 2011). Using this approach, theories are produced and hypotheses are tested (Byrne & Humble, 2007; Teddlie & Tashakkori, 2009).

The philosophical underpinning of the mixed-methods approach is pragmatism. This is in line with the research approach adopted in this study. The mixed-methods approach is also referred to as a ‘third approach’, after quantitative and qualitative approaches (Teddlie & Tashakkori, 2009). Johnson *et al.* (2007: 117) observe that, ‘We are currently in a three methodological or research paradigm world with quantitative, qualitative, and mixed-methods research all thriving and coexisting’. This is further substantiated by Creswell (2010), who observes that the quantitative and qualitative research approaches can be mixed to address research questions. This indicates that in research studies today, the mixed-methods approach is becoming dominant because of its benefits for the quality of research results. Table 28 indicates the key characteristics of the mixed-methods approach.

**TABLE 28. CHARACTERISTICS OF QUANTITATIVE, QUALITATIVE, AND MIXED METHODS, AND THE USE OF MIXED METHODS IN THIS STUDY**

<b>Characteristics</b>	<b>Quantitative</b>	<b>Qualitative</b>	<b>Mixed methods</b>	<b>Use of mixed methods in this study</b>
<b>Sample size</b>	Large samples	Small samples	Both large and small sample are used	A large sample was used for owners or managers of SMEs  Small samples were used for the MSMECD and SMEDCO officials and informants from universities
<b>Sampling techniques</b>	Probability sampling techniques	Non-probability sampling techniques	Probability and non-probability sampling techniques are used	Probability and non-probability sampling techniques were employed
<b>Nature of data</b>	Numerical data	Qualitative data (narrative data)	Both quantitative and qualitative data are collected	Quantitative and qualitative data were collected

<b>Relationship between the researcher and subjects</b>	There is interaction between the researcher and the researched	Researchers interact and dialogue with the research participants	Interaction and dialogue may take place in some instances or may not in some cases	Researcher interacted with respondents in in-depth interviews and in the distribution and collection of questionnaires
<b>Setting where the research is conducted</b>	Artificial setting/ in the laboratory	Natural setting	Both natural and artificial settings are used	In-depth interviews were conducted in the offices of the respondents. SMEs completed the questionnaires in their businesses
<b>Research instruments</b>	Questionnaire Structured interviews Experiments	Unstructured/ in-depth interviews Observations Personal experiences Analysis of documents and artefacts Use of audio-visual material	Questionnaires, structured and unstructured interviews, observations, personal experiences, analysis of documents and artefacts, use of audio-visual material	Questionnaires were employed on SME owners/ managers  In-depth interviews were conducted with officials from the MSMECD and SMEDCO, as well as informants from universities
<b>Data presentation</b>	Data is presented in tables, graphs and charts	Data is presented textually and pictorially	Presentation of data is done textually, pictorially and in graphs, tables and charts	Data were presented textually and in graphs, tables and charts
<b>Data analysis</b>	Statistical analysis using mathematical models	Content analysis	Both statistical and content analysis methods are used	Statistical and content analyses were conducted

Adapted from Ely *et al.* (1991: 4); Denzin & Lincoln (1994: 14); Johnson *et al.* (2007: 117); Nani (2011: 170)

In Table 28 the characteristics of qualitative and quantitative approaches are combined to form the mixed-method approach. Therefore, the use of the mixed-methods approach assists the researcher in having a better understanding of the challenges facing SMEs in Harare, the government policies and strategies employed to deal with these challenges, the success of these policies and strategies in addressing the SME obstacles, and the alternative policies and strategies to effectively address the challenges of SMEs and promote the development of the sector.

A mixed-methods approach was used in this study, as the qualitative and quantitative approaches were combined. This is in line with the call for the use of mixed methods in the area of entrepreneurship (Ritchie & Lam, 2006, cited in Derera *et al.*, 2014). Research approaches were combined so as to obtain a broader and deeper understanding of the SME challenges in Harare, the Zimbabwean government's policies and strategies to address these challenges, the extent to which the policies and strategies dealt with SME obstacles, and the suggested policies and strategies to deal with the challenges. Precision in the data was required; hence, quantitative methods had to be used to elicit responses from the participants.

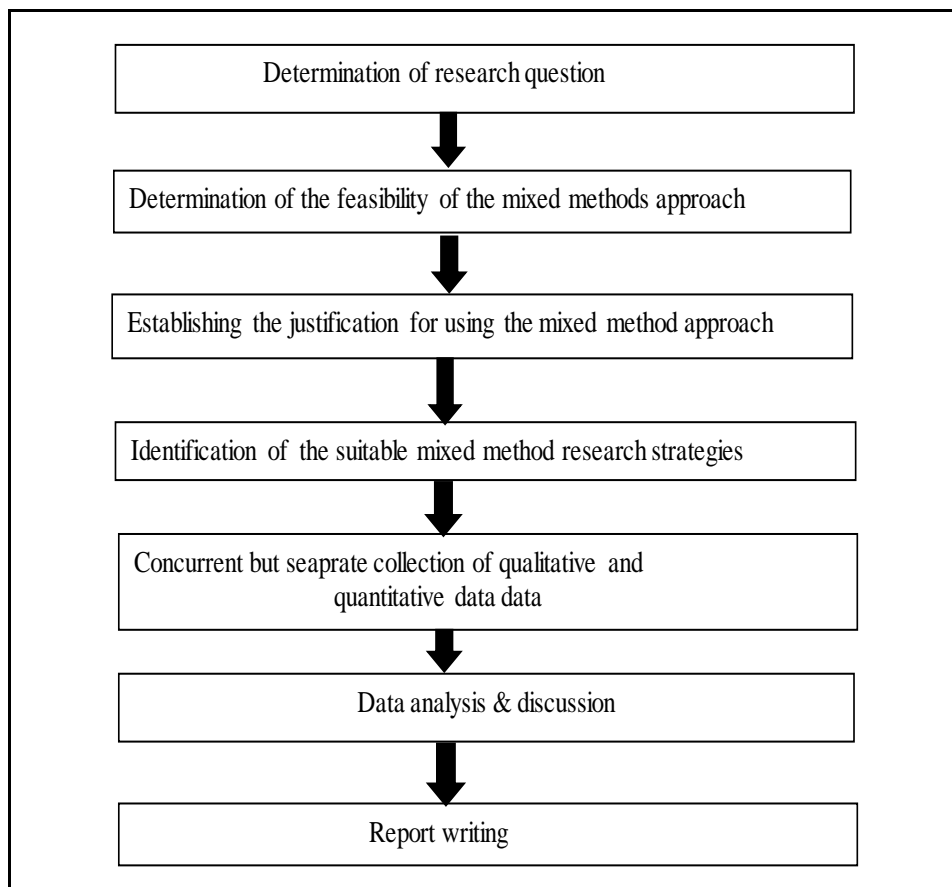
The mixed-methods approach was appropriate because the prior theory on the study is at an intermediate stage. Studies in the intermediate stage employ both qualitative and quantitative data collection methods, which include interviews and surveys (Edmondson & McManus, 2007). Studies on SMEs in the Zimbabwean context have been conducted before; however further research still needs to be conducted, especially on the policies and strategies adopted to address SMEs challenges and their success in dealing with the obstacles to growth. Edmondson and Mcmanus (2007: 1185) note that 'Intermediate theory research draws from prior work — often from separate bodies of literature — to propose new constructs and/ or provisional theoretical relationships'. This means that there are old established constructs, and relationships between them, and new ones have to be added to them. This study draws from prior studies on SMEs in Zimbabwe. In this study the researcher seeks to propose a policy and strategy framework for promoting the development of SMEs in Harare, Zimbabwe.

#### ***5.2.5.1 Procedure followed in the mixed-methods approach***

An answer to the weaknesses of the research instruments lies in the use of the mixed-methods approach (Chitakunye, 2012, cited in Derera *et al.*, 2014). The mixed-methods approach starts with the determination of the research questions (Johnson & Onwuegbuzie, 2004; Fischler,

2010). The research questions guided the researcher in the collection of data, as the collected data had to be able to address the research questions. The research questions or objectives influence the determination of the feasibility of the mixed-methods approach, as it influences the type of data to be collected (Fischler, 2010). Therefore, the research questions guided the researcher in the current study in the choice of the methodology. The researcher has to justify the use of the mixed-methods approach in a study. In the current study, the researcher used the mixed-methods approach because both qualitative and quantitative data could be collected and analysed to address the research objectives. In this study the researcher followed the procedure as indicated in Figure 24 and had to identify the appropriate mixed-methods strategies as well as collect both quantitative and qualitative data concurrently but separately.

**FIGURE 24. THE PROCEDURE FOLLOWED IN THE MIXED METHOD**



Adapted from Fischler (2010: 10) and Johnson & Onwuegbuzie (2004: 239)

### **5.2.6 Research strategy**

The choice of research strategies is determined by the research approach adopted by the researcher: quantitative, qualitative, or mixed methods. Therefore, research strategies refer to the kinds of quantitative, qualitative and mixed-methods approaches that give particular

direction for procedures to be followed in a study design (Creswell, 2007, cited in Creswell, 2010). The kinds of strategies which are used in the mixed-methods approach are sequential, concurrent, and transformative. The researcher chose to use a concurrent strategy, as both the qualitative and quantitative data were collected within the same period. Table 29 illustrates the different research strategies that are used by the quantitative, qualitative, and mixed-methods approaches.

**TABLE 29. RESEARCH STRATEGIES**

<b>Quantitative</b>	<b>Qualitative</b>	<b>Mixed methods</b>
<ul style="list-style-type: none"> <li>– Experimental and quasi-experimental</li> <li>– Non-experimental, for example surveys</li> </ul>	<ul style="list-style-type: none"> <li>– Case studies</li> <li>– Ethnographies</li> <li>– Grounded theory</li> <li>– Phenomenology</li> <li>– Historical research</li> <li>– Narrative approach</li> </ul>	<ul style="list-style-type: none"> <li>– Sequential</li> <li>– Concurrent</li> <li>– Transformative</li> </ul>

Adapted from Creswell (2010: 12)

Table 29 shows that the research strategies that can be used in quantitative research are experimental, quasi-experimental, and non-experimental. Qualitative research uses case studies, ethnography, grounded theory, phenomenology, historical strategies, and narrative strategies. Since this study adopted the mixed-methods approach, emphasis is placed on the mixed-methods strategies: sequential, concurrent, and transformative strategies (Creswell, 2010). According to Terrel (2012), the three strategies combine to form six mixed-methods strategies that are used in the collection of data. The most common of these strategies are sequential and concurrent (Terrel, 2012). The researcher chose to use the concurrent strategy, as the qualitative data collection through in-depth interviews with MSMECD and SMEDCO officials and university informants, was conducted within the same period as the completion of questionnaires by the owners or managers of SMEs.

If one uses a sequential strategy, data collection and analysis are conducted in sequence. Quantitative data may be collected and analysed first, and the qualitative data collected and analysed later, or vice versa (Onwuegbuzie & Johnson, 2006; Creswell, 2010). The researcher may seek a further and clearer understanding of the results obtained through using one method with the aid of another approach. For example, a study may start with an interview in

which qualitative data is collected. This may be done to explore the phenomenon under investigation. A follow-up is made through the collection of quantitative data using a large sample. An investigator uses this to generalise the research findings for the population under investigation (Creswell, 2010).

This study used a concurrent mixed-methods strategy in which the researcher collected qualitative and quantitative data separately and simultaneously (Castro *et al.*, 2010; Creswell, 2010). The integration of data is done at the interpretation stage. The merging of qualitative and quantitative data is done for the purpose of coming up with a comprehensive analysis of a phenomenon under investigation (Creswell, 2010). After collecting both quantitative and qualitative data simultaneously, a comparison is made to establish if there are similarities in the two data sets (Morse, 2003, cited in Byrne & Humble, 2007). Terrel (2012: 267–271) and Creswell *et al.* (2003) divide the concurrent mixed-methods strategy into three categories: concurrent triangulation, concurrent nested, and concurrent transformative strategies. With these three strategies, both quantitative and qualitative data is gathered concurrently. However, there are instances where one data set is given priority over another (Castro *et al.*, 2010). Concurrent strategies are implemented when it is felt that the two data sets are of equal value in answering research questions (Fischler, 2010).

The concurrent nested strategy is also referred to as the embedded strategy. Data sets are collected simultaneously. However, one of the two data sets is embedded or ‘nested’ in the other. Greater emphasis is placed on the main data collection strategy and less weight is afforded to the approach that is nested (Creswell *et al.*, 2003, cited in Castro *et al.*, 2010). The two sets of data are combined at the analysis stage. The main purpose of the concurrent nested strategy is to achieve a broader understanding of the phenomenon under study, which cannot be achieved by implementing only the primary data collection approach. This method also helps to answer different research questions that require different approaches, and enables the collection of data from various groups of individuals within the study population (Terrel, 2012). Terrel (2012) further notes that the challenge with this type of strategy is that data needs to undergo a transformation to facilitate its integration into the analysis process. This strategy is used where resources are so limited that equal weighting cannot be afforded to both the qualitative and quantitative data sets. The embedded method may be used to promote a further understanding of the phenomena being studied (Fischler, 2010).

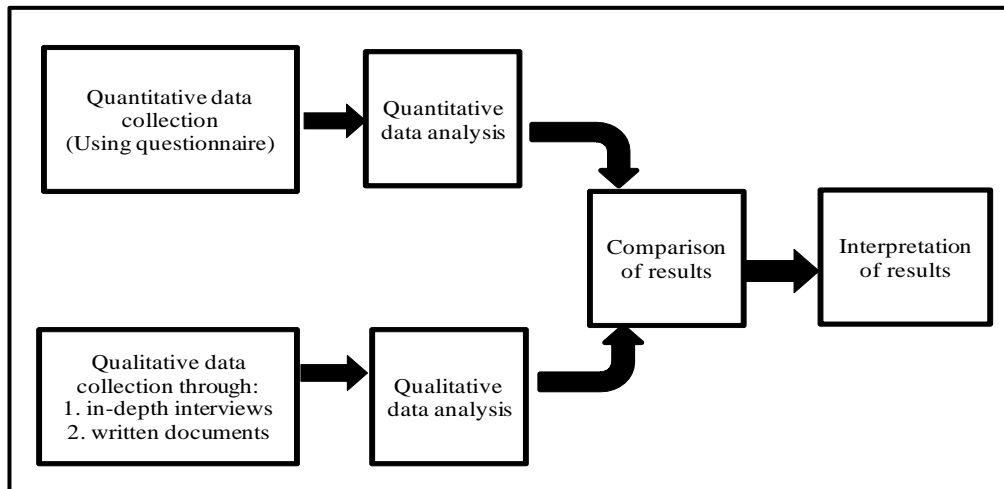
The concurrent transformative strategy involves both the quantitative and the qualitative data being collected simultaneously. Data is transformed from one form to another, and analysis ensues (Teddlie & Tashakkori, 2006, cited in Onwuegbuzie & Johnson, 2006). For example, quantitative data is converted into qualitative data, or vice versa. Teddlie and Tashakkori

(1998, cited in Onwuegbuzie & Johnson, 2006) observe that the transformation of qualitative into quantitative data is achieved by using techniques such as quantitisation, while the conversion of quantitative to qualitative data is achieved by qualitisation. Both data sets are analysed and interpretations are made on the basis of the analyses. The two sets of data may have an equal weighting. However, greater emphasis in some instances may be afforded to one of the two data sets. The integration of data is done at the analysis or interpretation stages (Terrel, 2012). This strategy is guided by a particular theoretical perspective, for example critical theory, a theoretical framework, and advocacy. The purpose of the strategy is to permit the investigator to use approaches that are commensurate with the theoretical perspective. Terrel (2012) notes that this strategy uses less time in data collection as compared to the sequential methods. Weaknesses in one design are offset by the strengths of another design. However, transforming data from one form to another is a challenge, as it requires special expertise and effort.

This study used the concurrent triangulation strategy (Creswell & Plano Clark, 2011). Data is combined at the interpretation stage (Creswell & Plano Clark, 2011), or in some instances, at the analysis stage (Terrel, 2012). The weighting or priority given to the two data sets is equal (Terrel, 2012). Both sets of data were regarded as having equal value in this study. The main purpose of triangulation in this context is to achieve corroboration and a comprehensive analysis of the phenomena under study.

A strength of this strategy is the shorter data collection period as compared with sequential methods. Weaknesses or disadvantages found in one design are also offset by another design (Terrel, 2012). For example, weaknesses found in the quantitative approach are offset by the strengths of the qualitative approach. The concurrent triangulation strategy is effectively utilised where the researcher establishes that one research approach cannot effectively address the research questions. The research questions in this study could not be fully addressed using a single approach. Therefore, a concurrent triangulation strategy was used to adequately and convincingly address the research questions. Figure 25 illustrates the concurrent triangulation strategy.

**FIGURE 25. THE CONCURRENT TRIANGULATION STRATEGY**



Adapted from Terrel (2012: 267) and Creswell & Plano Clark (2011: 17)

The concurrent triangulation strategy was adopted for the purpose of achieving a comprehensive understanding of the challenges faced by SMEs in Harare, the government policies and strategies adopted to address them, and the success of these policies and strategies in dealing with the challenges, within a short data collection period. Such a comprehensive understanding enabled the researcher to develop a policy and strategy framework for SME development in Harare, Zimbabwe.

A combination of the approaches was used, as some questions required in-depth data while others needed factual data. The quantitative data could not provide in-depth information about SMEs in Zimbabwe or explain some quantitative results. Therefore, qualitative data was collected to offset this weakness of the quantitative data. The researcher realized that the high level of subjectivity inherent in the qualitative interviews could be addressed by using questionnaires that elicited quantitative and objective data. Responses gathered during in-depth interviews are vulnerable to memory decay (Ololube *et al.*, 2007), and this issue was addressed by the use of written documents. Secondary data from written documents was also collected by the researcher during the time period when in-depth interview guides and self-completing questionnaires were administered.

### **5.2.7 Time horizon**

The time horizon refers to whether data collection was conducted at a specific point in time (a cross-sectional study) or over a long period of time (a longitudinal study) (Saunders *et al.*, 2012). A cross-sectional study of SMEs in Harare was conducted. In a cross-sectional study, data collection is conducted at a particular point in time (Saunders *et al.*, 2009; Saunders *et al.*, 2012; Saunders & Tosey, 2013). In this study, interviews were conducted over a period of two weeks, and questionnaires were distributed and collected over two weeks. Empirical evidence was, therefore, collected over a month. A longitudinal study, which involves the collection of data over a long period (Saunders & Tosey, 2013), could not be used due to time constraints. Saunders and Tosey (2013) note that cross-sectional studies employ surveys and case studies in the gathering of data, while longitudinal studies use experiments, action research, grounded theory, and archival research. In a cross-sectional study, both qualitative and quantitative data are collected (Saunders *et al.*, 2009). In this study both qualitative and quantitative data collection techniques were used. A questionnaire was used to gather quantitative data, while qualitative data was collected using interviews and documents.

## **5.3 STUDY SITE**

The study was conducted in Harare, the capital city of Zimbabwe and a metropolitan area. Figure 26 shows the map of Zimbabwe and the location of Harare, in the north-east of the country. The city has a population of approximately 2.1 million people (ZimStat, 2012), the largest urban population in the country.

As a capital city, Harare is the communication, manufacturing, commercial and trade centre for fruits, vegetables, and cash crops such as maize, cotton, and tobacco. The manufacturing industries produce garments, blankets, cooking oil, food, plasticware and textiles. Market gardening, potato growing, poultry production, and pork production are conducted on small plots around the city and on its periphery (City of Harare, n.d.; Kutiwa *et al.*, 2010; Moyo, 2013; GoZ, 2013; City Farmer News, 2014). However, some SMEs grow vegetables in the backyards of their houses. Vegetable growing is common in Glen Nora and Greendale (City of Harare, n.d.). Flowers are also cultivated in Harare. In Zimbabwe, these activities are referred to as urban agriculture (Kutiwa *et al.*, 2010; Moyo, 2013; City Farmer News, 2014), which involves the cultivation of crops and the production of livestock within the boundaries of a city or town. Harare has large residential plots, open spaces, and a wet climate, which are conducive to horticulture within the city (Toriro, 2009). The Harare City Council has

permitted 'open air marketing of fresh food' in the city centre at designated places in order to promote urban agriculture.

**FIGURE 26. MAP OF ZIMBABWE SHOWING THE POSITION OF HARARE**



Source: [www.mapsofworld.com](http://www.mapsofworld.com)

In Harare, data collection was conducted in Glen View, Mufakose, Kuwadzana, Dzivarasekwa, Mabvuku, Tafara, Epworth, Hatfield, Mbare (Siyaso), Willowvale, Glen Norah, Greendale, and the city centre. These places have thriving SMEs that have specific premises and are registered. The researcher focused on specific SMEs extracted from the database of the HCSME and the MSMECD. Figure 27 illustrates the study area and the specific places where empirical evidence was collected.



## **5.4 TARGET POPULATION AND SAMPLING**

This section covers the target population, the sampling frame, the sampling techniques employed, and the sample sizes used in the study.

### **5.4.1 Target population**

The target population refers to a large group that is to be investigated through studying a smaller group (Gall *et al.*, 1996; Robson, 2000; Macmillan & Schumacher, 2010). Sapsford (2011) and Williams (2003) concur with this definition, and view a study population as a statistical term that refers to the entire set of subjects on which the researcher carries out an investigation. The researcher generalises the results of a study to the target population through studying a sample (Banerjee & Chaudhury, 2010). These elements in the population must meet certain specifications (Ross, 2005).

The target population in this study is composed of SMEs in Harare, Zimbabwe. These SMEs are in the primary, secondary, and tertiary sectors of the economy. The researcher focused on SMEs that are registered, are on the MSMECD and HCSME databases, and have specific locations, premises or structures from which they operate. The study area is Harare, the capital city of Zimbabwe. The FinScope Survey (2012) revealed that there are 3.4 million SMEs in Zimbabwe, and approximately 13 % (442 000) of these SMEs are in Harare (FinScope, 2012). The survey further indicated that only 15 % (66 300) of these SMEs are registered. However, even though 15 % are registered, some have not yet started operating and do not have specific premises from which they operate. About 18 % (11 934) of registered businesses do not have premises (FinScope, 2012). SMEs included in the study were those that were registered, had specific business premises (such as offices in town, factory buildings or sheds, and proper shops or offices at home or in designated areas), and paid tax. Thus, the researcher focused on SMEs that were operating legally. Through implementing such criteria, the researcher was left with a target population of 54 366 SMEs.

### **5.4.2 Sampling frame**

A sampling frame is a comprehensive list of all elements in the population under study from which a sample is extracted (Kalton, 1983; Burgess, 1994; Williams, 2003; Vogt, 2005; Macmillan & Schumacher, 2010). Thus, the sampling frame operationally defines the target

population from which the sample is drawn and to which the sample data will be generalised (Saunders *et al.*, 2009). A sampling frame is the starting point in the selection of a random sample. Thus, a sampling frame is used in random sampling. Since a sampling frame is an important part of random sampling, it must be up to date and comprehensive, and must suit the research topic. In this study the sampling frame is made up of an up-to-date and complete list of all the SMEs in Harare on the databases of the MSMEDC, SEDCO, the HCSME, and the ZCBTA.

### **5.4.3 Sampling techniques**

The literature on research methodologies clearly shows different types of sampling. There are two broad types of sampling techniques: probability and non-probability sampling. In this study both probability and non-probability sampling techniques were used, since both qualitative and quantitative empirical evidence was collected.

#### **5.4.3.1 Probability sampling**

In probability sampling, statistical inferences about the population are made from the responses of the sample (Robson, 2000; Bhattacharjee, 2012). Probability sampling allows the researcher to generalise from sample to population (Rowley, 2014). Thus, probability sampling is sometimes referred to as ‘representative sampling’, where the sample is understood to be representative of the population under study. In this type of sampling, every member of the population has an equal chance of being selected (Williams, 2003; Bhattacharjee, 2012; Rowley, 2014). Therefore, the laws of chance govern the selection of representatives of the population. This type of sampling is mainly used in quantitative research, for example surveys where numeric data is generated. The merits of the probability sampling technique include a high degree of precision in making inferences from sample to population, and being able to adequately and confidently answer questions on the main characteristics of the population. Probability samples provide the most valid or credible results because they reflect the characteristics of the population from which they are selected (Babbie, 2001; Bhattacharjee, 2012). However, probability sampling is not suitable for deeply social and cultural issues where in-depth interviews are required (Burgess, 1994; Macmillan & Schumacher, 2010). The preparation of the sample takes a great deal of time. There are different types of probability sampling, the most common ones being simple random,

systematic, stratified, and cluster sampling. Stratified random sampling was used in this study.

Stratified random sampling is used when the study population is heterogeneous (Macmillan & Schumacher, 2010). The variations in the population characteristics are significant for the problem being investigated (Burgess, 1994). In stratified random sampling, the study population is divided into various strata, in which individuals have common characteristics (Sapsford & Jupp, 2006; Fink, 2009). Random sampling is then conducted within the different strata (Burgess, 1994; Fink, 2009). Various strata are included in the sample in adequate numbers so that their responses can be compared. Variations exist between groups and within groups. According to Fink (2009), a researcher must not stratify the respondents unless he or she plans to draw comparisons between them. These comparisons may be important in the study. A researcher may suspect that the population characteristics can influence other features being investigated (Burgess, 1994; Sapsford, 2011). In stratifying the population, knowledge of the population is used to increase the representivity of a sample of a given size or to obtain the same amount of data from a smaller sample (Mitchell & Rimmer, 1982; Williams, 2003; Macmillan & Schumacher, 2010). This type of sampling can involve proportionate or disproportionate sampling. With proportionate sampling, the numbers of the strata selected for the sample reflect the numbers in the population as a whole (Sapsford & Jupp, 2006; Sapsford, 2011). Disproportionate sampling is used where there is an unequal weighting in the different strata. In some cases, the small strata of interest may not be represented adequately in the final sample, and the sample size in those small strata must be increased. It is in this context that ‘oversampling’ of small but important strata is permitted (Sapsford & Jupp, 2006; Macmillan & Schumacher, 2010). It is used where there are variations in responses from a particular stratum. Sometimes stratified random sampling is more efficient than simple random sampling in the sense that for a given sample size, the means of stratified samples are likely to be closer to the population means (Sapsford & Jupp, 2006; Fink, 2009).

A sampling frame for stratified random sampling is prepared with the aid of prior knowledge about the composition of the population so that the important characteristics of the elements can be studied (Burgess, 1994; Sapsford, 2011). The aim of stratified random sampling is to increase the precision of the data through reducing the sampling error. It also reduces the cost of data collection by reducing the sample size for the required degree of statistical precision.

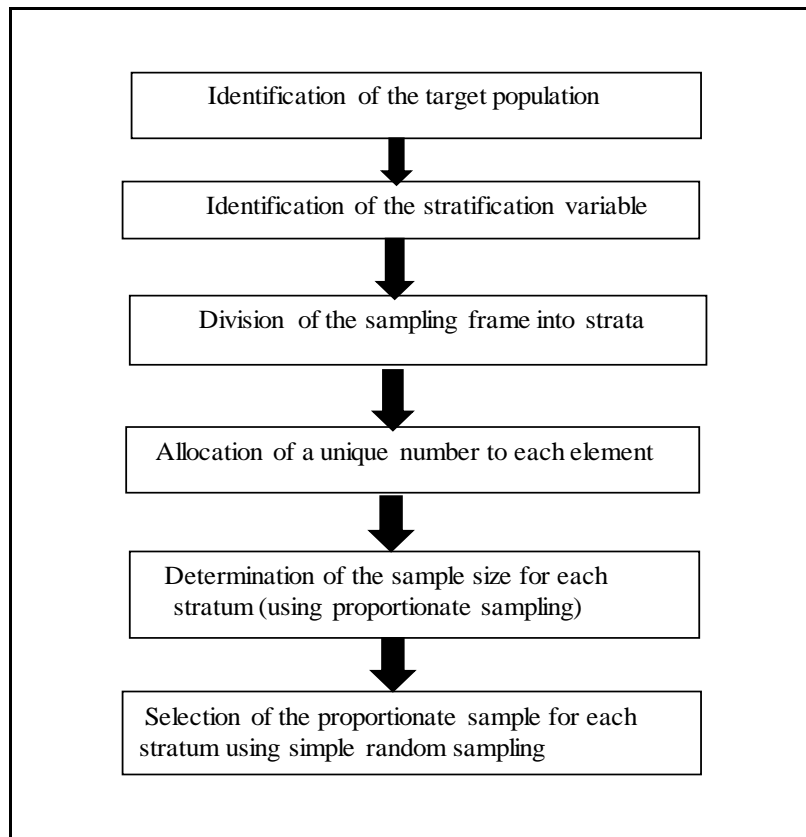
Stratified random sampling was used to select the SMEs that would participate in the study. The SMEs were divided into three different subgroups or strata, herein referred to as business sectors. The business sectors were divided into primary, secondary, and tertiary sectors. The

primary sector refers to those SMEs involved in producing raw materials, such as those involved with mining, horticulture, forestry, poultry production, and pig farming. SMEs that are involved with manufacturing and the processing of raw materials into finished products are classified as part of the secondary sector of the economy. Such SMEs include those manufacturing or producing chemicals, furniture, garments, textiles, cooking oil, peanut butter, metal products, cool drinks, and plasticware. Transport companies, fast food outlets, Internet cafés, hotels and accommodation services, retailers, cleaning companies, artists, education institutions, and cultural businesses are regarded as part of the tertiary sector in this study. SMEs in the three sectors are engaged in different types of businesses. Therefore, the researcher wanted to obtain detailed information from each sector in order to construct a clear picture of SMEs in Harare.

The final respondents were randomly selected proportionally from the different strata. In proportionate stratified sampling the size of the sample extracted from each stratum is in proportion to the size of the stratum in the target population (Ross, 2005). This gives each element in each stratum an equal chance of being selected, and the sample actually represents the population in each stratum. Therefore, it is referred to as the equal probability selection method (EPSEM) (Ross, 2005). Section 5.4.4 illustrates the proportionate sampling.

Castillo (2009) notes that stratified random sampling is employed when the researcher wants to highlight specific subgroups within the population and to collect detailed data from each stratum regarding the SME obstacles, government policies and strategies, and the effectiveness of these steps in addressing the challenges. This technique is useful in such studies because it ensures the presence of the key subgroups (Babbie, 2001; Macmillan & Schumacher, 2010). Though SMEs are found in the three sectors of the economy, each and every sector is unique in its own way in terms of the challenges faced by the SMEs, and in terms of the perceptions of the effectiveness of government policies and strategies. Figure 28 below illustrates the steps followed in selecting a proportionate sample in this study.

**FIGURE 28. THE PROCEDURE FOLLOWED IN STRATIFIED SAMPLING**



Adapted from Saunders *et al.* (2009: 229)

The researcher began by identifying the target population, which was composed of SMEs in Harare (Zimbabwe). SMEs were categorised into different strata according to their economic sector. After the division of the sampling frame into strata, each element was allocated a unique number for use in the simple random selection of a sample. For example, the first SME on the list was allocated the number ‘001’ and the second ‘002’, and so on. The sample size from each stratum was determined using the proportion of the number of elements in a stratum to the target population. Simple random sampling was conducted in each stratum using the unique numbers to obtain a proportionate sample.

#### ***5.4.3.2 Non-probability sampling techniques***

Non-probability sampling techniques are used when qualitative data are to be collected, and when there is a small sample such that the results will not be generalised to any population beyond the sample used (Robson, 2000; Bhattacharjee, 2012). They are also used in a pilot study before a probability sample is used in the actual survey. In this kind of sampling, the

researcher uses his or her personal judgement in the selection of a sample in order to accomplish a specific purpose (Robson, 2000; Macmillan & Schumacher, 2010). Types of non-probability sampling techniques are quota, convenience, purposive, and snowball. In the collection of qualitative data, the study employed the purposive sampling technique. The study implemented a mixed-methods approach; therefore, non-numeric data were also collected. That is the reason why non-probability sampling was also used to select the officials from both the MSMECD and SEDCO, and to select key informants from three public universities in Harare.

In purposive sampling, a researcher's judgement is used in choosing a sample. That is why it is also referred to as judgemental sampling. A sample is selected to meet the particular needs of a researcher. Respondents who are chosen have in-depth knowledge about the data required by the researcher. This concurs with Burgess (1994) and Macmillan and Schumacher (2010), who observe that key informants or respondents are selected because of their status, previous experience, and qualities that allow them to have specific knowledge that the researcher requires. The researcher uses his or her previous knowledge of the population in choosing respondents from it. Individuals with specific and needed qualifications are selected. Length of residence in the community is also used in the selection of respondents (Burgess, 1994; Macmillan & Schumacher, 2010). In judgemental sampling, it is imperative for the researcher to have a clearly defined population about which the sampled respondents are expected to provide data (Burgess, 1994; Bhattacharjee, 2012). Therefore, in purposive sampling, respondents must be well informed about the kind of information that the researcher is looking for and must have spent a long time in a particular area.

Purposive sampling was conducted to select officials from the MSMECD and SEDCO, as well as key informants from three public universities. The researcher focused on officials who were well informed on SMEs in Zimbabwe, and who had a direct link with SMEs in the various sectors of the economy. All the interviewed officials had spent more than five years in their present jobs. The management of both MSMECD and SEDCO directed the researcher to officials who would provide in-depth information about SME challenges, government policies and strategies, and how effective these policies have been. These officials deal directly with SMEs through training and development, the provision of advisory services, funding, infrastructure development for SMEs, and the promotion of SME access to machinery and the latest technology

The selection of the key informants to be included in the study was conducted using purposive sampling. The researcher approached specific departments and individuals who had information about what their universities are doing to promote SME development in

Zimbabwe. Each and every university in Zimbabwe is doing something towards the development of SMEs, but it is not everyone in a university who has information regarding the role their university is playing in SME growth. Particular departments and individuals have information to that effect, and those were the ones who were approached by the researcher during the study. The researcher considered their knowledge of entrepreneurship and SMEs, their experience in interacting with SMEs, their interactions with SME associations, their research on SMEs, their expertise in entrepreneurship, and those who had spent more than five years in the university community. It is clear that experienced and knowledgeable respondents were used in the study.

Table 30 provides a summary of all the sampling techniques used in the collection of empirical data from the study participants.

**TABLE 30. SAMPLING TECHNIQUES USED IN THE STUDY**

<b>Population</b>	<b>Type of data</b>	<b>Type of sampling</b>	<b>Sampling technique</b>
SMEs (owners/managers)	Quantitative	Probability sampling	Stratified random sampling
Government officials (MSMECD)	Qualitative	Non-probability sampling	Purposive sampling
SEDCO officials	Qualitative	Non-probability sampling	Purposive sampling
Public universities	Qualitative	Non-probability sampling	Purposive sampling

Table 30 illustrates that purposive sampling was used to select government officials (MSMECD), the SEDCO officials, and respondents from public universities in Harare. Stratified random sampling was used to select SME owners or managers in the collection of the quantitative data.

#### 5.4.4 Sample size

A sample is portion of a population under study whose characteristics are studied to obtain information pertaining to the whole population (Robson, 2000; Vogt, 2005; Macmillan & Schumacher, 2010). Therefore, a sample is a selection from the population. When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of an investigation (Salant & Dillman, 1994). Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of understanding the characteristics of the whole population (Patton, 1990; Burgess, 1994; Cooper & Schindler, 2003; Vogt, 2005; Sapsford & Jupp, 2006; Sapsford, 2011). The purpose of sampling is to allow the researcher to draw conclusions about the entire population on the basis of the sample (Patton, 1990; Sapsford, 2011). It is also done to get consistent and unbiased estimates of the population status in terms of the characteristics being studied. It is impossible to involve a whole large population in a study due to time and resource constraints. Thus, under such circumstances, a sample is required for detailed study (Burgess, 1994; Sapsford, 2011). In a survey, a sample is expected to be representative of the population. In qualitative research, where in-depth studies are conducted, samples are usually small since a lot of data is generated. A survey facilitates a wider understanding of phenomena, while qualitative studies facilitate a deeper understanding of the population under study.

Sample size refers to the number of individuals selected from a given population and from whom data are collected (Cramer & Howitt, 2004; Shapiro, 2008; Macmillan & Schumacher, 2010). Harare has approximately 54 366 SMEs that are registered, have specific locations or premises, and have tax clearance certificates. The Raosoft sample size calculator was used to determine the sample size for this study. The sample size for a population of 54 366, at a 95 % confidence level with a 5 % margin of error and a response distribution of 50 %, was 382 (Raosoft, 2010:3). Therefore, the sample size was deemed adequate for the study.

In social science and business research, the confidence level is set at 95 %, while in the natural sciences it is usually 99.9 % (Williams, 2003; Creswell, 2010). An increase in the size of the sample reduces the magnitude of the sample error (Burgess, 1994; Marshall, 1996; Fink, 2009) and increases the confidence attached to the research result (Burgess, 1994; Macmillan & Schumacher, 2010). However, beyond a certain limit or size, the gains to be expected from a large sample rapidly decline, making large samples inefficient to use (Burgess, 1994; Robson, 2000; Macmillan & Schumacher, 2010). Table 31 below illustrates the sample used in the collection of data from SMEs. Proportionate sampling was used to identify respondents from each stratum. For example, Harare has 54 366 (FinScope, 2012)

registered SMEs with premises, and the primary sector involved in mining, forestry and urban horticulture constitutes 33 % (FinScope, 2012) of the SMEs in Harare. Therefore, the proportionate sample from that stratum becomes 126 respondents.

**TABLE 31. SAMPLE SIZE USED FOR QUESTIONNAIRE ADMINISTRATION**

<b>Sector</b>	<b>Number of SMEs</b>	<b>Percentage</b>	<b>Proportionate sample size</b>
Primary	17 941	33%	126
Secondary	9 242	17%	65
Tertiary	27 183	50%	191
<b>Total</b>	<b>54 366</b>	<b>100%</b>	<b>382</b>

Extracted using Raosoft sample size calculator (Raosoft, 2010: 3)

A sample size of six business advisors was selected from SMEDCO, and six officials were selected from the MSMECD who are responsible for financing, training, advising and conducting research on SMEs. Purposive sampling was used to select the officials from these two institutions. The researcher talked to individuals who were experienced and who could provide the relevant data required by the study. The senior management of these institutions directed the researcher to officials who dealt directly with SMEs, as well those who could provide rich information for the study. Table 32 illustrates the sample selected from the MSMECD and SEDCO.

**TABLE 32. SAMPLE SIZE: IN-DEPTH INTERVIEW WITH MSMECD AND SMEDCO OFFICIALS**

<b>Target</b>	<b>Quantity</b>
<b>SMEDCO business advisors, loan officers and auditors, technical officers</b>	6
<b>SME Ministry officials for financing, training and advising and research</b>	6
<b>Total</b>	<b>12</b>

Zimbabwe has nine state universities, three of which are in Harare, and key informants from these universities participated in the study. The participants were purposively sampled for the study. The process of purposive sampling is explained in section 5.4.3.2. Table 33 indicates the size of the sample.

**TABLE 33. SAMPLE FOR IN-DEPTH INTERVIEWS WITH KEY INFORMANTS FROM STATE UNIVERSITIES IN HARARE**

<b>Higher Education Institution</b>	<b>Quantity</b>
<b>Harare Institute of Technology (HIT)</b>	1
<b>University of Zimbabwe (UZ)</b>	1
<b>Zimbabwe Open University (ZOU)</b>	1
<b>Total</b>	3

## **5.5 DATA COLLECTION INSTRUMENTS**

Various research instruments are used in the collection of data. Quantitative research uses experiments and surveys to collect data (McMillan & Schumacher, 2010; Bhattacharjee, 2012). Surveys involve the use of questionnaires and structured interviews (McMillan & Schumacher, 2010; Rowley, 2014). Qualitative research uses in-depth interviews, documents and artefact analysis, personal experiences, and audio-visual material (Ely *et al.*, 1991, cited in Hughes, 2001; Bhattacharjee, 2012).

### **5.5.1 Research instruments for the study**

In this study the research instruments that were used in the collection of data were questionnaires, in-depth interviews, and documents.

#### **5.5.1.1 Questionnaire**

A questionnaire was used to collect quantitative primary data from owners or managers of the SMEs. Questionnaires consist of a set of questions designed according to the research

objectives and used for collecting quantitative data from the respondents (Lancaster, 2005; Rowley, 2014). Therefore, questions in the questionnaire were in line with the research objectives and research questions. Questions also emanated from the literature search, which indicated that there were unanswered questions which the current study had to address. The questions were formulated from the perspective of the respondents.

The set of questions must contain clear and necessary instructions for respondents to complete the questionnaire (Sapsford & Jupp, 2006; Rowley, 2014). Self-completed questionnaires are regarded as efficient as far as the researcher's time and effort are concerned. Proper construction of a questionnaire reduces the amount of time needed to code and analyse the responses (Robson, 2000; Rowley, 2014). A questionnaire is a standardised instrument in the sense that all respondents answer the same questions. It is in the light of these merits that the researcher decided to use a questionnaire in data collection. A questionnaire can be posted, sent to the respondents via the Internet, or physically distributed to respondents by the researcher (Rowley, 2014). In this investigation, questionnaires were distributed by the researcher with the aid of five trained research assistants in July 2014.

The questionnaire used in the collection of data in this study contained both closed and open-ended questions. This concurs with Robson (2000), Sapsford and Jupp (2006), and Macmillan and Schumacher (2010), who observe that both closed and open-ended questions can be used in a questionnaire. The questionnaire in this study consisted of five sections. Sections A, B, C and D contained closed questions that were pre-coded, while Section E contained open-ended questions. In sections A, B, C and D, respondents were required to tick the appropriate boxes that represented their responses. In Section E respondents had to respond to the questions by writing their responses in the spaces provided. This concurs with Williams (2003) and Nani (2011), who note that questions are grouped into sections to give a proper structure to the questionnaire and provide a flow. Each section had a set of questions that focused on a particular area of the study. Before questions could be answered, there were instructions that directed respondents on how they were to provide responses. Robson (2000) and Shukla (2010) note that a questionnaire must have clear and unambiguous instructions that assist respondents in understanding what is expected of them.

The questionnaire was pre-coded. Codes refer to symbols, usually numbers, which are used in the identification of specific responses or types of answers in questionnaires (Robson, 2000; Shukla, 2010). Thus, numbers were given to different response categories. Coding helps in the sorting, quantification and analysis of responses from participants. Many responses from participants are reduced to a few categories that contain critical data for analysis (Shukla, 2010). To make analysis easier, it is preferable to pre-code a questionnaire (Robson, 2000).

Section E of the questionnaire, which asked for the opinions or perceptions of the respondents, was not pre-coded since it contained open-ended questions. The responses from the participants were content analysed in order to provide an objective, systematic, and quantitative description of the responses.

Questionnaires were given directly to the respondents to complete. Literate entrepreneurs filled in the questionnaires themselves. Five trained research assistants assisted by providing explanations where respondents needed clarification. This technique is suitable when a large sample over a wide geographical area is to be covered (Nani, 2011; Rowley, 2014). Since a large number of respondents (382) were covered in this study, the use of a questionnaire was suitable. Table 34 illustrates the structure of the questionnaire used in the collection of empirical data. The researcher also linked the sections of the questionnaire to the research objectives (RO).

**TABLE 34. STRUCTURE OF THE QUESTIONNAIRE**

<b>Section</b>	<b>Type of data collected</b>
<b>A: Demographic data</b>	Gender of the respondent, position of the respondent in the company (owner/ manager), educational qualifications, whether the qualifications are in line with the type of business being conducted, and the time period spent in the business sector
<b>B: Information about the business</b>	Business ownership, business sector, location of the business, for how long the business has been operating, number of permanent employees, and the level of skill of the employees
<b>C: Challenges confronting SMEs in Zimbabwe (RO1)</b>	Financial, marketing, tax and import duty, administrative and management, and other challenges
<b>D: Government strategies to deal with the challenges and the success of these strategies (RO2 &amp;RO3)</b>	Government funding, fiscal incentives, marketing and distribution support, training and development, business incubation, SME participation in the public procurement process, reasons for the success or failure of the strategies
<b>E: Opinions of the respondents regarding challenges and possible effective solutions (RO4)</b>	Respondents gave their opinions on why it has been difficult to get government funding, whether government strategies have been helpful in their business, the problems with government support for SMEs, and suggestions to effectively assist SMEs in Zimbabwe

The study focuses on the effectiveness of government policies and strategies in addressing the key challenges confronting the SME sector in Zimbabwe. Therefore, the questionnaire was structured in such a way that the data collected would be used to assess the SME policies and strategies. As shown Table 34 above, the questionnaire was divided into sections A–E, with each section having a specific set of questions to be answered by respondents. The following provides a detailed description of the sections of the questionnaire.

### **Section A: Demographic data**

This section was made up of pre-coded questions that required the respondent to provide demographic data on their gender, that is, whether they were male or female. Respondents also needed to indicate whether they were the owner or manager of the business. These two questions were binary questions that used a binary scale. A binary scale is a nominal scale from which the respondent has to choose between the two possible answers provided (Bhattacharjee, 2012). Research participants were also expected to provide data on their formal educational qualifications: Grade 7, O Level or A Level, National Diploma, Higher National Diploma, Bachelor's degree, Master's degree or PhD. This question was included to establish whether their level of education had an impact on the business's success or failure. There was a dichotomous question which required the respondents to state whether their formal qualifications were in line with the type of business they were conducting. For this question, respondents were expected to answer "Yes" or "No". Therefore, it was a binary-scale question. Data on the number of years the respondent had spent in their business sector was also required.

### **Section B: Information about the business**

Questions in this section were also pre-coded. The first question in this category required respondents to provide information about the business ownership. The respondent had to indicate whether the business is a sole proprietorship, partnership, or a private limited company. The question that followed required the participants to indicate the sector in which their business operates: primary, secondary, or tertiary. Participants also had to indicate the location of their business: city, high-density suburb, low-density suburb, or light industrial area. Respondents had to indicate the number of years their businesses had been operating. This section also required participants to state the number of permanent employees in the

business, and the level of skills of the employees. In terms of skills, the respondents had to show whether the employees were unskilled, semi-skilled or skilled.

### **Section C: Challenges confronting SMEs in Zimbabwe**

This section is linked to the first research objective of the study (RO1) which focuses on the identification of obstacles to SME growth in Zimbabwe. It was made up of Likert-scale questions that focused on the financial, marketing, administrative and management, and other challenges confronting SMEs in Zimbabwe. A Likert scale is ‘an attitude or personality scale where respondents are invited to express their degree of agreement or disagreement with a proposition’ (Sapsford & Jupp, 2006: 121; Macmillan & Schumacher, 2010). Therefore, the Likert scale is used for effectively measuring the attitudes, beliefs and perceptions of respondents.

Questions in this section were framed in the form of statements. Statements can either be positive or negative (Fink, 2009), and positive statements were used in this study. The respondents were given the opportunity to say whether they strongly disagree, disagree, agree, or strongly agree with the statements in the Likert scale. According to Robson (2000), Mitchell and Rimmer (1982), and Fink (2009), the five-point Likert scale questions are the ones that are most commonly used, in which answers from respondents are usually scored from 1 to 5 or 5 to 1, depending on the direction of the statements. In the five-point Likert scale, respondents are expected to strongly disagree (1), disagree (2), be uncertain or neutral (3), agree (4) or strongly agree (5). However, a four-point scale can also be used, in which the ‘neither agree nor disagree’ option is removed (Fink, 2009; Wetmore, 2012). This is referred to as a ‘forced choice’ method in which the respondent chooses from the available options and cannot be neutral (Fink, 2009). This is influenced by the needs of the survey or study (Fink, 2009). In this study a four-point Likert scale was used because the researcher wanted to get specific responses from the respondents. Wetmore (2012) notes that a four-point Likert scale is used when the researcher intends to get specific responses from the participants. The ‘uncertain or neutral’ (neither agree nor disagree) option was not included. Thus, respondents were forced to form an opinion. SME owners and managers in Zimbabwe are aware of their challenges and, to a large extent, what the government has tried to do to address their problems. Furthermore, the owners and managers have opinions about whether or not the government policies and strategies have been effective. Therefore, there was no need for the respondents to neither agree nor disagree. Thus, the ‘neutral’ option was removed.

## **Section D: Government policies and strategies to deal with challenges faced by SMEs in Zimbabwe**

This section focused on the GoZ's policies and strategies to address the SME challenges, and the effectiveness of these policies and strategies in addressing the SME obstacles. The second and third research objectives (RO2 & RO3) are addressed by this section of the questionnaire. The Likert-scale type of questioning was used. The scale ranged from 1 (strongly disagree) to 4 (strongly agree). Once again, the four-point Likert scale was used. Government funding, fiscal incentives, marketing and distribution support, training and development, business incubation, and SME participation in the public procurement process were the government policies and strategies on which the questions were based.

The researcher favoured the Likert scale because of its several merits. The construction and administering of the Likert scale is easy. Respondents find it easy to understand the questionnaire without too much explanation, and data collection is made easier as well. Data analysis is made easy by the numbering allocated to every option, and coding of the responses is easy. The fact that the Likert scale is commonly used in surveys means that it is easily understood by both researchers and respondents. The findings are presented using tables and graphs in a manner that they can easily be understood. Therefore, the Likert scale is one of the quickest, most efficient and cost-effective methods of gathering data. However, it takes a long time to complete.

## **Section E: Opinions of the respondents**

This last section of the questionnaire was comprised of four open-ended questions. Open-ended questions must not be too numerous and if possible must be placed at the end of the questionnaire (Williams, 2003; Macmillan & Schumacher, 2010), so in this questionnaire only four open-ended questions were placed at the end. Both closed and open-ended questions can be used in a questionnaire (Sapsford & Jupp, 2006; Sapsford, 2011). These questions sought responses in which respondents had to explain their opinions and experiences. Respondents had to explain why it was difficult to get government funding, whether the government policies and strategies were effective for their businesses, the loopholes in government support, and suggestions for effectively assisting SMEs in Zimbabwe. The third and fourth research objectives (RO3 & RO4) were linked to this section of the questionnaire.

### ***5.5.1.2 Interviewing***

An interview is a special kind of conversation that takes place between the interviewer and the respondent for a particular purpose (Saunders *et al.*, 2009; Woods, 2011). The purpose of an interview in research is to collect the required data. This is supported by Cohen and Manion (1989: 307, cited in Robson, 2000: 229), who observe that an interview is ‘initiated by the interviewer for the specific purpose of obtaining research-relevant information and it is focused by the interviewer on content specified by research objectives’. Saunders *et al.* (2009) concur with this statement by noting that interview questions should be in line with the research questions and objectives. The questions asked in an interview are therefore guided by the objectives that the research seeks to accomplish. It is in this context that Burgess (1994) states that interviews are a crucial element of field research. Interviews have been in use for a long time in data collection and have been proven to be effective. For example, Palmer (1928: 169, cited in Burgess, 1994) observes that ‘the conversation of human beings is an important part of data collection in research’. The same observations were made by Webb and Webb (1932: 130, cited in Burgess, 1994) who note that ‘for the greater part of his or her information the investigator must find his own witnesses, induce them to talk, and embody the gist of his oral testimony on his sheet of notes. This is the method of interview, or conversation with a purpose’. Even today, interviews are still critical in data collection. Interviews can be conducted face-to-face, by telephone, by Skype or by using the Internet (Woods, 2011). However, the most common are face-to-face and telephone interviews. In this study face-to-face interviews were conducted by the researcher.

In the face-to-face interview, the interviewer and the interviewee meet for the purpose of conducting interviews leading to data collection. This usually takes place in an environment in which the interviewee is comfortable. It can take place at home, in an office, at the workplace, or in the street, depending on the circumstances. Dunne (1995) and Saunders *et al.* (2009) view face-to-face interviews as the most satisfying method of interview, as time is set aside for the interview and the interviewer has the opportunity to probe more deeply into the subject under discussion and collect a greater quantity of more relevant information. Thus, open-ended questions are accommodated in this method of interviewing. Closed questions are also used. Face-to-face interviews are treated more seriously by respondents than self-completing questionnaires (Sapsford, 2011), as some of the respondents enjoy talking about themselves. Therefore, the response rate is higher than for self-completing questionnaires. The surroundings, body language, facial expressions, change of positions, and other forms of behaviour provide critical information to the researcher (Mitchell & Rimmer, 1982; Dunne, 1995; Robson, 2000; Saunders *et al.*, 2009). The non-verbal behaviours give additional

meaning to what is said by the respondent. In this way, the face-to-face interview provides rich and highly illuminating material (Robson, 2000; Macmillan & Schumacher, 2010). In this method of interviewing, the interviewer builds a rapport with the interviewee through interaction. The major challenges of face-to-face interviews are that there are travel expenses involved, more time is needed to conduct the interviews, and in some cases there are distractions in the environment where the interview is conducted (Dunne, 1995; Macmillan & Schumacher, 2010). Travel is required since respondents may be geographically distant from each other, and the interviews are conducted at a time and place convenient to the interviewee. Travelling and conducting the interviews requires more of the researcher's time. In the current study, open-ended questions required the respondents to explain their responses. Where the answers were not clear, follow-up questions were posed. This demanded a considerable amount of time for travelling from Chegutu to Harare to conduct interviews. Travel expenses were incurred in the process of data collection.

In this study, open-ended questions were used and non-verbal language was important in the interpretation of responses. Open-ended questions were valuable in this study as they afforded the interviewer the opportunity to probe, so as to obtain more in-depth information on the subject under study. A rapport needed to be established with government officials and university respondents before the interview. It is in the light of these points that face-to-face interview became the most appropriate form of interview in this study. The following section explains how the interview was conducted.

#### **5.5.1.2.1 Type of interview for the study**

Interviews can be structured, semi-structured, or unstructured. The type of an interview to be used relies heavily on the type of study being conducted (Block & Erskine, 2012). In-depth interviews were used for the collection of qualitative data from participants. Key informants were given the time and scope to talk about their opinion on a particular subject. Interviews provide in-depth information pertaining to participants' experiences and viewpoints on a particular topic, and semi-structured interviews were used in the data collection.

In semi-structured interviews, the interviewer prepares a set of questions in advance, but the order of questions is subject to modification depending on what seems most appropriate to the researcher during the course of the interview (Robson, 2000; Wengraf, 2004; Woods, 2011). The wording of the questions can be changed, explanations can be given, some questions can be left out if they appear to be inappropriate for a particular interviewee, or additional

questions can be included (Robson, 2000; Saunders *et al.*, 2009). Open-ended questions are used and respondents are encouraged to give a narrative of some sort about their experiences, perceptions, and understanding of the subject under discussion. Therefore, open-ended questions are useful for the collection of qualitative data, and may produce unexpected answers that may be important to a study. Face-to-face is the most suitable method of conducting semi-structured interviews, although telephones and videophones may also be used. Semi-structured interviews provide more detailed information than structured interviews (Woods, 2011), because the interviews are flexible and the researcher has an opportunity to probe responses and change the order of questions. However, semi-structured interviews are time-consuming, as it is necessary to spend time preparing for the interview, and the interview itself requires more time than a structured interview. They are also prone to bias and the results cannot be generalised (Woods, 2011). Structured and semi-structured interviews are referred to as respondent or participant interviews because the interview process is directed by the interviewer (Robson, 2000; Saunders *et al.*, 2009).

Authors do not concur on whether in-depth interviews are semi-structured or unstructured. Guion *et al.* (2011) view in-depth interviews as having a semi-structured format. Woods (2011) concurs with this and sees in-depth interviews as the same as semi-structured interviews. On the other hand, some researchers consider in-depth interviews to be unstructured interviews (Mitchell & Rimmer, 1982; National Science Foundation (USA), 1997; Saunders *et al.*, 2009). In this study, the in-depth interviews had elements of semi-structured interviews in the sense that questions or themes were prepared by the researcher in advance, in line with the research objectives and questions. Guion *et al.* (2011) view the 'semi-structured format' as one of the characteristics of in-depth interviews in that the main questions are predetermined. Mitchell and Rimmer (1982) concur, and observe that the interviewer may have a set of questions or topics prepared in advance. In this study, the order of the questions could be changed depending on the respondent, and the interviews were informant interviews in that they involved probing for deep information. The interviews also took the form of a conversation, as responses given by the participants led to the next question. In-depth interviewing is also conducted on a small number of interviewees (Boyce & Neale, 2006; Macmillan & Schumacher, 2010).

Open-ended questions gave respondents the freedom to speak on each and every theme or question without restrictions. In fact, questions were answered to the limit of their knowledge. Their perceptions, experiences and feelings were an important element of the study. The researcher listened attentively in order to be able to understand and interpret the responses. The National Science Foundation (USA) (1997: 2) and Saunders *et al.* (2009) observe that an

interviewee must be a 'good listener and questioner'. Clarity-seeking questions were posed to enhance understanding. Qualitative data was collected because in-depth interviews constitute a qualitative research method. Guion *et al.* (2011) note that in-depth interviews are used in the collection of qualitative data. Thus, this study was partly qualitative in nature. In this type of interview, the interviewer has an opportunity to explain questions so that meaningful data can be collected (Wallace Foundation Knowledge Centre, 2012). It leads to the collection of rich and detailed data for the study (National Science Foundation (USA), 1997; Boyce & Neale, 2006; Wallace Foundation Knowledge Centre, 2012). There is a high degree of flexibility involved in conducting interviews. It is because of these merits that in-depth interviews were used in the study.

A telephone can be used to conduct these interviews, but face-to-face interaction is best (National Science Foundation (USA), 1997; Saunders *et al.*, 2009); therefore, in-depth interviews were conducted face-to-face with the officials from SMEDCO and the MSMECD, as well as with the academics from the three state universities in Harare. This type of interview was used in conjunction with the questionnaire and document analysis. Interviews are combined with other methods of data collection in order to provide the researcher with adequate data for analysis (Turner, 2010; Wallace Foundation Knowledge Centre, 2012). Table 35 shows the structure of the interview guide used in the study. The second section of the interview guide for SMEDCO and the MSMECD officials addresses the first research objective (RO1), while the third section is linked to the second (RO2) and third (RO3) objective. Section four addresses the fourth (RO4) research objective.

**TABLE 35. DATA COLLECTED FROM SMEDCO AND THE MSMECD**

<b>Section</b>	<b>Type of data collected</b>
<b>Section 1: Information about the respondent</b>	Position of the respondent in the organisation, duties and responsibilities, and for how long they have been dealing with SMEs
<b>Section 2: Challenges confronting SMEs in Zimbabwe (RO1)</b>	<p>The challenges that have been common among SMEs in the primary, secondary and tertiary sectors of the economy</p> <p>The sectors that have been affected most and the reasons why</p> <p>Amongst the existing challenges, which ones had a major setback on SMEs and reasons why</p>
<b>Section 3: Policies and strategies (RO2 &amp; RO3)</b>	<p>Existing policies and strategies to address the challenges facing the SME sector and the effectiveness of these policies and strategies</p> <p>Strategies that have been successful, and reasons for their success</p> <p>Strategies that have failed and reasons for their failure</p> <p>Whether the government uses any criteria in assisting SMEs. If criteria are used, which ones are used and why?</p> <p>Has the government been able to assist all SMEs that needed assistance? If so, how? If not, why?</p> <p>Have the SMEs done enough to augment government support?</p> <p>Is there any mechanism in place to check if the resources or support given to SMEs are put to good use (actually used in the business)? If so, how did the government do it? If not, why?</p> <p>Which sectors were assisted and what were the reasons for assisting those sectors?</p> <p>SME awareness of government support schemes</p>
<b>Section 4: The way forward (alternative policies and strategies) (RO4)</b>	<p>Policies and strategies suggested by the interviewee to deal with challenges faced by SMEs in Zimbabwe</p> <p>Any suggestions from SMEs regarding workable policies and strategies to promote SMEs</p> <p>Anything else that the interviewee would like the interviewer to know about government policies and strategies in dealing with SME challenges</p>

Table 36 illustrates the structure of the interview guide used in the collection of data from key informants at the three public universities in Harare. The second section of the interview guide is linked to RO1, RO2, RO3 and RO4.

**TABLE 36. DATA COLLECTED FROM KEY INFORMANTS IN UNIVERSITIES**

<b>Section</b>	<b>Type of data collected</b>
<b>Section 1: Information about the respondent</b>	<p>The position of the informant in the organisation</p> <p>Duties and responsibilities of the informant</p> <p>The period (number of years) the informant has spent working for the university</p>
<b>Section 2: Institution's activities in promoting SME development in Zimbabwe (RO1, RO2, RO3 &amp; RO4)</b>	<p>The activities which the university is conducting to promote SME development in Zimbabwe</p> <p>The strategies which have been effective and why they have been a success</p> <p>Which strategies/activities have been a failure and why they failed</p> <p>How the SMEs responded to the university initiatives and why they responded as such</p> <p>Challenges the universities have faced in their attempts to promote SME development in Zimbabwe</p> <p>Any suggestions from SMEs regarding the assistance from state universities to promote SME development in Zimbabwe</p> <p>Anything else that the informant would like the interviewer to know regarding the universities' approach in promoting SME development in Zimbabwe</p>

### **5.5.1.3 Documents as sources of data**

Documents are viewed as important sources of data for qualitative research as they contain information about society (Saunders *et al.*, 2009; Ololube & Kpolovie, 2012). Ololube and Kpolovie (2012) classify documents into two categories: primary and secondary sources.

Primary sources, according to their classification, include publications by government, national newspaper articles, publications and reports produced by the World Bank, and relevant magazines. These sources provide comprehensive and first-hand data about the study. Textbooks, study reports by other researchers, journals, and other literature constitute secondary sources of data (Saunders *et al.*, 2009; Ololube & Kpolovie, 2012). Both primary and secondary documents were used as sources in this investigation. Documents can also be considered either public or personal (Olson, 2010). In this study, public documents were used. Public documents include, but are not limited to, government policy documents, newspaper and magazine articles, and archives, as well as census data (Olson, 2010). Documents are analysed to establish themes and make interpretations that enhance the understanding of phenomena (Trautrimis *et al.*, 2013). All readily available material, which can include internal company information, relevant trade publications, newspapers, magazines, annual reports, company literature, online data bases, and any other published material, is reviewed to provide critical data for a study (Myers & Barnes, 2005; Bowen, 2009). In this study, the relevant documents used as sources of data included published and printed information about SMEs from the MSMECD, SEDCO and the SEDCO website, the ZCBTA, the HCSME, public universities, and the Internet (published academic articles about Zimbabwean SMEs). Policy documents, newspaper articles, still photographs, and magazines about SMEs were also used as sources. Before documents were used as sources they were assessed in order to establish their validity and value to the study. Pole and Lombard (2000, cited in Ololube & Kpolovie, 2012) note that it is important for the investigator to assess the validity and importance of particular documents for an investigation. This is further confirmed by McCulloch (2004), who observes that the researcher needs to establish the authenticity of documents. Documents must be of ‘genuine and unquestionable origin’ (Scott, 1990:6, cited in McCulloch, 2004:42; Olson, 2010). Informed judgements are made on the basis of the validity, value, and authenticity of the data collected. The documents used in a study must be “clear and comprehensible to the researcher” (Scott, 1990: 8, cited in McCulloch, 2004: 45; Ololube & Kpolovie, 2012). That means that the researcher needs to have an understanding of the documents being used in data collection.

Key themes that were used in the collection of data included the challenges of SMEs in Zimbabwe, government policies and strategies, and how successful the policies and strategies have been in addressing the SME problems. Information gathering was guided by the key themes. Therefore, documents that addressed the themes were selected and used in the study.

Gathering and reading documentation is a very inexpensive method of gathering data, although it generally does not yield timely data. This method is cost-effective, as the data is

readily available from previous publications (Lancaster, 2000; Saunders *et al.*, 2009). However, this method becomes very effective if it is used in conjunction with other data collection methods (Robson, 2000; Saunders *et al.*, 2009) as a means of achieving triangulation (Bowen, 2009). Triangulation is done to enhance the understanding of the phenomena under investigation by using different methods. It is through triangulation that credible data is generated (Eisner, 1991, cited in Bowen, 2009). The greatest strength of documents is that they are often produced at the same time at which the situations or events they refer to take place. Thus, they are ‘less likely to be subject to memory decay or memory distortion compared with data obtained from an interview’ (Ololube, 2006; Ololube *et al.*, 2007; Kpolovie *et al.*, 2011, cited in Ololube & Kpolovie, 2012: 51). That means information contained in documents does not get forgotten, as it is available in written form. Although the data may not be up to date, this method of collecting data has proved to be effective over the years (Hancock *et al.*, 2007).

## **5.6 PILOT STUDY**

A pilot study is a try out and a small replica of the main study (Lancaster, 2000; Sapsford & Jupp, 2006; Fink, 2009; Sapsford, 2011). It is essential to identify potential problems before the expensive, time-consuming, full-scale research is undertaken (Robson, 2000; Adams & Cox, 2008; Nani, 2011). Pilot studies are conducted to assess people’s reaction to the questionnaire and to understand how the questions are likely to be interpreted by the respondents (Nani, 2011). The pilot study identifies possible areas of confusion and any possible errors, and enables the researcher to gauge the average amount of time respondents take to complete the questionnaire (Oppenheim, 1992; Nani, 2011).

The researcher conducted a pilot study to establish whether the directions on the questionnaire were clear to the respondents. A pilot version of the questionnaire was administered to 20 owners or managers of SMEs in Chegutu, a town to the south-west of Harare. Experienced researchers usually conduct a pilot study with 20–50 respondents (Fowler, 2002; Macmillan & Schumacher, 2010). The five trained research assistants distributed the questionnaires to SMEs in the primary, secondary, and tertiary sectors of the economy in order to get a variety of responses, and the research assistants had to note their observations during the pilot study. Details regarding the selection and training of the research assistants, as well as how the researcher ensured that quality data was collected, are provided in section 5.7.1. The research assistants observed that the respondents asked for clarity on some questions, some questions were inadequately answered, some questions were not answered at all, and the initial

questionnaire appeared to be too long. Adjustments were made to the questionnaires to simplify the language used, which resulted in the shortening of the questionnaire without negatively affecting the important data to be collected.

Pilot studies were also carried out with two volunteers at government offices of the MSMECD in Chegutu and two SEDCO officials outside Harare. Since in-depth interviews are expensive in terms of time, money and energy, one or two interviewees may be adequate for the pilot study (Wengraf, 2004; Macmillan & Schumacher, 2010). The initial interviews were too long, and therefore time was adjusted for the interviews. The interview guide for key informants from the state universities was tested at two state universities not included in the sample. The interview schedule with key informants in state universities was altered to provide more clarity on some questions.

The pilot study provided information on the adequacy of the sampling frame, the variability of the population under investigation, the non-response rate to be expected, the suitability of the data collection method, and whether the answers met the objectives of the investigation (Fowler, 2002; Fink, 2009; Saunders *et al.*, 2009). The pilot study also gave the researcher an estimate of the costs and time spent on the interviews, and how the respondents could be approached. The pilot study helped to reduce the number of errors that would have been made in the main study.

## **5.7 DATA COLLECTION PROCESS**

The data collection process involves preparation for the data collection and the actual gathering of data from the field (Shukla, 2010; Bhattacharjee, 2012). The researcher had to make preparations prior to data collection. Data was collected from SME owners or managers, from the MSMECD and SEDCO officials, from key informants from the universities, and from written documents.

### **5.7.1 Preparing for field data collection**

Prior to the data collection in the field, preparations were made by the researcher to ensure the smooth extraction of data from the respondents. The University of KwaZulu-Natal Ethics Committee granted the researcher an ethical clearance document with a protocol reference number HSS/1114/013D (see Appendix B). The document was an assurance that the study

observed moral standards, demonstrated respect for the rights of the research participants, and posed the minimum risk to respondents. A letter from the University of KwaZulu-Natal, School of Management, Information Technology and Governance was issued to the researcher. It was prepared by the researcher's supervisors so that the MSMECD would grant the researcher permission to collect data (see Appendix B). The researcher was given permission by the MSMECD head office to collect data through a written letter (see Appendix C). Permission was also granted so that the researcher would have access to ministry documents such as policies, Acts and other published documents. The MSMECD referred the researcher to the HCSME based at the High Glen Shopping Complex, which has direct contact with SMEs in the various sectors of the economy in Harare. The researcher received an introductory letter from the HCSME.

A visit was paid to the areas in Harare with SMEs in order for the researcher to become familiar with the areas covered by the research, which include Harare City, High Glen Shopping Complex (Willowvale), Glen View 8 Furniture Complex, Mbudzi Area, Willowvale Industrial Area, Kuwadzana, Mabvuku, Tafara, Glen Nora, Greendale, Gazaland, Mbare, Epworth, Mufakose, Hatfield, and Dzivarasekwa. These are some of the areas in Harare where SMEs are located and operate legally.

The researcher also wrote a letter to the senior management of SMEDCO requesting permission to collect data from their staff through in-depth interviews using interview guides. Appointments were made for interviews with the SEDCO and MSMECD officials. A visit was also paid to the office of the ZCBTA to obtain information about where their SME members could be found. This information was provided.

Interviews require careful preparation and this takes time (Robson, 2000; Bhattacharjee, 2012). The universities involved in the study were visited, permissions were granted, and appointments were made with the key informants. Interviews were arranged for mutually agreed dates, times and venues. Dunne (1995) states that it is important to make prior arrangements regarding the time, date and place of an interview. Selected respondents were contacted in advance and briefed about the study. This allowed them to gather adequate information required by the researcher.

Respondents were also assured of the ethical considerations of the research. Grill *et al.* (2008) and Bhattacharjee (2012) note that interviewees need to be informed in detail about the study and must be assured of their anonymity and the confidentiality of the research. Respondents provide more honest feedback if they are assured of confidentiality and anonymity (Grill *et*

*al.*, 2008; Bhattacharjee, 2012). As part of the interview preparation, the researcher had to ensure that there were notepads and ballpoint pens to be used in the data collection process.

Data from SMEs was collected with the aid of five trained research assistants. Individuals who had completed their Honours degrees in Business Management and Entrepreneurship were chosen to be research assistants. Such individuals had an understanding of the field of entrepreneurship and had a general idea of what data collection involved. The research assistants were trained to understand what the study was about, their role in data collection, the ethical issues in data collection, the layout of the questionnaire, and how to approach the respondents. Meetings and discussions with research assistants afforded the research team the opportunity to develop a standard vocabulary and to share problems encountered in the data collection. Research assistants were informed of anticipated problems and how to solve them. For example, some respondents were unwilling to complete the questionnaire while some participants could not understand certain questions. The research assistants were advised not to force respondents to complete the questionnaire. The role of the research assistants involved distributing questionnaires, providing clarity to respondents in cases where the respondents could not understand the question, and collecting the completed questionnaires. To ensure that quality data was collected, the researcher conducted spot-checks of the collected data. The researcher had to observe the research assistants distributing questionnaires and collecting completed questionnaires, especially during the first few days of the study, to ensure that data collection was being conducted according to plan and as per the training conducted. Furthermore, the researcher had to observe research assistants assisting respondents through clarifying some questions.

### **5.7.2 Field data collection**

After the necessary preparations had been made, data collection ensued. Data collection was conducted over a period of 30 days during July 2014. The five trained research assistants were involved in the issuing of the self-administered questionnaires to respondents. The respondents had to complete the questionnaires, and assistance was provided to them in cases where they could not understand what a question required. Respondents signed the consent form to indicate that their participation in the study was voluntary and that they understood the study. They were also asked to complete the consent form for follow-up purposes, in case the researcher required clarity on some of the data.

The researcher conducted interviews personally with the officials at SEDCO and the MSMECD on the agreed dates, and at the arranged times and venues. Key informants from the universities were also interviewed by the researcher using the interview schedule. The dates and times of all the appointments were honoured. In both instances the interviews were approximately 20–30 minutes long. The interviewer took notes while the respondents answered questions, but before notes were taken permission was sought from the respondents. Respondents signed consent forms to indicate that they had voluntarily agreed to participate in the study. The interviewer summarised what the respondents said during the interview. A tape recorder was available to record the interviews, but the government officials were not comfortable with being recorded. Therefore, the researcher decided to use note-taking as a way of recording the interviews. Dunne (1995) notes that a proper way of recording information quickly, efficiently, and accurately has to be employed. To record the interviews quickly, the interviewer made notes using a type of shorthand. Soon after each interview, a full report was written while the details were still fresh in the researcher's mind. The written notes were expanded, and new, important questions and ideas that had arisen during the interview were noted down. The advantages of note-taking include the interviewees not being intimidated by a notebook, every response being recorded under a relevant question (which saves time when writing a full report after the interview), and the information being fairly safely contained in the notebook (Dunne, 1995; Saunders *et al.*, 2009). It was based on these merits that the researcher decided to use note-taking as a method of recording the interviews. Boardrooms and offices were used to conduct the interviews, as these venues were free from distractions. Grill *et al.* (2008) observe that interviews must be conducted in places that are free from disturbances.

Written documents relating to the study were obtained from SEDCO and the SEDCO website, the MSMECD, the ZCBTA, public universities in Zimbabwe, the HCSME and the Internet (published academic articles about Zimbabwean SMEs). These secondary sources provided valuable information for the study.

## **5.8 DATA ANALYSIS**

This section focuses on the analysis of both the quantitative and qualitative data. Data analysis focuses on reducing, summarising, and interpreting the data by searching for patterns and by applying statistical methods of analysis. It is the analysis of the data that facilitates the interpretation of the research findings. The interpretation of results enables the researcher to provide answers to the research questions (Cooper & Schindler, 2008; Nani, 2011).

Therefore, data analysis creates an important link between the empirical data and the information required to address the research objectives (Taylor *et al.*, 2008). Consequently, recommendations are made on the basis of the meanings derived from the data.

### **5.8.1 Analysis of quantitative data**

Quantitative research involves the collection of numerical data that is analysed statistically in order to explain the characteristics of a population under investigation (Khalid *et al.*, 2012a). The analysis of quantitative data facilitates the interpretation of the data in order to address the research questions.

#### ***5.8.1.1 Preparing the data for analysis***

Several steps were followed in preparing the data for analysis. Prior to analysis, the data is expected to be accurate and complete (Sekaran & Bougie, 2010, cited in Khalid *et al.*, 2012a). These steps include data editing, cleaning, coding, and data entry.

##### **5.8.1.1(a) Data editing**

This is viewed as a first step in the preparation of the data for analysis. The questionnaires were edited in order to identify errors and omissions, and to then correct them, to ensure that the expected data quality standard was attained. Editing is conducted to produce data which is accurate and consistent in order to address the research questions satisfactorily (Shukla, 2010). Editing also ensures that the data has been uniformly captured to facilitate coding.

##### **5.8.1.1(b) Data cleaning**

Data cleaning deals with errors and missing values. Missing values refer to the absence of certain data about a respondent (Shukla, 2010; Cooper & Schindler, 2008, cited in Nani, 2011). Missing values occur due to respondents making errors, refusing to respond to particular questions, or not being sure about what to answer. Sometimes respondents skip questions that are ambiguously worded or that are too sensitive or too private (Bhattacharjee, 2012). Shukla (2010: 40) suggests four possible ways of dealing with missing values: they

can be substituted with a neutral value; they can be substituted by following the pattern of responses of the other respondents; they can be discarded from the analysis; or only respondents with the complete set of responses for that specific variable could be included in the analysis (Shukla, 2010: 40). In this study, the missing values were replaced with the general pattern of the responses of the other respondents. This was done to avoid reducing the sample sizes in some cases.

#### **5.8.1.1(c) Coding**

Coding involves the allocation of numbers or symbols to the respondents' answers in order to reduce the large amount of data to a few categories (Macmillan & Schumacher, 2010; Shukla, 2010; Bhattacharjee, 2012). In this study, sections A, B, C and D of the questionnaire were pre-coded. However, Section E was not pre-coded because it contained open-ended questions. Therefore, the responses were content analysed and coded using numbers to facilitate data entry and analysis. This was also done to provide a quantitative description of the participants' responses.

#### **5.8.1.1(d) Data capturing**

Data can be entered into any statistical package of the researcher's choosing. Statistical packages that could have been used included, but were not limited to, JMP, SAS, Minitab, and SPSS. In this study, the researcher entered the data into the IBM Statistical Package for Social Sciences (SPSS) version 21. This package was chosen because it met the researcher's requirements. The data could be entered manually, or the questionnaires could be scanned and the software could transform the questionnaire data into a statistical product (Shukla, 2010). The data was entered manually into the SPSS, and coding facilitated the entry of data into the statistical package.

#### **5.8.1.2 Descriptive analysis**

SPSS version 21 was used to analyse the data from the questionnaires. This is viewed as the first stage of analysing data (Shukla, 2010). The data was analysed descriptively and presented in the form of figures, tables, graphs, pie charts, and percentages. Descriptive statistics were used to describe the characteristics of the data, such as the mean, standard

deviation, and range of scores, skewness and kurtosis (Saunders *et al.*, 2009; Macmillan & Schumacher, 2010; Shukla, 2010: 43; Bhattacharjee, 2012; Salkind, 2012). Mean scores indicated the SME challenges, and the government policies and strategies. High values for positive statements indicated that the participants concurred with the statements. The standard deviation (SD) was used to indicate the average variability of the scores from the mean values. A high SD showed that participants' responses differed to a great extent on particular issues, while a small SD indicated that their responses did not differ much. Therefore, descriptive statistics summarise, organise, and reduce large amounts of data (Macmillan & Schumacher, 2010). Descriptive statistics are important for establishing relationships between variables and for interpreting quantitative research results, which then allow the researcher to address the research objectives. The researcher used the descriptive statistics to address particular research objectives, such as the challenges confronting the SME sector in Zimbabwe, and the government policies and strategies that have been adopted to deal with the challenges. The frequency tables and graphs helped to illustrate the demographic data on the respondents and their businesses, the challenges confronting SMEs, and how the SME owners/managers viewed and assessed the government policies and strategies.

### ***5.8.1.3 Inferential statistics***

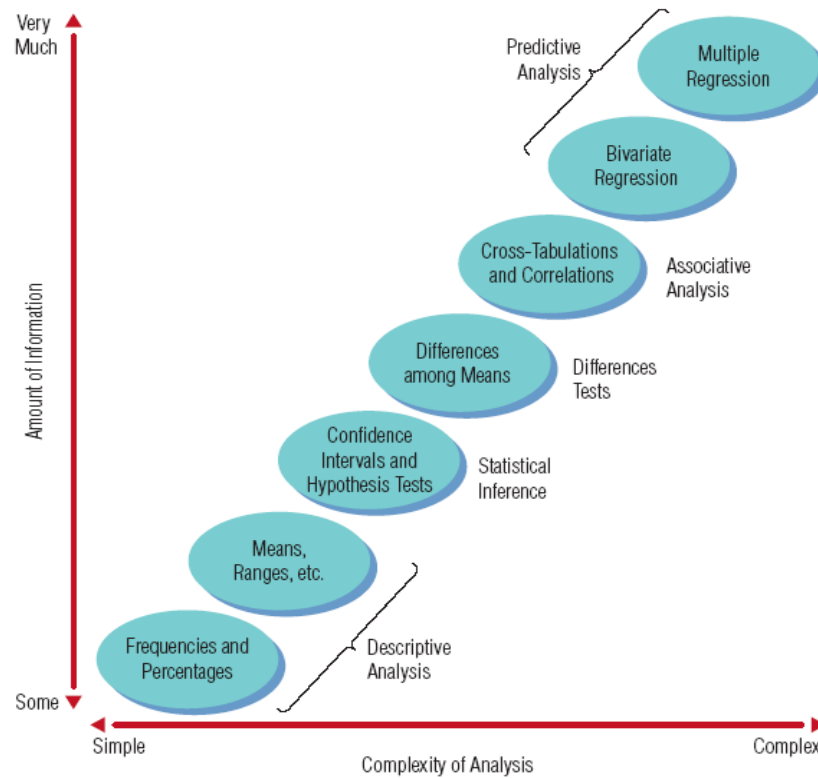
Inferential statistics make inferences about the population based on a randomly selected sample (Shukla, 2010; Bhattacharjee, 2012). Data is examined for differences, associations, and relationships using inferential statistics, in order to address the research questions (Waller & Johnson, 2013: 2). Inferential statistics are used to make predictions about the similarity between a sample and the population from which it is drawn (Macmillan & Schumacher, 2010: 149; Egboro, 2015). The statistics help the researcher to decide how to relate the collected data to the hypotheses, and how the research findings can be generalised to the study population. Inferences and conclusions are made on the basis of inferential statistics. Macmillan and Schumacher (2010: 149) observe that a researcher uses descriptive statistics to describe the data, and then uses inferential statistics to estimate the true value of the test score for the population. Triola (2008, cited in Khalid *et al.*, 2012b) observes that the objectives of inferential statistics are to make an estimation of the population parameter and to test the hypothesis about the population under study.

There are two types of inferential statistics: parametric and non-parametric tests. Parametric tests are used in circumstances where a researcher has interval or ratio data, the sample is randomly selected from the population, the observations are independent, and the sample is

extracted from a normally distributed population (Salkind, 2010; Eisenbeisz, 2011; Maurya *et al.*, 2013; Wilson, 2014). The data should satisfy these requirements so that accurate estimates and inferences are able to be made by a researcher (Eisenbeisz, 2011). Where the data are normally distributed, the mean, median, and mode are equal (Wilson, 2014), and the data scores are found around the middle of a normal distribution curve or graph. Parametric tests include the t-test, z-test, analysis of variance (ANOVA), Pearson's correlation coefficient, and linear regressions (Campbell, 2006; Eisenbeisz, 2011).

Non-parametric tests use data from a population that is not normally distributed, which is why they are also called 'distribution-free' tests (Eisenbeisz, 2011; Maurya *et al.*, 2013). Non-parametric tests are implemented in situations where the data is nominal (categorical) or ordinal (ranked), observations are independent, and data is collected from a randomly selected sample (Eisenbeisz, 2011; Maurya *et al.*, 2013). Non-parametric tests were employed in this study because the Likert-scale questions used in the questionnaire generated non-parametric data (Simon & Goes, 2013). The questionnaire produced both nominal and ordinal data. It is against this backdrop that Spearman's (rho) Correlation Coefficient, the Mann-Whitney U test and the Kruskal-Wallis test were used in this study. Sections 5.8.1.3 (a)–(d) present and discuss these statistical tests. Figure 29 shows the different levels of data analysis, some of which were used by the researcher to analyse the questionnaire data. Associative analysis was conducted through cross-tabulations to establish associations between variables.

**FIGURE 29. DIFFERENT LEVELS OF DATA ANALYSIS**



### 5.8.1.3(a) Spearman's (rho) Correlation Coefficient

Spearman's (rho) rank correlation coefficient, a non-parametric test, was formulated by Charles Spearman to measure the strength of an association between two variables (Khelifa, n.d.; Hauke & Tomasz, 2011; Papathanasiou & Siati, 2014). An index of the relationship between two variables is given by the correlation coefficient. This test statistic is employed where the data is not normally distributed and is ordinal in nature, or when one of the variables is ordinal (Huggins, 2005; Chok, 2010, cited in Papathanasiou & Siati, 2014). The Spearman's rho varies from  $-1.00$  to  $+1.00$ , indicating the extent of the relationship between the two variables (Khelifa, n.d.; Huggins, 2005; Papathanasiou & Siati, 2014). There can be a positive relationship, a negative relationship, or no relationship between variables (Khalid *et al.*, 2012a). A correlation coefficient of  $0.00$  shows that there is no relationship between the two variables, while a correlation coefficient closer to  $0.00$  indicates a weaker relationship (Huggins, 2005; Khalid *et al.*, 2012a). However, if the correlation coefficient is closer to  $+1.00$  or  $-1.00$ , a stronger relationship exists between the two variables (Khelifa, n.d.; Huggins, 2005; Khalid *et al.*, 2012a).

The ranking of data determines the Spearman's correlation coefficient (Eisenbeisz, 2011). The computation of the Spearman's correlation coefficient starts with the ranking of the data (Eisenbeisz, 2011). The highest value is allocated a rank of 1 (one) and the lowest value is allocated the highest rank. Ranks are assigned to each variable. Tied scores are given a rank that is equal to the mean of all the positions that are tied. After ranks have been assigned, a solution matrix is subsequently created. The following formula is then used for calculating the Spearman's rho:

$$R_s = 1 - \frac{6 \sum D^2}{n(n^2 - 1)}$$

Where:  $\sum D^2$  = the sum of all the values in the last column of the solution matrix  
 $n$  = number of research participants in the data set

In this study the computation of the Spearman's rho was conducted using SPSS version 21, and was not manually calculated.

One of the objectives of the study was to measure the effectiveness of the government policies and strategies in addressing the challenges confronting SMEs in Zimbabwe. The Spearman's rho was used to establish the strength of the relationship between the SME challenges, and government policies and strategies. Both sets of data of data were ordinal and the data was collected from a population that was not normally distributed. The questionnaire respondents were randomly selected from the population of SMEs in Harare.

### **5.8.1.3(c) Mann-Whitney U test**

The Mann-Whitney U test is a non-parametric test used in place of the t-test when the data cannot meet assumptions such as normality and homogeneity of variances (Lewis-Beck *et al.*, 2004; Shier, 2004; Nachar, 2008; Milenovic, 2011; Salkind, 2012). The Mann-Whitney test is used for statistically testing the significance of the difference between two groups of respondents from the same population (Vogt, 2005; Nachar, 2008; Eisenbeisz, 2011; Milenovic, 2011; Salkind, 2012). This statistical test is used when the data is not normally distributed, the data is ordinal, and the variances between the two samples or groups are not the same (Lewis-Beck *et al.*, 2004; Nachar, 2008; Eisenbeisz, 2011). Samples or groups must be independent (Milenovic, 2011). Medians of ranked data, from the first sample ( $n_1$ ) and the second sample ( $n_2$ ), are employed in determining the significance of the difference between two groups (Eisenbeisz, 2011; Milenovic, 2011; Safari *et al.*, 2014).

The statistical test uses ranked data (Lovelace & Brickman, 2013). The manual calculation of the Mann-Whitney U test starts with the combination of the two samples to form one column (Taylor *et al.*, 2008; Safari *et al.*, 2014). The data are ranked from the lowest to the highest (Safari *et al.*, 2014). Subsequently, the data are taken back to their original groups so that total rank scores are made for each sample (Safari *et al.*, 2014). If there is a large difference between the two totals, there is a likelihood that there is a significant difference between the two groups of respondents (Taylor *et al.*, 2008). The Mann-Whitney U test is then calculated using the following formula:

$$E(U) = n_u(N+1)/2$$

Where: E (U) = the Mann Whitney test

$n_u$  = the sample size of the sample being tested

N = total sample size ( $n_1 + n_2$ )

The SPSS converts the Mann-Whitney U value to a Z-score and the Z-score is converted to a p-value. A probability of the z-value which is 0.05 or less indicates statistically significant differences between the two groups or samples (Milenovic, 2011; Safari *et al.*, 2014). Conversely, if the probability of the z-value is more than 0.05 it shows no statistically significant differences between the two groups (Boduszek, n.d.; Milenovic, 2011).

One of the questions in the study required respondents to indicate if their academic and professional qualifications were in line with the type of business they conducted. This question required a 'yes' or 'no' answer, leading to the creation of two groups or two categories of respondents. The Mann-Whitney U test was used to establish if there were any significant differences between the two groups of respondents in terms of their technical, management and marketing skills deficiencies, and the challenges in their businesses. This was done in order to find out if a lack of technical, management and marketing skills emanated from the misalignment of qualifications and the skills needed for business success.

The Mann-Whitney U test was used because the samples involved in this test statistic had respondents who were randomly selected from the target population. The two samples were independent. Ordinal data was involved in the calculation of the test statistic. The data was normally distributed and the variances between the two samples or groups were not equal. The data and the samples met the assumptions of the Mann-Whitney U test.

### 5.8.1.3(d) Kruskal-Wallis test

Like the Mann-Whitney U test, the Kruskal-Wallis test is also a non-parametric test that uses ranks, but it is employed where there are more than two independent or unrelated samples or groups to be compared and evaluated (Boduszek, n.d.; Campbell, 2006; Eisenbeisz, 2011; Lovelace & Brickman, 2013; Maurya *et al.*, 2013). Such a test is used to establish if there is a statistically significant difference between the samples or whether the samples involved are from the same distribution (Sheldon & Goldstein, n.d.; Maurya *et al.*, 2013). The Kruskal-Wallis test is employed where data are not from a normal distribution, the samples are independent, the data values are ordinal, and the variances of the samples are different (Sheldon & Goldstein, n.d.; Hecke, 2012; Ying, 2012). ‘Independence’ in this context means that the score of one variable has no influence over the scoring of another attribute (Sheldon & Goldstein, n.d). The Kruskal-Wallis test is a non-parametric equivalent of the Analysis of Variance (ANOVA) which is used in the comparison of data that are normally distributed for more than two independent samples (Campbell, 2006). Maurya *et al.* (2013: 34) note that ‘the Kruskal-Wallis ANOVA uses the sum of difference between mean ranks of these samples as the statistic’. Thus, the ranks of the scored values and the means are important in the calculation of the test statistic (Sheldon & Goldstein, n.d).

The computation of the Kruskal-Wallis tests starts by ranking all the data from the lowest to the highest. Tied scores are given the average of the ranks. For each group, total ranks are calculated, after which the following formula is employed to calculate the Kruskal-Wallis test (H):

$$H = \left[ \frac{12}{N(N+1)} \times \frac{\sum Tc^2}{nc} \right] - 3(N+1)$$

Where: N= the sum of all participants (participants from all groups)

Tc= rank total for each sample

nc= number of respondents/participants in each sample

The test statistic ‘H’ uses a distribution that is approximated by the  $\chi^2$  distribution with the degrees of freedom ‘K minus 1’. ‘K’ represents the number of groups.

A p-value of the chi-square which is 0.05 or less ( $P \leq 0.05$ ) shows that there is a statistically significant difference among the different groups of participants (Anvari *et al.*, 2011; Ying,

2012). It means if the p-value is more than 0.05, no statistically significant difference exists among the samples.

The test statistic was used to establish if there were any statistically significant differences among the SMEs in various groups in terms of challenges such as marketing skills, technical skills, financial management skills, management lack of experience and training. The different groups created by the researcher were SMEs with unskilled, semi-skilled, and skilled employees. The researcher sought to establish if the level of skill of the employees had a real impact on the ability of the employees and SMEs to market, produce, manage the workforce, and properly handle the financial resources of a business. In other words, the researcher wanted to ascertain if the level of skill of employees and management posed a challenge to SMEs. One of the objectives of the study was to identify the key challenges confronting the SME sector in Harare, Zimbabwe.

#### **5.8.1.4 Validity and reliability**

Validity and reliability are important in any study, as they determine the acceptability and trustworthiness of the research results (Thanasegaran, n.d.; Saunders *et al.*, 2009; Saunders *et al.*, 2012). Therefore, the credibility of the research results depends on the level of validity and reliability (Saunders *et al.*, 2012). In order to produce a quality research report, a researcher must be committed to increasing the reliability and validity of the data collection instruments (Saunders *et al.*, 2009). The validity and reliability of the questionnaire and interview guides used in this study influenced the extent to which meaningful conclusions could be drawn from the research data (Leedy & Ormrod, 2005, cited in Ellis & Levy, 2009). In this study, the researcher committed himself to the validity and reliability of the research instruments in order to enhance the credibility of the research results. Sections 5.8.1.4(a) and 5.8.1.4(b) explain the concepts of validity and reliability, and also illustrate the researcher's commitment to them.

##### **5.8.1.4(a) Validity of the research results**

Validity refers to the extent to which the test or the instrument that is used actually measures what it was intended to measure (Golafshani, 2003; Bashir *et al.*, 2008; Leedy & Ormrod, cited in Ellis & Levy, 2009; Salkind, 2012), in order to 'draw meaningful and justifiable inferences from scores about a sample' (Creswell, 2005: 600, cited in Ellis & Levy, 2009).

This allows research findings to be applied to the real world (Saunders *et al.*, 2009). Therefore, validity focuses on the accuracy of the measurement device and represents the ability of the scale to measure what it was meant to measure (Zikmund, 2000, cited in Khalid *et al.*, 2012a). It is a requirement that research instruments be valid before being used in data collection (Arshad *et al.*, 2014). Research results are deemed valid if there is a relationship between the research conclusions and reality (Maxwell, 2005, cited in Ellis & Levy, 2009; Feldt & Magazinius, 2009). To ensure that the questionnaire measured what it was intended to measure, the research instrument was examined by more than two experienced specialist statisticians, to ensure that it would capture the required data. The pilot study conducted on a sample of 20 SMEs was meant to ensure that the questionnaire would measure the construct in the study.

In this study, qualitative data were also collected. Therefore, the interview guides for the in-depth interviews were examined by the researcher's PhD supervisor to ensure that they captured the key issues and that they would collect the required empirical evidence. The pilot study conducted using the interview guides on SME officials in Chegutu and in Bindura (outside Harare) was meant to ensure that the instrument would measure the construct. The plausibility, credibility, and trustworthiness of qualitative data and qualitative research results are also important (Bashir *et al.*, 2008). The researcher, through a commitment to validity and reliability, must be able to defend the results of qualitative research when challenged (Bashir *et al.*, 2008).

Triangulation was employed in this study to reduce the researcher bias, and to increase the validity of the data and the research results. Triangulation is a strategy for enhancing the validity of data and research findings (Macmillan & Schumacher, 2010; Creswell, 2010; Zohrabi, 2013). Combining data collection methods strengthens a study (Patton, 2001, cited in Bashir *et al.*, 2008; Zohrabi, 2013). Therefore, using a single data collection instrument 'can be questionable, biased and weak' (Zohrabi, 2013: 258). Questionnaires, in-depth interviews and documents were used for data collection in this study.

Content validity indicates the extent to which the test represents the universe and the extent to which the instrument measures the construct (Yang, n.d.; Ellis & Levy, 2009; Salkind, 2012). Comprehensiveness of the test is also encompassed in content validity (Yang, n.d.). Content validity ensures that questions in the research instruments actually assess the construct (Saunders *et al.*, 2009). In this study, the researcher focused on the challenges faced by SMEs, the government policies and strategies implemented to deal with these challenges, and how effective these policies and strategies have been in addressing the problems. The researcher had to make sure that questions in the research instrument (questionnaire) covered

the SME challenges, government policies and strategies, and the effectiveness of the policies and strategies. The researcher's PhD supervisor, who is an expert in the field of management and entrepreneurship, critically examined the questions in the research instruments (the questionnaire and interview guides) to ensure that they would be clearly understood by the respondents and that they assessed the construct. This concurs with Twycross and Shields (2004), who note that subject matter experts need to be consulted in order to establish whether the data collection tool is valid.

The questionnaire was also sent to statisticians, specialists in handling research data, to ensure that the questionnaire addressed the research questions. This is in accordance with Zohrabi's (2013: 258) statement that the research instruments 'may be reviewed by experts in the field of research'. Feedback from the PhD supervisor and the statisticians led to the improvement of the data collection instruments to ensure that they would assess the construct. Unclear questions were revised, and complex statements were simplified.

The research results for this study were compared with the findings of previous studies in the literature review. The research findings concurred with those of the previous studies. This indicates a close association between the theory and the findings. This was evidence of construct validity (Twycross & Shields, 2004; Ellis & Levy, 2009; Agarwal, 2011; Salkind, 2012; Martin *et al.*, 2013a). 'Construct validity refers to the degree to which inferences can legitimately be made from the operationalisation in a study to the theoretical constructs on which those operationalisations are based' (Agarwal, 2011: 1). Therefore, the construct validity 'tests the link between a measure and the underlying theory' (Twycross & Shields, 2004: 28). In this study the findings on the SME challenges, government policies and strategies, and the effectiveness of the policies and strategies, concurred with the literature review. This is further supported by Silverman (2001, cited in Shenton, 2004: 69), who observes that a researcher must be able to relate his or her research findings to an existing body of knowledge.

External validity refers to the extent to which research results are generalisable beyond the sample (Redmond & Griffith, 2003, cited in Brennan *et al.*, 2007; Ellis & Levy, 2009; Saunders *et al.*, 2009; Davis, 2011), or 'the extent to which conclusions can be generalised to other contexts' (Leedy & Ormrod, 2005: 31, cited in Ellis & Levy, 2009; Zohrabi, 2013). External validity is important because it demonstrates that the research findings apply to real-life situations. The results of this study can be generalised to registered SMEs in Harare, and to SMEs in similar cities like Bulawayo. The generalisation of research results to other settings depends on the similarities between the research context and other contexts (Shenton, 2004; Zohrabi, 2013: 259). The SME context in cities like Bulawayo is similar to that of

Harare, as the cities are similar in terms of population size, industrial development, and the level of commercial activity.

The target population was properly identified and the samples were scientifically selected. The Raosoft sample size calculator was used to determine the sample size for SMEs. Thus, the sample was found to be adequate. For the in-depth interviews, respondents with the relevant knowledge, experience, expertise, and exposure were used for qualitative data collection. This ensured that the data collected was valid and could be generalised to other settings. Research respondents were not coerced into participating in the study. They participated willingly, as evidenced by the consent forms which they filled in, and they were prepared to provide valuable data. Participants had the right to withdraw from the study at any time. Such a scenario provided an atmosphere where valuable and valid data could be collected.

#### **5.8.1.4(b) Reliability**

Bhattacharjee (2012: 56) notes that reliability 'is the degree to which the measure of a construct is consistent or dependable'. Therefore, the instrument must be accurate and precise (Khalid *et al.*, 2012a) if it is to produce same results (Arshad, 2014). This means that if the same research instrument is used many times to measure the same construct, the same results are obtained (Bashir *et al.*, 2008; Leedy & Ormrod, 2005, cited in Ellis & Levy, 2009; Davis, 2011; BELBIN, 2013; Zohrabi, 2013). Research results must be 'consistent, dependable and replicable' (Zohrabi, 2013: 259). To ensure reliability, the researcher had to pilot test the questionnaire in order to avoid ambiguous questions and instructions in the main data collection process. The wording of the questions was simplified so that respondents would not misinterpret the questions. Thus, the measurement instrument was tested for reliability. Reliability gives the reader confidence that the research results are genuine (Greener, 2008; Saunders *et al.*, 2012). Drost (2011) notes that instructions in research instruments such as questionnaires must be as clear as possible for the respondents so that the instructions are understood. The training of research assistants ensured that they could properly assist respondents who had problems with the questionnaire. These measures were taken to ensure the reliability of the research instrument. This concurs with Merriam (1998: 206, cited in Zohrabi, 2013: 259), who notes that 'the human instrument can become more reliable through training'.

The study is based on identifying SME challenges, identifying the GoZ policies and strategies implemented to address the SME obstacles, and assessing the effectiveness of these policies and strategies in dealing with the challenges. Zimbabwe is a nation where it is not safe for people to say or write anything that is critical of the government. One of the threats to reliability is therefore participant bias (Saunders *et al.*, 2009) caused by environmental forces such as the political environment or work environment. To avoid participant bias and to ensure that respondents would provide honest responses, the researcher assured the respondents of complete anonymity in the questionnaires and even during data analysis and reporting.

Test re-tests, split-half, and internal consistency are methods used to assess the reliability of a questionnaire (Arshad, 2014). This study used the internal consistency method to establish the reliability of the questionnaire through finding the Cronbach's alpha value. The reliability of the Likert scales can be checked through the use of the Cronbach's alpha (Brown, 2011). This study used a questionnaire which had 53 Likert-scale type questions. The Cronbach's alpha value was calculated using SPSS version 21 to test the reliability of the generated scales. The Cronbach's alpha measures the degree of internal consistency or homogeneity between questions measuring one construct or concept (Thanasegaran, n.d.). Tavakol and Dennick (2011: 53) agree with this statement by noting that 'internal consistency describes the extent to which all the items in a test measure the same concept or construct, hence it is connected to the inter-relatedness of the items within the test'. In other words, it measures how well a set of questions or items measures a particular characteristic within the questionnaire or test instrument. Determining the internal consistency of a research instrument prior to the commencement of data collection is critical (Tavakol & Dennick, 2011). The alpha coefficients of internal consistency increase as the number of Likert-scale type questions or items increases (Drost, 2011; Tavakol & Dennick, 2011).

The alpha coefficient ranges from 0 to 1 (Delafrooz *et al.*, 2009, cited in Khalid *et al.*, 2012a; Arshad, 2014). If the score is high it means that the generated scale is reliable (Tavakol & Dennick, 2011; Delafrooz *et al.*, 2009, cited in Khalid *et al.*, 2012a). In the social sciences as well as in business research the acceptable Cronbach's alpha score ranges from 0.70 to 0.80 (Nunnally & Bernstein, 1994, cited in Krishnan & Ramasamy, 2011). Such a range is regarded as an acceptable and reliable coefficient, and indicates that the instrument is suitable for collecting data. A Cronbach's alpha score above 0.80 indicates that the instrument is unreliable, and is a waste of time and resources (Tavakol & Dennick, 2011). A value of 0.6 or less indicates that the research instrument has unsatisfactory internal consistency, and is therefore not reliable (Malhotra, 2004, cited in Thanasegaran, n.d.).

In this study the researcher used a pilot sample of 50 SMEs in Chegutu, a town to the south-west of Harare, to test the reliability of the questionnaire. The questionnaire had 53 Likert-scale type questions. The rating scale of the questions ranged from 1 (strongly disagree) to 4 (strongly agree). Data from the 20 questionnaires was entered into the SPSS in order to calculate the Cronbach's alpha. The result was that the Cronbach's alpha score was above 0.7, indicating that the questionnaire was a reliable instrument for collecting data from the participants.

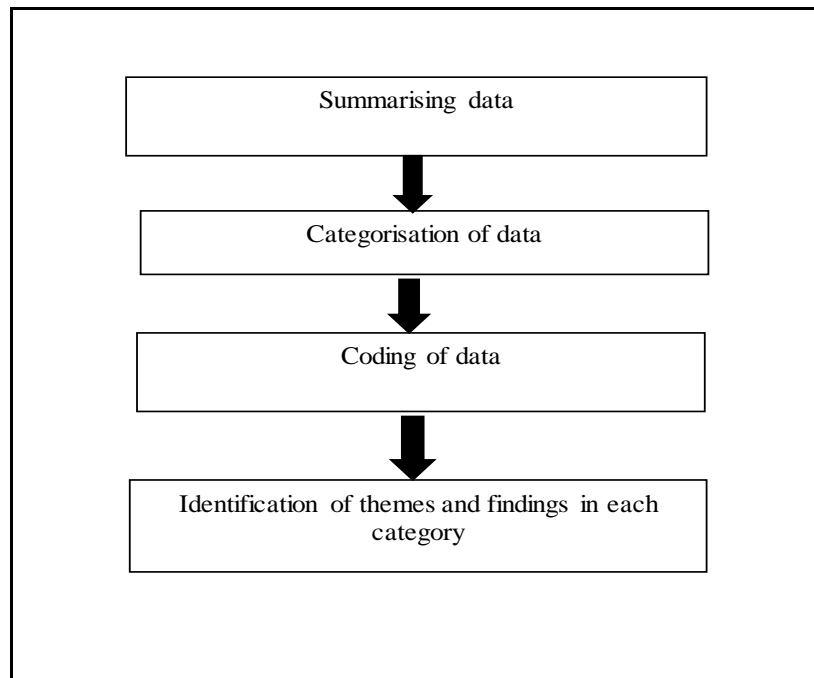
## **5.8.2 Analysis of qualitative data**

Qualitative analysis refers to the systematic examination of interview transcripts, participant observation notes, written documents, images, and artefacts in order to facilitate the interpretation of the collected data (Myers, 2009; Harding, 2013; Lawrence & Tar, 2013). In this way the data becomes meaningful to both the researcher and the audience. Qualitative data analysis pays particular attention to the key aspects of the data in the form of themes and meanings. In this context, interview transcripts and written documents were analysed. The qualitative analysis used words as descriptors, and not numbers.

### ***5.8.2.1 Analysis of the interview data***

The transcripts of the interviews that were conducted for the study were systematically analysed in order to extract meaning from the data. The analysis of interviews reduces the data to key points that address the research questions (Harding, 2013: 56). Researchers use varying terminology to describe the different stages that are followed in the analysis of interview data, but basically they mean the same things. A literature search revealed that the most common steps followed in the analysis of interviews are summarising the data, categorising the data, coding the data, reporting findings, and interpreting the data in each category (Myers, 2009; Harding, 2013). Figure 30 describes the procedure followed in the analysis of the data in this study.

**FIGURE 30. THE PROCEDURE IN THE ANALYSIS OF INTERVIEW DATA**



Adapted from Myers (2009: 167); Harding (2013: 56–66)

#### **5.8.2.1(a) Summarising interviews**

The researcher read the interview transcripts many times in order to understand the contents, capture key points, and eliminate irrelevant data. The researcher also identified the main themes that emerged from the interview transcripts. Schmidt (2004: 235, cited in Harding, 2013: 56) observes that reading the transcripts several times ensures that the researcher does not leave out important ideas or sections of the transcripts during data analysis. The summary removed immaterial details such as repetition (Flick, 2009: 235, cited in Harding, 2013: 56), and the researcher focused on the key data that addressed the specific research questions (Harding, 2013). After the elimination of the irrelevant information and repetition, the researcher prepared brief notes. Summarising the data, also referred to as data reduction or data condensation, facilitated the next step — the categorisation of the data.

#### **5.8.2.1(b) Categorisation of data**

After thoroughly reading the interview transcripts, removing all irrelevant material, and summarising the data, the researcher moved on to categorise the data into key themes. A thorough reading of the transcripts enabled the researcher to identify various categories of

data. Harding (2013) notes that coding becomes easier through the categorisation of data. Such categorisation facilitated the further analysis of data in this study. The researcher used the research objectives to identify the key categories into which data could be classified. The main categories of data were the challenges faced by SMEs, government strategies in addressing the challenges, and the effectiveness of the strategies in dealing with SME problems.

#### **5.8.2.1(c) Coding of the data**

The categorisation of the data facilitated the process of coding the data. Coding is a process of choosing and sorting data (Charmaz, 2006: 45, cited in Harding, 2013), as well as defining the themes that have been identified through categorisation (Richards, 2009). The researcher coded the interview transcripts by writing notes in the margins of the transcripts. Codes can be in the form of numbers, abbreviations, full words, and short phrases (Myers, 2009: 167; Miles & Huberman, 1994; Charmaz, 2006; Saldana, 2009; all cited in Harding, 2013). This study used words and phrases in the coding of the transcripts. These words and phrases were guided by the themes — the challenges faced by SMEs, government policies and strategies to deal with the challenges, the success of the policies and strategies in addressing the challenges, and the suggested policies and strategies to promote SME development. In this investigation, coding was important as it facilitated the identification and selection of essential points, and similarities and differences in the responses provided by the participants. Thus, it facilitated data analysis. Hennik *et al.* (2011, cited in Harding, 2013) observe that data coding promotes data reduction, which facilitates data analysis. Coding helps in the further summarising of data and in the identification and selection of key points (Harding, 2013). The research objectives were used in the selection of the key points. However, some important themes that emerged from the data were also considered. The coding of the data further facilitated the interpretation of the data in this investigation. According to Myers (2009), coding is part of data analysis. This is further substantiated by Harding (2013: 85), who notes that ‘coding involves a substantial element of interpretation’.

#### **5.8.2.1(d) Reporting findings and interpreting data in each category**

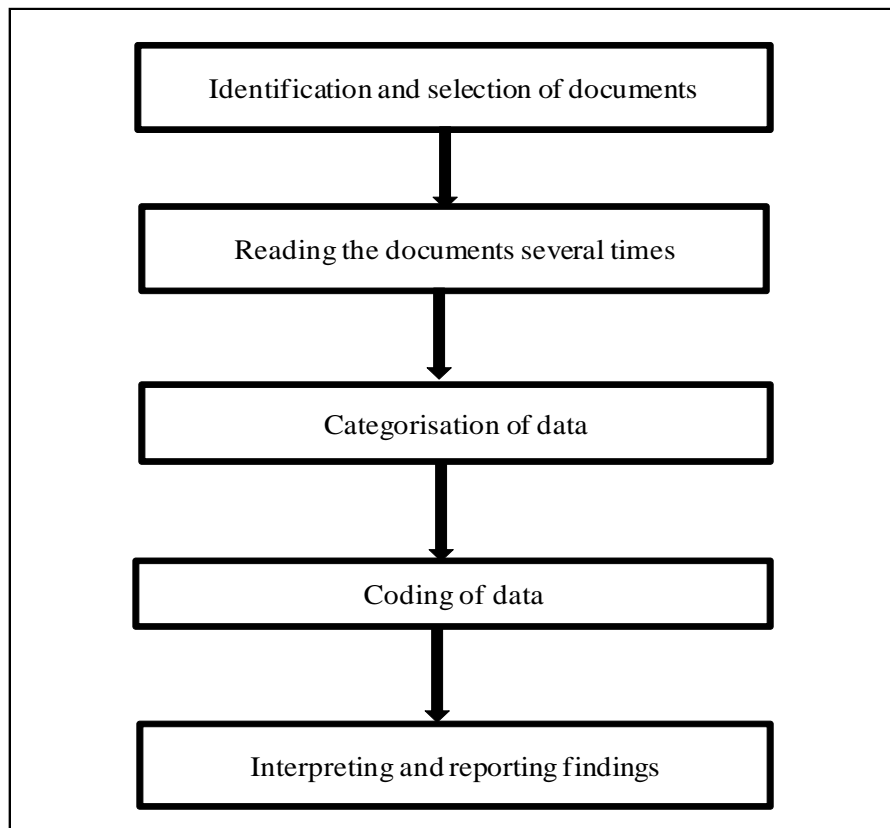
The last stage in the analysis of the interview transcripts was the reporting of findings and the interpretation of data in each category. This process was made easy by the coding conducted

in the third stage. The reporting and interpretation of the data were expressed using words and not numbers or figures.

#### ***5.8.2.2 Analysis of data from the written documents***

The researcher analysed the documents through qualitative content analysis. Qualitative content analysis focuses on the interpretation of textual data through the coding and identification of themes and patterns in the data (Hsieh & Shannon, 2005, cited in Zhang & Wildemuth, 2009). Therefore, qualitative content analysis deals with the examination of meanings, themes, and patterns in documents (Bowen, 2009; Zhang & Wildemuth, 2009). Document analysis can also be viewed as a systematic examination of the documents in the form of text and images (Olson, 2010; Institute of Development Studies, 2013), with a view to extracting and interpreting data that would help in addressing the research questions. This type of analysis is also referred to as inductive thematic analysis (Guest *et al.*, 2013). In this study, text documents and images in the form of policy documents, newspaper articles, still photographs, and magazine and journal articles about SMEs in Zimbabwe were analysed. The written documents provided critical current and historical data on how SME development has been influenced by the socio-economic and political fabric of Zimbabwean society. The steps followed in the analysis of documents in this study are: 1) identification and selection of the documents, 2) reading the documents many times, 3) identification of key themes or meanings emerging from the documents, 4) coding of the data, and 5) the reporting and interpretation of findings (Bowen, 2009). Figure 31 shows the procedure involved in document analysis.

**FIGURE 31. THE PROCEDURE IN DOCUMENT ANALYSIS**



Adapted from Bowen (2009: 29–40)

Olson (2010) observes that the analysis of documents starts with the selection of important texts in terms of their relevance to the study (Olson, 2010; Institute of Development Studies, 2013). In this study, the researcher conducted a search and selected documents on the basis of their relevance to the key research questions, as well as their authenticity. Gibson and Brown (2009) state that the nature of the documents selected for a study depends on the questions to be addressed. Zhang and Wildemuth (2009) further support this point by stating that a purposively selected sample of the documents should address the research questions. Therefore, documents are chosen according to how they relate to the key research questions. Documents that contained data on the SME challenges, the government policies and strategies implemented in addressing the challenges, and the extent to which the policies and strategies solved the problems faced by SMEs, were selected as they were important for the study.

The researcher then read the documents several times in order to identify the key themes emerging from the data. Elo and Kyngäs (2008) note that written documents need to be read many times in order to identify the headings or themes emanating from the data. Olson (2010) observes that qualitative document analysis looks for themes or meanings that appear many

times in many documents. The documents were analysed qualitatively because the researcher was searching for descriptive data that would give a picture of the challenges faced by SMEs in Zimbabwe, and the government policies and strategies implemented to deal with these key obstacles to growth. The themes or meanings in the data were then assigned to different categories. The identification of the themes emerging from the data led to the categorisation of the data (Olson, 2010). The categorisation of data helps to condense data (Elo & Kyngäs, 2008; Zhang & Wildemuth, 2009). The main reason for creating categories is to provide a method for describing the phenomenon under investigation, and to enhance understanding and further knowledge (Cavanagh, 1997, cited in Elo & Kyngäs, 2008; Institute of Development Studies, 2013). In this study the data was categorised into the main themes: challenges faced by SMEs, government policies and strategies to deal with the challenges, and the effectiveness of the policies and strategies in dealing with the obstacles. The categorisation of data led to the coding of the data in the selected documents. The researcher coded the data by writing words and phrases in the margins of the documents. The coding of the data led to the reporting and interpretation of the research findings on the data from documents.

## **5.9 ETHICAL CONSIDERATIONS**

In every research process, ethical standards need to be observed and maintained. Research ethics refers to the principles and codes of conduct that must be observed in the gathering, analysis, presentation, and publication of the data gathered from the study's subjects (Marshall, 1998; Myers, 2009; Silverman, 2010; Bhattacharjee, 2012). Such principles include agreement on the part of the prospective participants to be involved in the study, informed consent, confidentiality, and privacy (Myers, 2009; Bhattacharjee, 2012). The ethical principles are meant to protect people and animals being treated as subjects in an investigation (Silverman, 2010). These ethical principles provided guidelines in the research process. Prior to the commencement of the data collection process, the researcher received an ethical clearance certificate with the protocol reference number HSS/1114/013D from the University of KwaZulu-Natal Ethics Committee. This study involved SMEs in Harare, which fall under the MSMECD and the HCSME. Therefore, permission was sought from the senior management of the MSMEDC and the HCSME. The researcher was issued with a gatekeeper's letter from the MSMECD (see Appendix B). Informed consent was sought from the owners or managers of SMEs, the officials of the MSMECD and SEDCO, and the key informants from the five state universities in Zimbabwe. Participants had to sign the informed

consent form. This is in accordance with Myers (2009), who states that if a study involves an organisation, permission has to be granted by the senior management.

It is important for the prospective respondents to agree to the research before data collection starts. To this effect, they must be informed and must then consent (Israel & Hay, 2006; Myers, 2009; Silverman, 2010; Kapan *et al.*, 2012). This concurs with Fade and Beauchamp (1986, cited in Marshall, 1998: 61), who observe that the prospective respondents know ‘the purpose, methods, demands, risks, inconveniences, discomforts and possible outcomes of the research and how results might be disseminated’. This is further substantiated by Bhattacharjee (2012), Kapan *et al.* (2012), Myers (2009) and Silverman (2010), who observe that research participants need to be provided with as much information as possible before the commencement of the study so that they can make informed decisions. In this study, the prospective participants were given all the relevant information about the study, including information about the purpose of the study, the objectives of the study, and how the data would be handled. The questionnaire contained an informed consent document that contained valuable information for the would-be respondents. Before the interviews started, respondents were verbally given the information. This information enabled the prospective respondents to make informed decisions about their involvement in the research process. There was a section on the informed consent document where the respondent had to append their signatures to indicate that they had understood the information and had therefore consented to take part in the investigation. This is supported by Silverman (2010: 155) and Bhattacharjee (2012), who state that the informed consent should be in written form and should be signed off by the potential research participants. According to Marshall and Rossman (2011), the informed consent document or form gives a review board or an ethics committee the assurance that the prospective respondents are fully informed of the study, that their involvement in the research is purely voluntary, and that their identities will be protected.

Potential participants were afforded the opportunity to ask questions about the study before it commenced. This was done to enhance their understanding of what the researcher had verbally explained and written in the informed consent document. The aim was to ensure that the data collection was conducted without deception. Zimbabwe is a country that has experienced socio-economic and political turmoil. Therefore, people are always suspicious about anyone doing research. They are afraid of being associated with certain political parties, and it is therefore critical for a researcher to convincingly explain the details of the study to the prospective respondents.

The prospective respondents were also assured that only the summarised data would be included in the research report, and that their names would not be included. This was done to

ensure anonymity throughout the research process. In order to maintain privacy, names should not be included in a research report (Myers, 2009; Silverman, 2010; Bhattacharjee, 2012; Kapan *et al.*, 2012; Harding, 2013). The research findings were reported in such a way that no one reading the research report could identify a respondent who expressed a particular opinion. This was done in the interests of anonymity and confidentiality. According to Kapan *et al.* (2012: 32) anonymity means that no one should be able to identify the research participant, not even the researcher. In the analysis of the data, the names of the respondents were not included, in order to avoid harming the respondents psychologically. Research should be conducted in a manner that minimises harm to research respondents (Silverman, 2010; Bhattacharjee, 2012). Respondents should not be harmed by their involvement in the study. Confidentiality refers to an agreement as to how data will be used and the people who will have access to the data (Bhattacharjee, 2012; Kapan *et al.*, 2012; Harding, 2013: 26). Therefore, in this study respondents were also informed that anyone not directly linked to or involved in the study would not have access to the data. Thus, their participation in the study took place without fear.

It was also made explicit in the informed consent document that their participation in the study was completely voluntary, and that the respondents had the right to withdraw from the study at any time they felt expedient. Silverman (2010: 155) states that respondents should be informed of their right to withdraw from the investigation at any point and for whatever reason. Thus, the respondents were not coerced into participating in the study. Their participation in the study was voluntary. Respondents must not be coerced into participating in a study (Myers, 2009; Silverman, 2010; Marshall & Rossman, 2011; Bhattacharjee, 2012; Kapan *et al.*, 2012).

## **5.10 CONCLUSION**

This chapter has presented and discussed the research design and methodology of this study, in which the research problem, the aim of the study and the objectives of the study were highlighted. Pragmatism is the research paradigm that guided the research process. Before a researcher thinks of the methodology to use, he or she must think of a paradigm to work from (Morgan & Smirchi, 1980, cited in Trautrimis *et al.*, 2013). A mixed-methods approach was adopted, and a concurrent triangulation strategy was employed for the data collection. Both qualitative and quantitative data were gathered in order to adequately address the research questions. The population under investigation was described. The sample size used in the study was 350 SME owners or managers, 12 officials from the MSMECD and SMEDCO, and

three key informants from state universities in Zimbabwe. Stratified random sampling was used in the selection of the SME owners or managers. The research instrument used to gather data from the SME owners and managers was the questionnaire. Convenience sampling was used in the selection of the 12 officials from the MSMECD and SMEDCO. Key informants from government-owned universities were selected through purposive sampling. In-depth interviews, with the aid of interview schedules, were employed in the collection of data from the public officials and the key informants from the universities. Written documents were also used as valuable sources of qualitative data. Both quantitative and qualitative analysis of the data was conducted. Descriptive analysis of the quantitative data was carried out. The Spearman's correlation coefficient, Mann-Whitney U test and the Kruskal-Wallis test were the inferential statistics used in testing the association between variables. Qualitative content analysis was used in the analysis of qualitative data from the in-depth interviews and the written documents. The research ethics observed throughout the research process (informed consent, anonymity, confidentiality, and honesty) were described.

Chapter 6 focuses on the data presentation, analysis and interpretation. Data are presented using tables, graphs, and charts. Descriptive and statistical analyses made the interpretation of data possible.

## **CHAPTER 6: DATA ANALYSIS**

### **6.1 INTRODUCTION**

Chapter Five presented a detailed description of the methodology employed in this study. Key aspects addressed in the previous chapter included the research process, the research philosophy, the target population, the sampling procedure, the processes of data collection and analysis, data analysis tools and ethical considerations. The purpose of this chapter is to present the data analysis and the interpretation of results emanating from the data collected from respondents. SPSS version 21 was used to analyse the data, and was also employed in the preliminary screening to ensure the accuracy of data and identify missing data. Descriptive and inferential statistics were analysed using IBM SPSS version 21. The descriptive statistics were employed in the analysis of the demographic data, the challenges facing SMEs, and the government policies and strategies implemented in addressing the obstacles. The perceptions of the respondents regarding the effectiveness of the government policies and strategies were also analysed using descriptive statistics.

Inferential statistics used in the analysis of the data included the Spearman's correlation coefficient, the chi-square test, the Mann-Whitney U test, and the Kruskal-Wallis test. The Spearman's correlation coefficient was used to establish the strength of the relationship between the SME challenges and the government policies and strategies. The chi-square test was used to test the significance of the relationship between gender and the business sector, and to establish the association between the respondents' level of education and their level of skill. The purpose was to establish the influence of respondents' level of education on their level of skill in managing SMEs. The Mann-Whitney U test was used to establish if there were any significant differences between the two groups of respondents in terms of the technical, management and marketing skills deficiencies or challenges in their businesses. The Kruskal-Wallis test was employed to find out if there were any differences among the SMEs in different locations in terms of challenges such as marketing and supply of inputs. SMEs in four different locations were compared: the city centre, high-density suburbs, low-density suburbs, and the light industrial area.

The open-ended questions under Section E of the research instrument were analysed using content analysis. Such a step was taken to ensure data and methodological triangulation in the course of identifying the challenges confronting SMEs, identifying the government policies

and strategies employed to address the SME obstacles, and assessing the effectiveness of these policies and strategies.

## 6.2 RESPONSE RATE FOR QUESTIONNAIRE RESPONDENTS

The researcher, with the aid of research assistants, distributed 382 questionnaires to the respondents. Respondents returned 344 questionnaires, yielding a response rate of 90%. Table 37 below illustrates the response rate of the study for questionnaires.

**TABLE 37. RESPONSE RATE FOR QUESTIONNAIRES**

<b>Sector</b>	<b>Distributed questionnaires</b>	<b>Completed and returned questionnaires</b>	<b>Response rate %</b>
<b>Primary</b>	126	108	85.7
<b>Secondary</b>	65	57	87.6
<b>Tertiary</b>	191	179	93.7
<b>Total</b>	<b>382</b>	<b>344</b>	<b>90</b>

Source: Results of questionnaire analysis

## 6.3 RELIABILITY OF THE RESEARCH INSTRUMENT

The reliability of the questionnaire was tested using the Cronbach's alpha. In the social sciences and in business research, the acceptable Cronbach's alpha score ranges from 0.70 to 0.80 (Nunnally & Bernstein, 1994, cited in Krishnan & Ramasamy, 2011). SPSS version 21 was used to calculate the Cronbach's alpha. In this study the average alpha coefficient was above 0.7, which indicates the reliability of the questionnaire in the collection of empirical data. Table 38 shows that the alpha coefficient ranges from 0.729 to 0.878, thus indicating the reliability of the research instrument.

**TABLE 38. RELIABILITY OF THE RESEARCH INSTRUMENT**

<b>Reliability statistics</b>			
<b>Section</b>	<b>Construct</b>	<b>Cronbach's alpha</b>	<b>Items</b>
<b>C</b>	Financial, marketing and management challenges	.878	18
<b>C</b>	Tax, import duty & other challenges	.821	6
<b>D</b>	Government policies and strategies to address the SME challenges	.729	30

Source: Results of the questionnaire analysis

## **6.4 DEMOGRAPHIC DATA ANALYSIS**

The demographic data in the questionnaire employed in the study was divided into two sections. Section 'A' covered data relating to the respondent, who was either a manager or owner of the business. Demographic variables in this section included gender, position in the business, level of education or educational qualifications, and the link between qualifications and the line of business. Section 'B' covered demographic information about the respondent's business. Such information included business ownership, the sector in which the business operates, business location, the period for which the business has operated, the number of permanent employees, and the skill level of the employees. This section presents an analysis and interpretation of the demographic data on both the respondents and the businesses.

### **6.4.1 Demographic data on respondents**

#### **6.4.1.1 Gender**

The frequency distribution of respondents based on their gender is presented in Table 39. One hundred and ninety-two respondents, representing 55.8 % of the total number of respondents, were female. This indicates that the majority of the respondents were female. Conversely, 152 respondents, representing 44.2 % of the total, were male.

**TABLE 39. FREQUENCY DISTRIBUTION OF RESPONDENTS BY GENDER**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
<b>Valid</b>	Male	152	44.2	44.2	44.2
	Female	192	55.8	55.8	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

In order to enhance clarity, the percentage distribution of respondents based on their gender illustrated in Table 41 is presented in Figure 32.

**FIGURE 32. PIE CHART DISTRIBUTION OF RESPONDENTS BY GENDER**

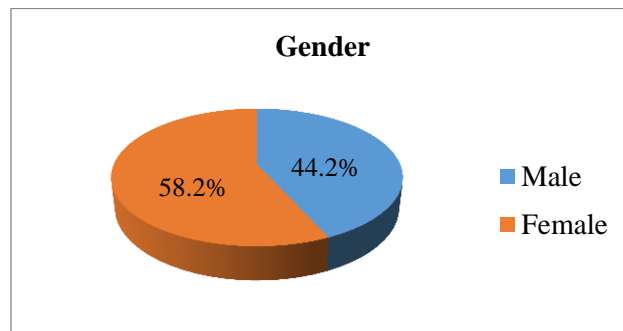


Figure 36 illustrates that 44.2 % of the respondents were male while 55.8 % of them were female. Thus, most of the respondents were female. This indicates that female respondents were more accessible to the researcher. The results may also show that the SME sector is dominated by female businesspeople. This concurs with the Ruzivo Trust (2013), which observes that 67 % of all SMEs are owned by women. Therefore, women dominate the SME sector in Harare (Chirau, 2012).

#### **6.4.1.2 Position**

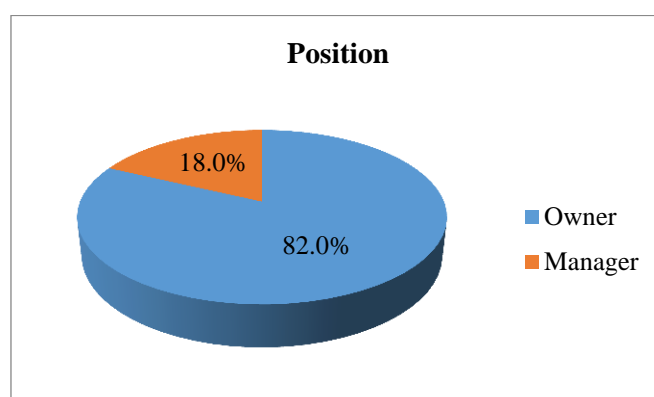
The frequency distribution of respondents by position is presented in Table 40. Two hundred and eighty-two respondents, representing 82 % of the total, were the owners of the SMEs, while 62 respondents, representing 18 %, were managers.

**TABLE 40. FREQUENCY DISTRIBUTION OF RESPONDENTS BY POSITION**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
<b>Valid</b>	Owner	282	82.0	82.0	82.0
	Manager	62	18.0	18.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

For the purposes of clarity, the distribution of respondents by position shown in Table 42 is illustrated in Figure 33.

**FIGURE 33. PIE CHART DISTRIBUTION OF RESPONDENTS BY POSITION**



The statistics in Figure 37 show that most of the SMEs (82 %) were run by owners while a few (18 %) were run by managers appointed by owners. Such results indicate that most of the SME owners in Harare are actively involved in the operations of their businesses. These results are confirmed by Musanzikwa (2014), who observes that most of the SMEs in Harare are run by owners.

#### **6.4.1.3 Education**

Table 41 illustrates the different levels of education of the respondents, and shows that 38 (11 %) of the respondents had completed Grade 7 while 165 (48 %) had General Certificates of Education (high school certificates) at Ordinary or Advanced Levels. National Diploma holders constituted 20.3 % of the respondents while 13.7 % of the participants had Higher

National Diplomas or Bachelor’s degrees. Master’s degree holders constituted 7 % of the respondents.

**TABLE 41. FREQUENCY DISTRIBUTION OF RESPONDENTS BY LEVEL OF EDUCATION**

		Frequency	%	Valid %	Cumulative %
<b>Valid</b>	Grade 7	38	11.0	11.0	11.0
	O/A levels	165	48.0	48.0	59.0
	National Diploma	70	20.3	20.3	79.4
	Higher Nat Dip/Bachelor's Degree	47	13.7	13.7	93.0
	Master’s	24	7.0	7.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

For the purposes of clarity, the distribution of respondents by level of education shown in Table 43 is presented in Figure 34.

**FIGURE 34. DISTRIBUTION OF PARTICIPANTS BY LEVEL OF EDUCATION**

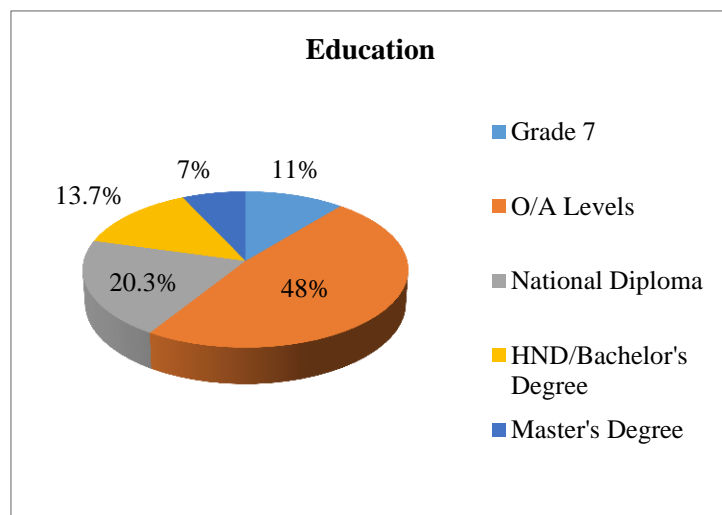


Figure 38 illustrates that the majority of the respondents (48 %) had High School Certificates, while the Master’s degree holders constituted the minority of respondents (7 %). This means

that the SME sector in Harare is dominated by individuals who hold High School Certificates. Thus, most of the entrepreneurs in Harare lack formal tertiary education, which compromises the management of SMEs (Chingwaru & Jakata, 2013).

#### ***6.4.1.4 The link between respondents' qualifications and the type of business***

Table 42 illustrates the link between the respondents' qualifications and the type of business conducted by them. As shown in Table 42, 85.2 % of the respondents indicated that their qualifications were not in line with the type of business they were involved with. Only 14.8 % of the respondents showed that their qualifications were linked to the type of businesses they operated.

**TABLE 42. FREQUENCY DISTRIBUTION OF RESPONDENTS BY LINK BETWEEN QUALIFICATIONS AND TYPE OF BUSINESS**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
<b>Valid</b>	Yes	51	14.8	14.8	14.8
	No	293	85.2	85.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

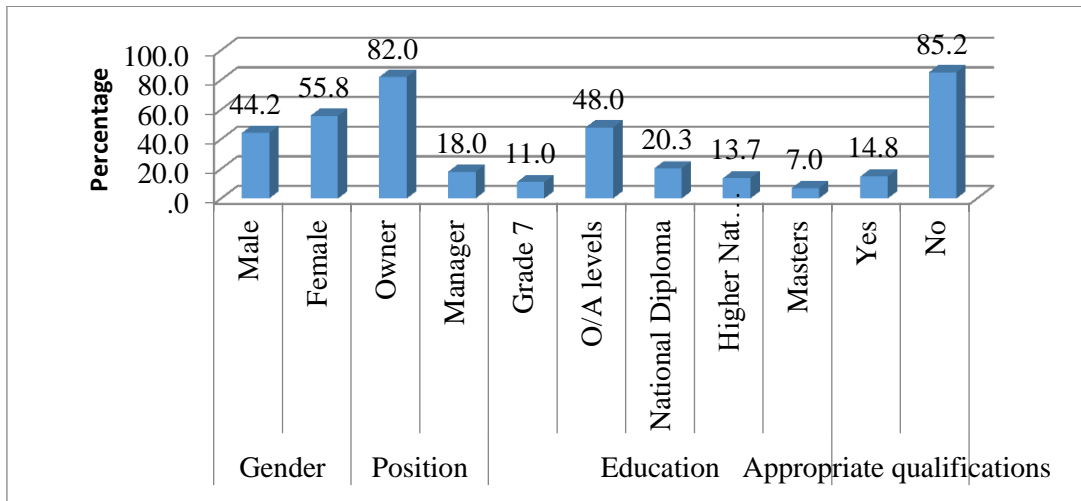
The results in Table 42 illustrate that for the majority (85.2 %) of the respondents there is a misalignment between their qualifications and the type of businesses they are involved with. Such a scenario creates an environment where respondents operate businesses in which they are not skilled. This could therefore partly contribute to business failures. This is confirmed by a study conducted by Musanzikwa (2014) in Harare, which revealed that about 60 % of the respondents indicated that they were not trained in what they were doing.

#### ***6.4.1.5 Summary of the demographic data of the respondents***

Figure 35 provides a graphical representation of the demographic data of the respondents. It illustrates that the majority of the respondents (55.8 %) were female, and that most of the respondents (82 %) were business owners. Holders of High School Certificates constituted the

largest number of respondents (48 %). The results also indicate that the qualifications of most respondents (85.2 %) were not linked to the type of business they operated. Hence, their qualifications were not appropriate or relevant to the businesses they run.

**FIGURE 35. SUMMARY OF THE DEMOGRAPHIC DATA OF RESPONDENTS**



## 6.4.2 Demographic data of SMEs

### 6.4.2.1 Business ownership

As illustrated in Table 43 below, 273 (79.4 %) of the respondents indicated that they were sole proprietors and 33 (9.6 %) were in partnership. Out of the total respondents, 38 (11 %) were running private limited companies.

**TABLE 43. FREQUENCY DISTRIBUTION OF SMES BY FORM OF BUSINESS OWNERSHIP**

		Frequency	%	Valid %	Cumulative %
Valid	Sole Proprietorship	273	79.4	79.4	79.4
	Partnership	33	9.6	9.6	89.0
	Private Limited Company	38	11.0	11.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

Table 43 shows that the most of the respondents (79.4 %) were running businesses individually, while a few (9.6 %) indicated that they were in partnership.

#### **6.4.2.2 Business sector**

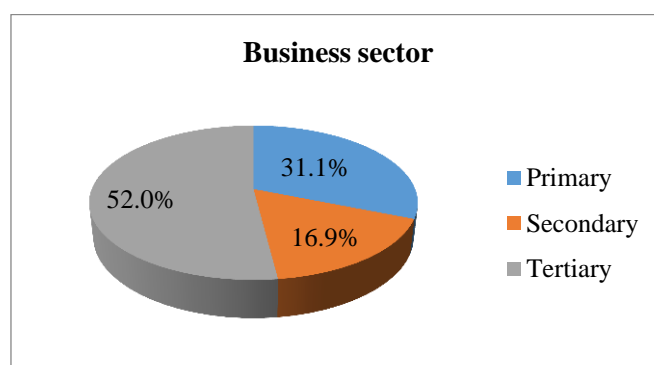
The frequency distribution of SMEs by business sector is illustrated in Table 44. Of the 344 respondents, 107 (31.1 %) indicated that their businesses were in the primary sector, 58 (16.9 %) operated in the secondary sector, and 179 (52.0 %) had their businesses in the tertiary sector. This indicates that the majority of SMEs in Harare are in the service sector, while very few are involved in manufacturing.

**TABLE 44. FREQUENCY DISTRIBUTION OF SMES BY BUSINESS SECTOR**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
Valid	Primary	107	31.1	31.1	31.1
	Secondary	58	16.9	16.9	48.0
	Tertiary	179	52.0	52.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

For added clarity, the frequency distribution of SMEs by business sector shown in Table 44 is presented in Figure 36.

**FIGURE 36. PIE CHART SHOWING THE DISTRIBUTION OF SMES BY BUSINESS SECTOR**



The pie chart in Figure 40 clearly illustrates that the majority of SMEs (52 %) operate in the tertiary sector, which is the service-providing segment of the economy. Very few SMEs (16.9 %) are found in the secondary sector, the sector involved in the manufacturing and processing of raw materials. The service-providing businesses, according to the statistics, dominate the SME sector.

**6.4.2.3 Chi-square test of independence for significant relationship between gender and business sector**

A chi-square test was conducted to establish the significance of the relationship between gender and the business sector. Table 45 illustrates the gender and business sector cross-tabulation.

**TABLE 45. GENDER AND BUSINESS SECTOR CROSS-TABULATION**

		Business sector				Total
		Primary	Secondary	Tertiary		
Gender	Male	Count	30	36	86	<b>152</b>
		% within gender	19.7%	23.7%	56.6%	<b>100.0%</b>
	Female	Count	77	22	93	<b>192</b>
		% within gender	40.1%	11.5%	48.4%	<b>100.0%</b>
Total		Count	<b>107</b>	<b>58</b>	<b>179</b>	<b>344</b>
		% within gender	<b>31.1%</b>	<b>16.9%</b>	<b>52.0%</b>	<b>100.0%</b>

Table 45 shows that male respondents dominated the secondary and tertiary sectors of the economy. The results indicate that 23.7 % and 56.6 % of the male respondents operated in the secondary and tertiary sectors respectively. The extant literature reveals that males are dominant in the manufacturing sector (Sibanda, 2005; ILO, 2006; Chinomona *et al.*, 2013; Makate, 2014). Female respondents (40 %) dominated the primary sector. Approximately 40 % of the females operated the primary sector. This concurs with Kutiwa *et al.* (2010) who observe that urban agriculture, which constitutes a large part of the primary sector, is dominated by women. Most of the females (48.4 %) operate in the tertiary sector, which comprises retail and wholesale businesses (Chirau, 2012; Chronicle, 2013).

A chi-square test, as illustrated in Table 46, was conducted to test the significance of the relationship between gender and business sector. The results of the chi-square test confirm that males dominate the secondary sector while females dominate the primary sector of the economy.

**TABLE 46. CHI-SQUARE TEST**

	Value	df	Asymp. Sig. (2-sided)
Pearson chi-square	19.916 <sup>a</sup>	2	.000
Likelihood ratio	20.391	2	.000
Linear-by-linear association	8.729	1	.003
N of valid cases	344		

\*\*Relationship is significant at  $p < 0.05$  level (2-sided)

The chi-square test indicated that there was a significant relationship between gender and business sector ( $\chi^2 = 19.916$ ,  $p < .0005$ ). The results indicate that more males than expected operate SMEs in the secondary sector, and more females than expected have their businesses in the primary sector of the economy.

#### **6.4.2.4 Business location**

The frequency distribution of respondent SMEs based on their location is shown in Table 47. One hundred and thirty-one respondents (38.1 %) indicated that they operate in the city, while

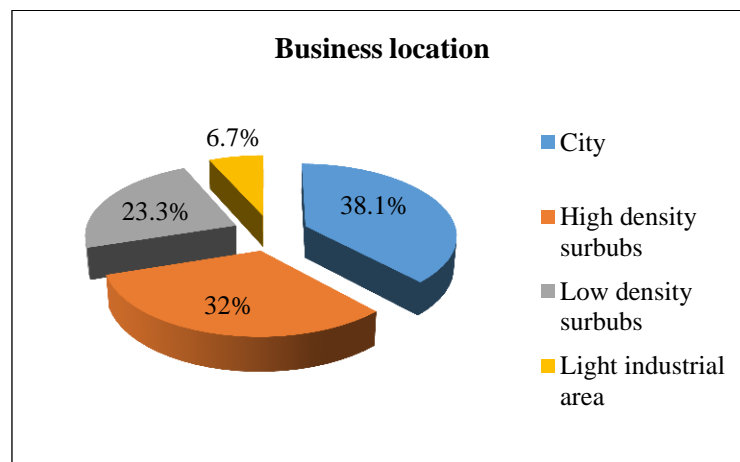
110 (32.0 %) of the respondent SMEs conduct their business in the high-density suburbs. Table 47 further illustrates that 23.3 % of the respondents are found in the low-density suburbs while a very low percentage (6.7 %) are situated in the light industrial areas of Harare. The results indicate that the majority of the SMEs are found in the city and high-density residential areas.

**TABLE 47. FREQUENCY DISTRIBUTION OF SMES BY BUSINESS LOCATION**

		Frequency	%	Valid %	Cumulative %
Valid	City	131	38.1	38.1	38.1
	High-density suburbs	110	32.0	32.0	70.1
	Low-density suburbs	80	23.3	23.3	93.3
	Light industrial area	23	6.7	6.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

A pictorial representation of the distribution of SMEs by location is illustrated in Figure 37. The pie chart has been used to enhance clarity and understanding.

**FIGURE 37. PIE CHART DISTRIBUTION OF SMES BY LOCATION**



#### 6.4.2.5 Period of business operation

The distribution of respondents based on the number of years the SMEs have operated is presented in Table 48. Only 10.2 % of the respondents had operated for 11 years or more while 20.1 % of the total respondents had run their businesses for 6 to 10 years. Interestingly, 240 of the respondents, representing 69.8 % of the total SMEs, had spent 1 to 5 years in their businesses. Such a scenario illustrates that Harare is dominated by young SMEs which are still in their infant stage of development. This is confirmed by Chingwaru (2014), who notes that most of the SMEs in Harare are relatively young businesses.

**TABLE 48. FREQUENCY DISTRIBUTION OF RESPONDENTS BY NUMBER OF YEARS SMES HAVE OPERATED**

		Frequency	%	Valid %	Cumulative %
<b>Valid</b>	1–5 years	240	69.8	69.8	69.8
	6–10 years	69	20.1	20.1	89.8
	11 years or more	35	10.2	10.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.4.2.6 Number of permanent employees

The frequency distribution of respondent SMEs based on the number of permanent employees is presented in Table 49. Only 6.7 % of the respondents had 51 to 100 employees. Fifty-nine respondents representing 17.2 % of the total indicated that they had 21 to 50 employees, while 76.1 % of the SMEs had 6 to 20 workers. This implies that over 90 % of the SMEs had 6 to 50 employees. Most of the SMEs had therefore employed a few people. This is supported by Chingwaru (2014), who observes that the majority of SMEs in Harare employ fewer than 100 permanent employees.

**TABLE 49. FREQUENCY DISTRIBUTION OF SMES BY NUMBER OF PERMANENT EMPLOYEES**

		Frequency	%	Valid %	Cumulative %
Valid	6–20	262	76.1	76.1	76.1
	21–50	59	17.2	17.2	93.3
	51–100	23	6.7	6.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.4.2.7 Level of skill of employees**

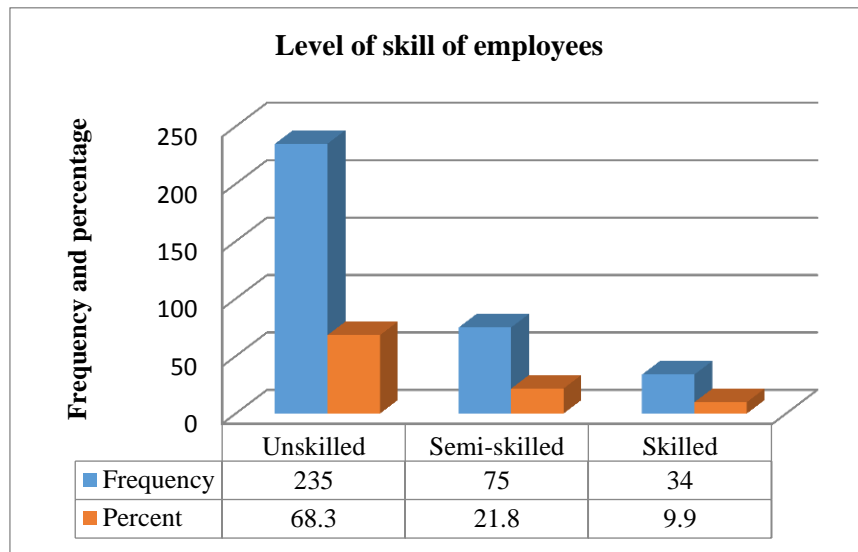
The frequency distribution of SMEs based on the level of skill of employees is shown in Table 50. Two hundred and thirty-five SMEs representing 68.3 % of the respondents had unskilled employees, while 21.8 % of the SMEs had semi-skilled employees. Only 9.9 % of the respondents indicated that they had skilled employees. The results could mean that SMEs are dominated by employees who are unskilled. The results concur with a study conducted by Musanzikwa (2014), who revealed that most of the respondents were not trained in the jobs they were doing, which indicates a low level of skill.

**TABLE 50. FREQUENCY DISTRIBUTION OF SMES BY THE LEVEL OF SKILL OF EMPLOYEES**

		Frequency	%	Valid %	Cumulative %
Valid	Unskilled	235	68.3	68.3	68.3
	Semi-skilled	75	21.8	21.8	90.1
	Skilled	34	9.9	9.9	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

The pictorial representation of the distribution of SMEs based on the level of skill of employees is presented in Figure 38 for further clarity.

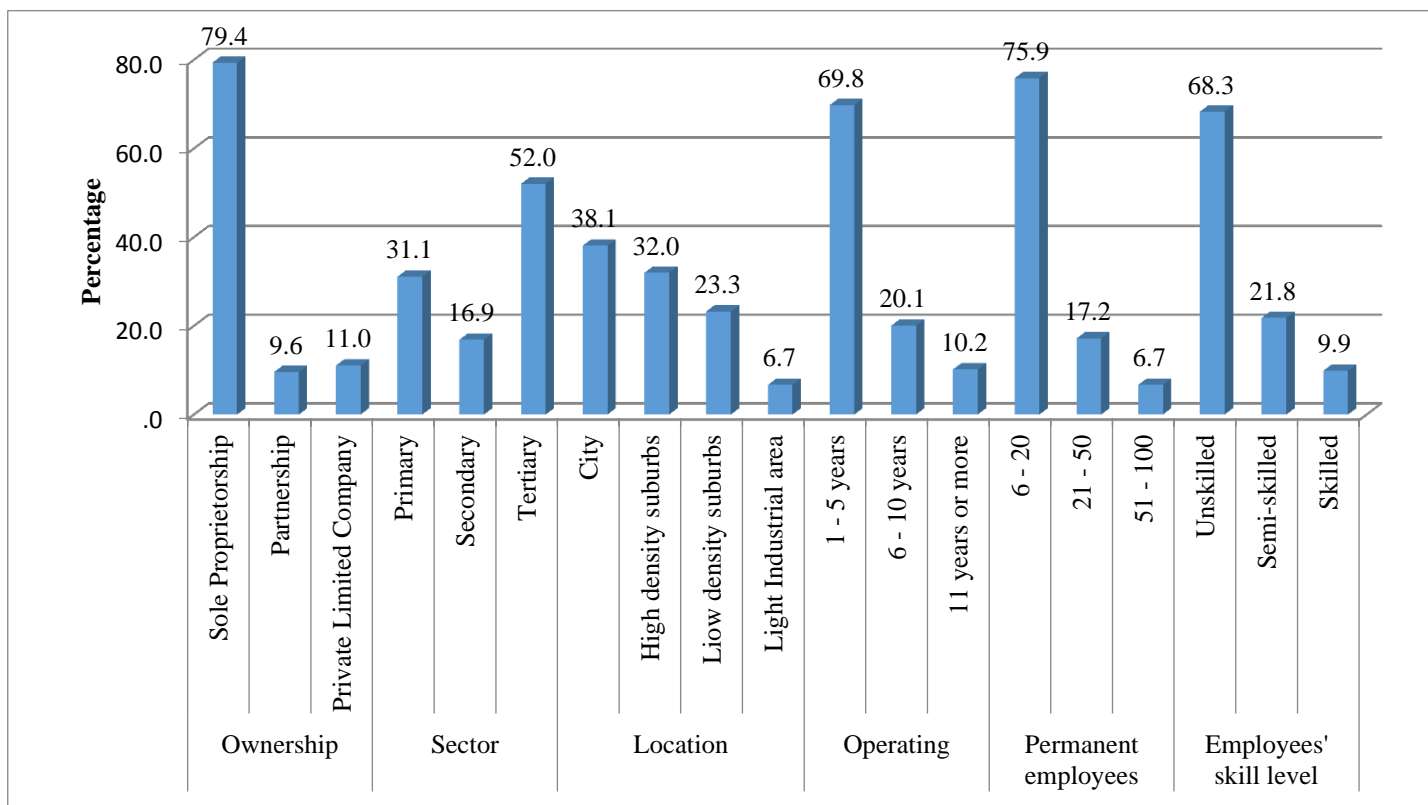
**FIGURE 38. DISTRIBUTION OF SMES BY LEVEL OF SKILL OF EMPLOYEES**



#### ***6.4.2.8 Summary of the demographic data on SMEs***

For the purpose of clarity, Figure 39 provides a pictorial representation of the summary of the demographic data on SMEs in Harare, Zimbabwe. Aspects summarised in Figure 39 include forms of business ownership, sectors in which SMEs are found, location of SMEs, number of years spent operating businesses (SMEs), number of permanent employees, and the level of skill of employees.

Figure 39 below illustrates that sole proprietors (79.4%) dominate the SME businesses. Most of the SMEs (52.0%) operate in the tertiary sector. In terms of location, most of the SMEs conduct their businesses in the city due to the large customer base. Harare, as shown by the statistics, has a high percentage (69.8%) of young SMEs which have operated for 1 to 5 years. The majority of SMEs (75.9%) have 6 to 20 employees. The demographic data also reveals that 68.3% of the SMEs have unskilled employees. This indicates that SMEs in Harare, Zimbabwe still face the challenge of a lack of skills on the part of employees.



**FIGURE 39. SUMMARY OF THE DEMOGRAPHIC DATA OF SMES**

## **6.5 ANALYSIS OF THE RESEARCH QUESTIONS**

This section presents an analysis of the participants' responses to questions related to the research objectives of this study. The purpose was to address the key research questions. Data analysis was conducted according to the sequence of the stated research objectives.

### **6.5.1 Challenges confronting SMEs in Harare, Zimbabwe**

One of the key objectives of the study was to identify the challenges confronting the SME sector in Harare, Zimbabwe. In the questionnaire, the challenges faced by SMEs were categorised into financial, marketing, tax and import duty, administrative and management, and "other" challenges, under which challenges related to infrastructure, location, transport, and burdensome government regulations were grouped. The first research question was, 'What are the challenges confronting SMEs in Harare, Zimbabwe?' The responses of the participants were measured on a four-point Likert scale, according to which they had to strongly disagree, disagree, agree, or strongly agree with the statements in the questionnaire. The research results of this section are presented in Tables 51–66, and Figures 44–58.

#### ***6.5.1.1 Financial challenges***

Financial challenges constitute one of the obstacles confronting the SME sector in Harare, Zimbabwe. The research results of this section are presented in Tables 51–57, and Figure 40 below.

##### **6.5.1.1(a) The business has limited access to foreign currency**

This is the first statement under Financial Challenges in Section C of the questionnaire. The purpose of the question was to establish whether foreign currency was a challenge as stated in the literature. The results displayed in Table 51 illustrate that 38.7 % of the respondents disagreed, while 59.6 % strongly disagreed that their businesses had limited access to foreign currency. Conversely, 1.2 % and 0.6 % respectively agreed and strongly agreed respectively that foreign currency was a challenge to their businesses. Participants' responses on this statement produced a mean of 1.43 and a standard deviation of 0.551. This clearly shows that over 97 % of the respondents indicated that foreign currency was not a challenge for

businesses. Since a four-point Likert scale was used, a binomial test with a cut-off value of two (2) was applied to test whether a significant proportion of respondents agreed or disagreed. A binomial test indicated a significant disagreement with *The business has limited access to foreign currency* ( $p < 0.0005$ ). The results could mean that foreign currency is not a problem for SMEs, since Zimbabwe uses a multi-currency system.

**TABLE 51. FOREIGN CURRENCY AS A CHALLENGE FOR SMES IN HARARE**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	205	59.6	59.6	59.6
	Disagree	133	38.7	38.7	98.3
	Agree	4	1.2	1.2	99.4
	Strongly agree	2	.6	.6	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### **6.5.1.1(b) Government funding has been inadequate though available**

This relates to the second item under Financial Challenges in Section C of the questionnaire. Table 52 shows that 38.4 % and 48.8 % respectively agreed and strongly agreed that government funding has been inadequate. Conversely, 8.7 % disagreed while 4.1 % strongly disagreed with the statement. The responses on this statement produced a mean of 3.32 and a standard deviation of 0.799. This clearly indicates that over 86 % of the respondents had the opinion that government funding had been inadequate though available. A binomial test also indicates a significant agreement with *Government funding is inadequate though available* ( $p < 0.0005$ ). The results could indicate that the funding provided by the government has been inadequate to address the financial challenges of SMEs and to effect business growth.

**TABLE 52. ADEQUACY OF GOVERNMENT FUNDING THOUGH AVAILABLE**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	14	4.1	4.1	4.1
	Disagree	30	8.7	8.7	12.8
	Agree	132	38.4	38.4	51.2
	Strongly agree	168	48.8	48.8	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.1(c) I had access to funding despite strict collateral requirements**

This statement is the third in the Financial Challenges category of the questionnaire. The results presented in Table 53 show that 7.3 % of the respondents agreed, while 4.4 % firmly agreed that they had access to funding despite strict collateral requirements. On the other hand, 34.6 % and the remaining 53.8 % of the respondents disagreed and strongly disagreed, respectively, that they had access to funding even if strict collateral requirements were in place. The responses on this item produced a mean of 1.62 and a standard deviation of 0.802. The results show that 88 % of the respondents indicated that they did not have access to government loans due to strict collateral requirements. A binomial test shows a significant disagreement with *I had access to funding despite strict collateral requirements* ( $p < 0.0005$ ). The results could mean that SMEs do not have access to funding due to strict collateral requirements.

**TABLE 53. ACCESS TO FUNDING DESPITE STRICT COLLATERAL REQUIREMENTS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	185	53.8	53.8	53.8
	Disagree	119	34.6	34.6	88.4
	Agree	25	7.3	7.3	95.6
	Strongly agree	15	4.4	4.4	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.1(d) I was aware that there was government funding

Table 54 illustrates that 39.2 % of the respondents agreed and 35.8 % strongly agreed that they were aware of the government finance schemes for SMEs. However, 15.1 % and 9.9 % respectively disagreed and strongly disagreed that they were aware of the government financial packages for SMEs. The responses from participants on this item produced a mean of 3.01 and a standard deviation of 0.952. The results illustrate that 75 % of the participants indicated that they were aware that government was providing funding to SMEs. A binomial test indicates a significant agreement with *I was aware that there was government funding* ( $p < 0.0005$ ). The results could mean that the majority of SMEs in Harare are aware of government funding through various forms of media.

**TABLE 54. AWARENESS OF GOVERNMENT FUNDING**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	34	9.9	9.9	9.9
	Disagree	52	15.1	15.1	25.0
	Agree	135	39.2	39.2	64.2
	Strongly agree	123	35.8	35.8	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.1(e) I needed funding and I did have enough information about how to access it

The results presented in Table 55 show that 15.4 % of the respondents agreed and 8.7 % strongly agreed that they needed funding and had adequate information about how to access it. However, 38.1 % disagreed with the statement, and a further 130 respondents, constituting 37.8 % of the total number of respondents, strongly disagreed that they needed funding and had enough information on how to access it. The responses to this statement produced a mean of 1.95 and a standard deviation of 0.939. The results clearly show that over 76 % of the participants indicated that though they needed funding, they lacked adequate information on how to access it. A binomial test shows a significant disagreement with *I needed funding and I did have enough information about how to access it* ( $p < 0.0005$ ). The results may mean that SMEs lack adequate information regarding the processes of accessing government funding, though they may be aware that government provides finance for SMEs.

**TABLE 55. HAVING ENOUGH INFORMATION ABOUT GOVERNMENT FUNDING**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
Valid	Strongly disagree	130	37.8	37.8	37.8
	Disagree	131	38.1	38.1	75.9
	Agree	53	15.4	15.4	91.3
	Strongly agree	30	8.7	8.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.1(f) I applied for funding and got it**

The results relating to applying for government funding and being able to secure it are presented in Table 56. According to Table 56, forty-one respondents representing 11.9 % of the total number of participants agreed and 10.5 % strongly agreed that they had applied for government credit finance and received it. However, 100 respondents, constituting 29.1 % of the total, disagreed with the statement, and 167 respondents (48.5 % of the total) strongly disagreed that they had applied for funding and received it. The responses on the item produced a mean of 1.84 and a standard deviation of 1.001. The results show that over 77 % of the respondents indicated they had not received funding, even if they had applied for it. A binomial test indicates a significant disagreement with *I applied for funding and got it* ( $p < 0.0005$ ). The results may indicate that the majority of SMEs had not applied for funding since they did not have adequate information on how to access it, and hence could not get it, or that they had applied but had not received funding. Therefore, SME access to funding has been limited.

**TABLE 56. APPLYING FOR AND GETTING FUNDING**

		<b>Frequency</b>	<b>%</b>	<b>Valid %</b>	<b>Cumulative %</b>
Valid	Strongly disagree	167	48.5	48.5	48.5
	Disagree	100	29.1	29.1	77.6
	Agree	41	11.9	11.9	89.5
	Strongly agree	36	10.5	10.5	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.1(g) The high cost of machinery, equipment and other resources has negatively affected my business

Table 57 presents the results of the opinions of the respondents regarding the statement, *The high cost of machinery, equipment and other resources has negatively affected my business*. The results show that 197 respondents (57.3% of the total) agreed, and 96 respondents (27.9 % of the total) strongly agreed with the statement. Conversely, 11.3 % of the participants disagreed and only 3.5 % strongly disagreed that the high cost of machinery, equipment and other resources had negatively affected the operations of their businesses. The results on this statement produced a mean of 3.10 and a standard deviation of 0.724. The results indicate that over 85 % of the respondents held the opinion that the high cost of machinery, equipment and other resources had negatively affected their businesses. A binomial test shows a significant agreement with *The high cost of machinery, equipment and other resources has negatively affected my business* ( $p < 0.0005$ ). Therefore, the high cost of machinery, equipment and other inputs clearly constitutes a challenge for SMEs in Harare, Zimbabwe.

**TABLE 57. THE HIGH COST OF MACHINERY, EQUIPMENT AND OTHER RESOURCES HAS NEGATIVELY AFFECTED BUSINESS**

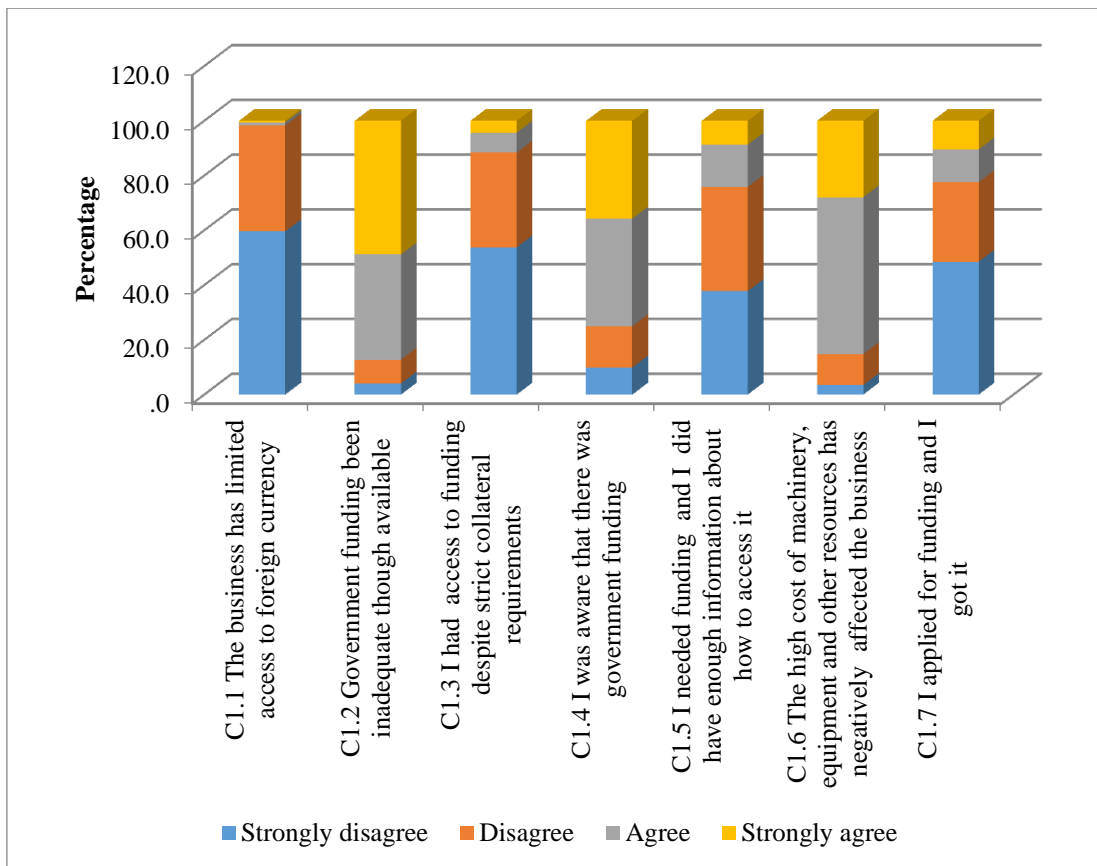
		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	12	3.5	3.5	3.5
	Disagree	39	11.3	11.3	14.8
	Agree	197	57.3	57.3	72.1
	Strongly agree	96	27.9	27.9	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.1(h) Summary of the financial challenges

Figure 40 presents a summary of the results in percentages on the financial challenges faced by SMEs in Harare. The majority of respondents (over 86 %) indicated that foreign currency is not a challenge to their businesses. The results also show that government funding has been inadequate for businesses, even though it is available to some SMEs, as illustrated by the 38.4 % of respondents who agreed and the 48.8 % who strongly agreed with the statement. Most of the respondents (88 %), as illustrated in Figure 40, indicated that they were not able

to access funding due to strict collateral requirements. While 75 % of the respondents indicated that they were aware that government was providing funding to SMEs, over 76 % indicated that they did not have adequate information regarding accessing this funding. More than 77 % of the respondents indicated that they had not received funding, even if they had applied for it. More than 85 % of the respondents held the opinion that the high cost of machinery, equipment and other resources had negatively affected their businesses.

**FIGURE 40. SUMMARY OF RESULTS ON FINANCIAL CHALLENGES**



### 6.5.1.2 Marketing challenges

Marketing challenges have been identified as stifling SME growth in Harare, Zimbabwe. The results of this section are presented in Tables 58–61 and Figures 41–43 below.

**6.5.1.2(a) There has been low demand for the product**

The heading was extracted from the first item under Marketing Challenges in Section C of the attached questionnaire. The results of the responses of the participants on whether there has been low demand are presented in Table 58. The table indicates that 41.9 % of the respondents agreed that there has been low demand for their products and services, with a further 140 respondents (40.7 %) strongly agreeing with the statement. Conversely, 10.5 % and the remaining 7.0 % disagreed and strongly disagreed respectively that there has been low demand for their products and services. The results on this statement produced a mean of 3.16 and a standard deviation of 0.875. The results clearly indicate that over 82 % of the respondents held the opinion that there has been low demand for their business’s products and services. A binomial test indicates a significant agreement with *There has been low demand for the product* ( $p < 0.0005$ ). The results could mean that low product demand is one of the key challenges confronting the SME sector in Harare, Zimbabwe.

**TABLE 58. THERE HAS BEEN LOW DEMAND FOR THE PRODUCT**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	24	7.0	7.0	7.0
	Disagree	36	10.5	10.5	17.4
	Agree	144	41.9	41.9	59.3
	Strongly agree	140	40.7	40.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.2(b) The company has been facing stiff competition from local producers**

This heading was extracted from the second item under the Marketing Challenges in Section C of the questionnaire. Of the total, 156 (45.3 %) of the respondents agreed and 152 (44.2%) strongly agreed that their businesses have been facing stiff competition from domestic producers. On the other hand, 8.1 % disagreed and only 2.3 % strongly disagreed with the statement. These results are presented in Table 59. The results on this item produced a mean of 3.31 and a standard deviation of 0.721. The results indicate clearly that over 89 % of the respondents were of the opinion that their businesses have been facing stiff competition from local producers. A binomial test shows a significant agreement with *The company has been*

*facing stiff competition from local producers* ( $p < 0.0005$ ). The results could mean that strong competition from local products is one of the major challenges facing SMEs in Harare.

**TABLE 59. THE COMPANY HAS BEEN FACING STIFF COMPETITION FROM LOCAL PRODUCERS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	8	2.3	2.3	2.3
	Disagree	28	8.1	8.1	10.5
	Agree	156	45.3	45.3	55.8
	Strongly agree	152	44.2	44.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.2(c) Imports have been posing a lot of competition and have flooded the market**

This heading was extracted from the third item under Marketing Challenges in the questionnaire. Table 60 shows that 101 respondents (29.4 % of the total) agreed that imports have been posing a great deal of competition and have flooded the market, while 94 respondents (27.3 % of the total) strongly agreed with the statement. However, 25.0 % of the respondents disagreed, and 18.3 % strongly disagreed with the statement. The results on this item produced a mean of 2.66 and a standard deviation of 1.068, and show that over 53 % of the respondents were of the opinion that imports have been posing a great deal of competition and have flooded the market. Binomial test results indicate that there is a significant agreement with *Imports have been posing a lot of competition and have flooded the market* ( $p = 0.015$ ). The results may mean that imports are a challenge to the local SMEs as they pose a great deal of competition through flooding the domestic market.

**TABLE 60. IMPORTS HAVE BEEN POSING A LOT OF COMPETITION AND HAVE FLOODED THE MARKET**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	63	18.3	18.3	18.3
	Disagree	86	25.0	25.0	43.3
	Agree	101	29.4	29.4	72.7
	Strongly agree	94	27.3	27.3	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.2(d) The business has adequate information about the market**

This heading was extracted from the fourth item under Marketing Challenges in Section C of the questionnaire. Table 61 shows that 84 respondents (24.4 %) agreed and only 6.4 % strongly agreed that their businesses had adequate information about the market. However, 140 respondents (40.7 % of the total) disagreed and 98 (28.5 %) strongly disagreed with the statement. The responses on this item produced a mean of 2.09 and a standard deviation of 0.883. The results indicate that over 69 % of the respondents were of the opinion that their businesses did not have adequate information about the market. Binomial test results show a significant disagreement with *The business has adequate information about the market* ( $p < 0.0005$ ). The results could mean that SMEs in Harare lack adequate information about the local and international market.

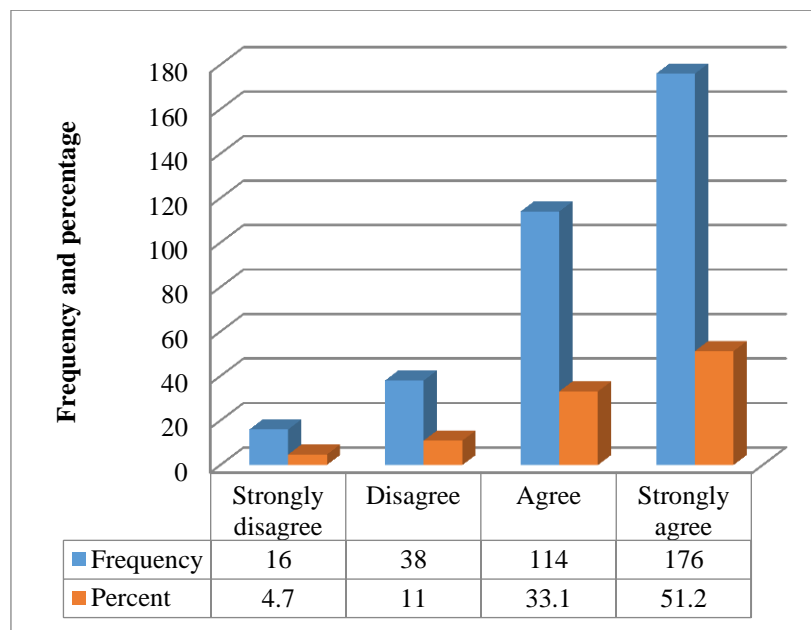
**TABLE 61. THE BUSINESS HAS ADEQUATE INFORMATION ABOUT THE MARKET**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	98	28.5	28.5	28.5
	Disagree	140	40.7	40.7	69.2
	Agree	84	24.4	24.4	93.6
	Strongly agree	22	6.4	6.4	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.2(e) The pricing system in the market has been poor

This heading was extracted from the fifth item under Marketing Challenges in Section C of the questionnaire. Figure 41 shows that 33.1 % of the respondents agreed that the pricing system in the market has been poor, and 176 (51.2 %) strongly agreed. Conversely, 11 % disagreed and 4.7 % strongly disagreed that the pricing system in the market has been poor. The responses on this item produced a mean of 3.31 and standard deviation of 0.846. The results show that over 84 % of the respondents were of the opinion that the pricing system in the market has been poor. The binomial test shows a significant agreement with *The pricing system in the market has been poor* ( $p < 0.0005$ ). Therefore, the system of pricing in the market is viewed as a challenge by SMEs in Harare. Certain products are sold at very low prices, resulting in some SMEs become less competitive in terms of pricing.

**FIGURE 41. THE NATURE OF THE PRICING SYSTEM IN THE MARKET**

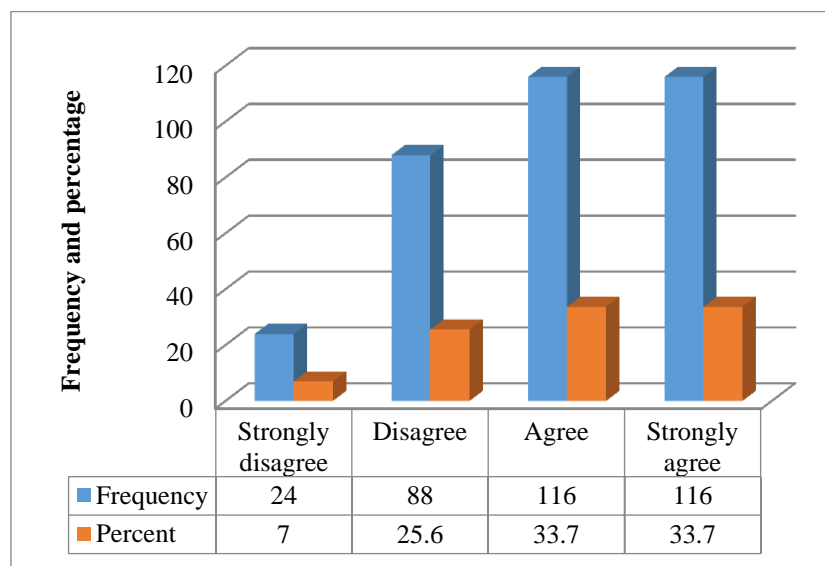


### 6.5.1.2(f) The cost of advertising has been too high

This heading was extracted from the sixth item under Marketing Challenges in Section C of the questionnaire. Figure 42 illustrates the results of the responses of participants to the statement that *The cost of advertising has been too high*, and shows that an equal number of respondents (116, representing 33.7 % of the total) agreed or strongly agreed with the statement. On the other hand, 88 respondents (25.6 % of the total) disagreed and only 24

(7 %) strongly disagreed with the statement. The responses on this item produced a mean and standard deviation of 2.94 and 0.933 respectively. The results show that over 67 % of the respondents were of the opinion that the cost of advertising was too high. The binomial test showed a significant agreement with *The cost of advertising has been too high* ( $p < 0.0005$ ). Thus, the high cost of advertising is viewed by SMEs as one of the obstacles to their growth.

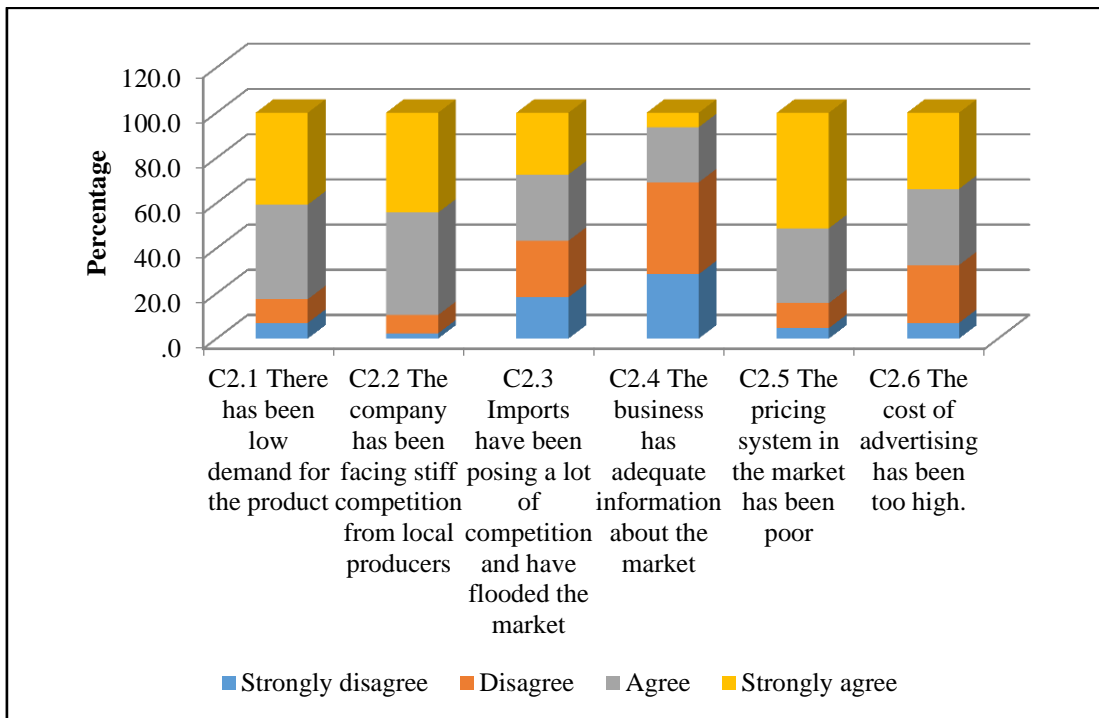
**FIGURE 42. THE COST OF ADVERTISING IS TOO HIGH**



#### **6.5.1.2(g) Summary of the results on marketing challenges**

Figure 43 presents a summary of the results (in percentages) on the marketing challenges confronting SMEs in Harare, Zimbabwe. The results clearly indicate that more than 81 % of the respondents held the opinion that there has been low demand for their products and services. Over 89 % of the respondents were of the opinion that their businesses face stiff competition from local producers. The results also illustrate that over 53 % of the respondents indicated that imports have been posing a lot of competition and have flooded the market. More than 69 % of the total number of respondents believed that their businesses did not have adequate information about the market, and over 84 % of the respondents concurred with the statement that the pricing system in the market has been poor. Over 67 % of the respondents were of the opinion that the cost of advertising has been too high.

**FIGURE 43. SUMMARY OF RESULTS ON MARKETING CHALLENGES**



**6.5.1.3 Tax and import duty challenges**

Tax and high import duty have been noted in the extant literature as being amongst the challenges facing SMEs. The results of this section are shown in Tables 62 and 63, as well as in Figure 44 below.

**6.5.1.3(a) The tax rate has been too high**

This heading was extracted from the first item under Tax and Import Duty Challenges in Section C of the questionnaire. Table 62 shows that 42.2 % and 39.2 % of the respondents agreed and strongly agreed respectively that the tax rate for SMEs has been too high, while 11 % disagreed and only 7.6 % strongly disagreed. The responses on this item produced a mean and standard deviation of 3.13 and 0.889 respectively. The results show that more than 81 % of the respondents concurred with the statement that the tax rate for SMEs has been too high. Binomial test results indicate that there is a significant agreement with *The tax rate has been too high* ( $p < 0.0005$ ). The results could mean that the high tax rate has been a challenge for SMEs.

**TABLE 62. THE TAX RATE HAS BEEN TOO HIGH**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	26	7.6	7.6	7.6
	Disagree	38	11.0	11.0	18.6
	Agree	145	42.2	42.2	60.8
	Strongly agree	135	39.2	39.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.3(b) Import duty is high and unsustainable**

This heading was extracted from the second item under Tax and Import Duty Challenges in Section C of the questionnaire. Table 63 indicates that 37.2 % of the respondents agreed and 41.3 % strongly agreed that the import duty was high and unsustainable, while 10.2 % and the remaining 11.3 % disagreed and strongly disagreed respectively. The responses on this statement produced a mean of 3.08 and a standard deviation of 0.982. The results indicate that more than 78 % of the participants had the opinion that the import duty was high and unsustainable. The binomial test shows a significant agreement with *Import duty is high and unsustainable* ( $p < 0.0005$ ). The results show that the high import duty is viewed as a challenge by SMEs, and as unsustainable for them.

**TABLE 63. THE IMPORT DUTY IS HIGH AND UNSUSTAINABLE**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	39	11.3	11.3	11.3
	Disagree	35	10.2	10.2	21.5
	Agree	128	37.2	37.2	58.7
	Strongly agree	142	41.3	41.3	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.1.3(c) Summary of the results on tax and import duty challenges

In order to provide further clarity and understanding, Figure 44 presents a summary of the results in the form of percentages.

**FIGURE 44. SUMMARY OF THE RESULTS ON TAX AND IMPORT DUTY CHALLENGES**

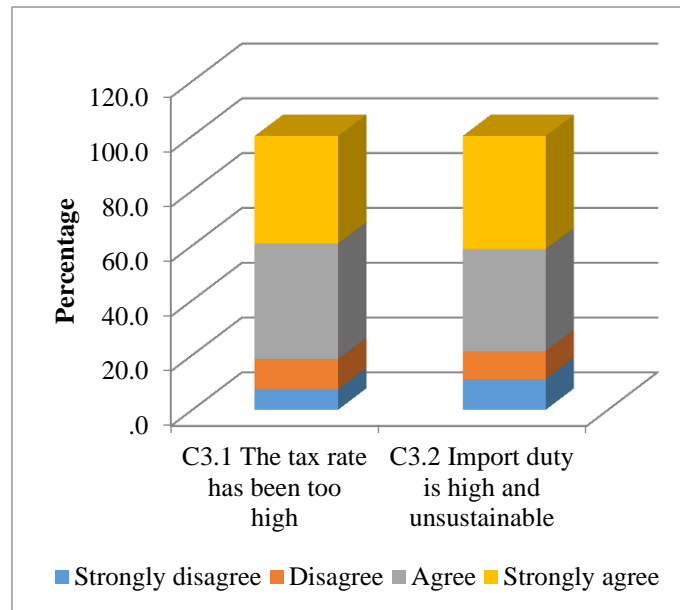


Figure 44 shows that over 81 % of the respondents concurred with the statement that the tax rate for SMEs has been too high. The results also indicate that more than 78 % of the participants had the opinion that the import duty was high and unsustainable.

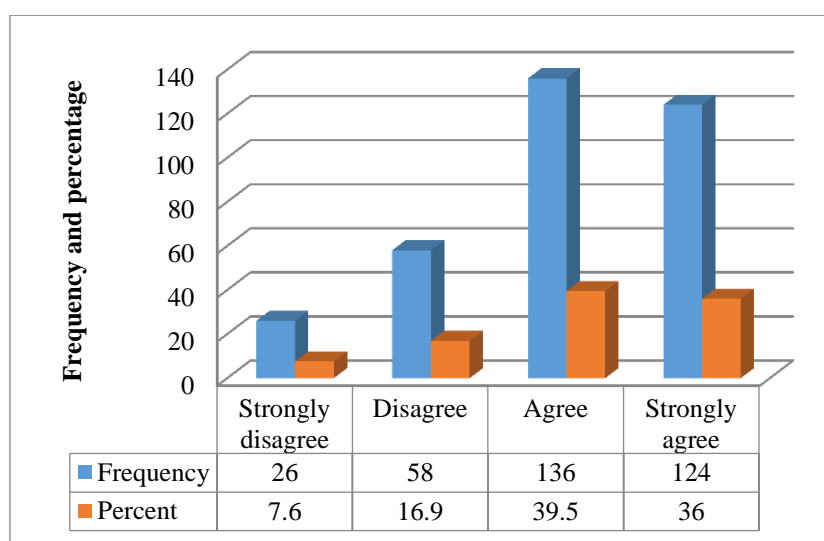
### 6.5.1.4 Administrative and management challenges

This section assists in addressing the first research objective of identifying the challenges facing SMEs in Harare, Zimbabwe. The results of this section are presented in Figures 45–50 below.

#### 6.5.1.4(a) The company has suffered from the lack of technical skills in production

This heading is extracted from the first item under Administrative and Management Challenges in Section C of the attached questionnaire. Figure 45 indicates that 39.5 % of the respondents agreed that their businesses had suffered from the lack of technical skills in production and 36% strongly agreed with the statement. However, 58 respondents (16.9% of the total) disagreed with the statement that they suffered from the lack of technical skills in production, and only 7.6 % strongly disagreed. The responses on this statement produced a mean and standard deviation of 3.04 and 0.912 respectively. The results indicate that more than 75 % of the respondents held the opinion that their businesses suffered from a lack of technical skills in production. There is a significant agreement with *The company has suffered from the lack of technical skills in production* ( $p < 0.0005$ ). The results could mean that a lack of technical skills is regarded as one of the key challenges facing the SME sector in Harare, Zimbabwe.

**FIGURE 45. SUFFERING FROM LACK OF TECHNICAL SKILLS IN PRODUCTION**

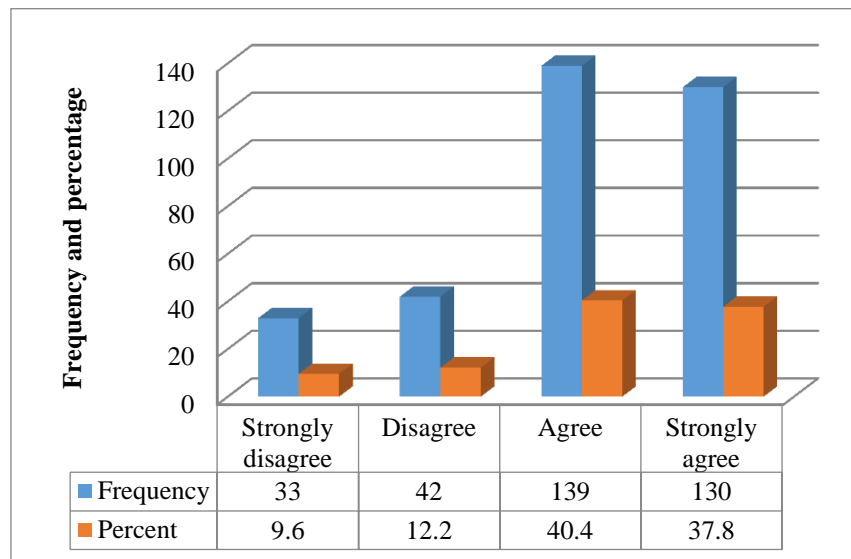


#### 6.5.1.4(b) There has been a lack of financial management skills among staff and management

This heading is extracted from the second item under Administrative and Management Challenges as indicated in Section C of the questionnaire. Figure 46 shows that 40.4 % of the respondents agreed that in their businesses there has been a lack of financial management

skills among staff and management, and 130 respondents (37.8% of the total) strongly agreed. Conversely, 12.2% and the remaining 9.6% disagreed and strongly disagreed respectively that there has been a lack of financial management skills among staff and management in their SMEs. The responses to this statement produced a mean of 3.06 and a standard deviation of 0.939. The results clearly indicate that over 75 % of the respondents were of the opinion that there had been a lack of financial management skills among staff and management. Binomial test results indicate a significant agreement with *There has been a lack of financial management skills among staff and management* ( $p < 0.0005$ ). According to the results, a lack of financial management skills is viewed as an obstacle to growth by the SMEs.

**FIGURE 46. LACK OF FINANCIAL MANAGEMENT SKILLS AMONG STAFF AND MANAGEMENT**

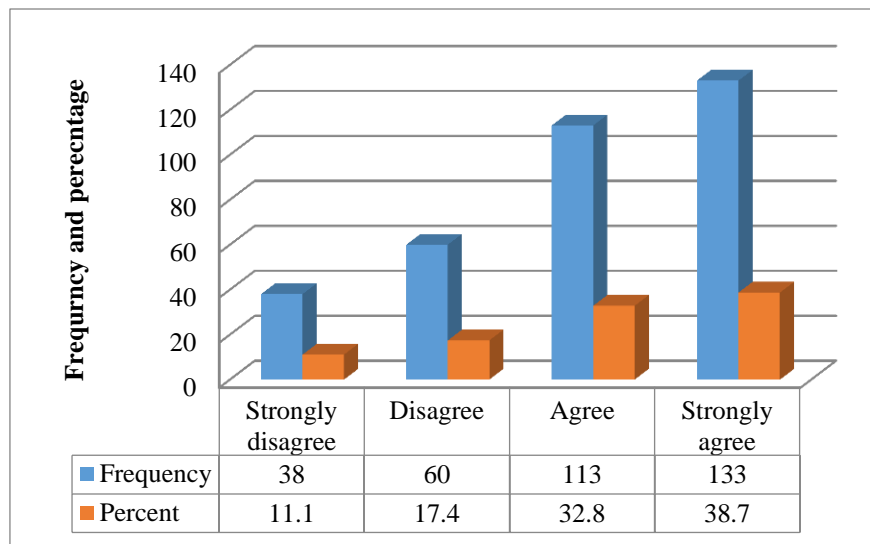


**6.5.1.4(c) The lack of marketing skills has been a challenge to the business**

This heading is extracted from the third item under Administrative and Management Challenges in Section C of the questionnaire. Figure 47 shows that 113 respondents (32.8 % of the total) agreed that a lack of marketing skills was a challenge in their businesses, and 133 respondents (38.7 %) strongly agreed. On the other hand, 17.4 % of the participants disagreed with the statement that there was a lack of marketing skills in their businesses, and the remaining 11.1 % strongly disagreed. The responses on this item produced a mean and standard deviation of 3.02 and 0.874 respectively. The results indicate that over 71 % of the respondents concurred with the statement that the lack of marketing skills has been a

challenge to their businesses. The binomial test shows a significant agreement with *The lack of marketing skills has been a challenge to the business* ( $p < 0.0005$ ). The lack of marketing skills, according to the results, is a challenge for SMEs in Harare.

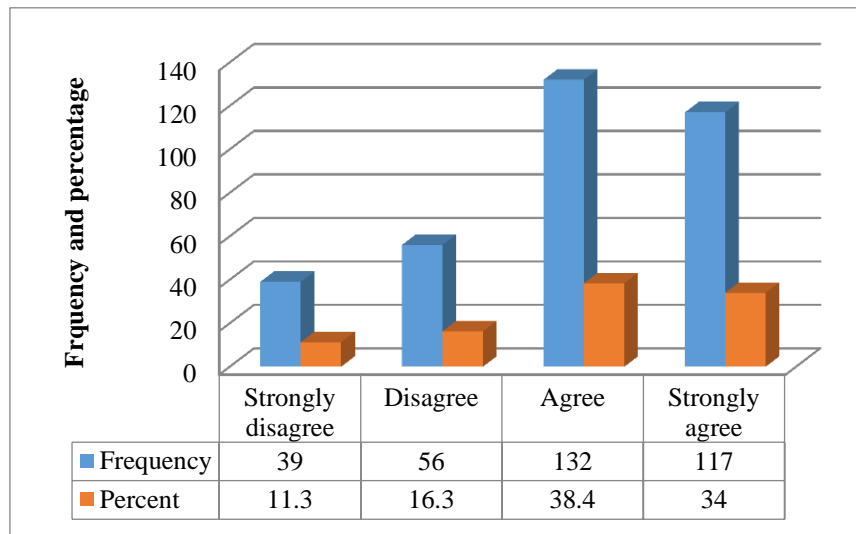
**FIGURE 47. LACK OF MARKETING SKILLS BEING A CHALLENGE TO THE BUSINESS**



#### **6.5.1.4(d) Management lacks training and experience**

This heading is extracted from the fourth item under Administrative and Management Challenges in Section C of the questionnaire. According to Figure 48, 132 respondents (38.4 % of the total) agreed that management lacks experience and training, and (34 %) strongly agreed. Conversely, 16.3 % and the remaining 11.3 % of the respondents chose to disagree and strongly disagree respectively with the statement. The responses on the item produced a mean and standard deviation of 2.95 and 0.978 respectively. The results clearly show that over 72 % of the respondents were of the opinion that management lacks training and experience. The binomial test shows that there is significant agreement with *Management lacks training and experience* ( $p < 0.0005$ ). Hence, the results show that a lack of management training and experience has been a challenge for SMEs.

**FIGURE 48. MANAGEMENT LACKS EXPERIENCE AND TRAINING**



**6.5.1.4(e) The Mann-Whitney U test: Testing for significant differences between two groups of respondents**

Question 4 in Section A of the questionnaire required respondents to indicate whether their academic and professional qualifications were in line with the type of business they were involved in. This question needed a ‘yes’ or ‘no’ answer, leading to the creation of two groups or two categories of respondents. The Mann-Whitney U test was used to establish if there were any significant differences between the two groups of respondents in terms of the technical, management and marketing skills deficiencies or challenges in their businesses. The reason was to determine if the lack of technical, management and marketing skills emanated from the misalignment of qualifications and the skills needed for business success.

Table 64 shows that 293 out of the 344 respondent SMEs that suffered from a lack of technical skills in production and a lack of financial management skills indicated that their qualifications were not in line with the type of business they were involved in. The 292 respondents who lacked marketing skills showed that their qualifications were not related to the types of businesses they were operating.

**TABLE 64. MANN-WHITNEY U TEST RESULTS FOR SIGNIFICANT DIFFERENCES BETWEEN TWO GROUPS OF RESPONDENTS**

	<b>Are your qualifications in line with the business you are doing?</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The company has suffered from the lack of technical skills in production	Yes	51	2.73	1.041
	No	293	3.10	.878
There has been a lack of financial management skills among the staff and management	Yes	51	2.96	.848
	No	293	3.08	.955
The lack of marketing skills has been a challenge to the business	Yes	51	2.78	1.026
	No	292	3.02	.996

<b>TEST STATISTICS</b>			
	The company has suffered from the lack of technical skills in production	There has been a lack of financial management skills among the staff and management	The lack of marketing skills has been a challenge to the business
Mann-Whitney U	5973.500	6663.000	6430.000
Wilcoxon W	7299.500	7989.000	7756.000
Z	-2.428	-1.317	-1.639
Asymp. Sig. (2-tailed)	.015	.188	.101

\*\*Differences are significant at  $z < 0.05$  level (2-tailed)

\*\*Grouping variable: Qualifications in line with business

SMEs who responded ‘no’ to the question ‘Are your qualifications in line with the business you are doing?’ agreed significantly more than those who responded ‘yes’ that the company has suffered from the lack of technical skills in production ( $Z = -2.428$ ,

p=.015). These results indicate that a lack of technical, management and marketing skills is a product of the misalignment of qualifications and the skills needed for business success. The results are confirmed by Musanzikwa (2014), who notes that the entrepreneurs' qualifications are not in line with the types of businesses they operate. Therefore, they lack skills specifically for the businesses they run, even if they have other skills not related to their enterprises.

The Kruskal-Wallis test was also used as a test for significant differences between SMEs with unskilled, semi-skilled and skilled employees. The results are indicated in Table 65 below.

#### **6.5.1.4(f) Kruskal-Wallis test: Test for significant differences between SMEs with unskilled, semi-skilled and skilled employees**

Responses to the statement *The company has suffered from lack of technical skills in production* were significantly different depending on the level of skill of employees ( $\chi^2=33.049$ ,  $p=0.00$ ). Specifically, those SMEs with unskilled employees agreed more than those with skilled and semi-skilled employees, and those with semi-skilled employees agreed more than those with skilled employees. Responses to the statement *There has been a lack of financial management skills among staff and management* were significantly different depending on the level of skill of employees ( $\chi^2= 9.807$ ,  $p= 0.007$ ). Those respondents with unskilled employees agreed more than those with semi-skilled and skilled employees, and those with semi-skilled employees agreed more than those with skilled employees. Responses to the item *The lack of marketing skills has been a challenge to the businesses* were significantly different depending on the level of skill of employees ( $\chi^2= 7.453$ ,  $p= 0.024$ ). Those SMEs with unskilled employees agreed more than those with semi-skilled and skilled employees, and those with semi-skilled employees agreed more than those with skilled employees. These results indicate that the level of skill of employees really affects the ability of employees and SMEs to market, produce and properly handle the financial resources of a business. Thus, the level of skill of employees is critical for the success of SMEs.

**TABLE 65. EMPLOYEE SKILLS LEVEL AND CHALLENGES CROSS-TABULATION**

		<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
C4.1 The company has suffered from the lack of technical skills in production	Unskilled	235	3.15	.832
	Semi-skilled	75	3.16	.806
	Skilled	34	2.03	1.058
	<b>Total</b>	<b>344</b>	<b>3.04</b>	<b>.912</b>
C4.2 There has been a lack of financial management skills among the staff and management	Unskilled	235	3.11	.927
	Semi-skilled	75	2.79	1.004
	Skilled	34	3.35	.734
	<b>Total</b>	<b>344</b>	<b>3.06</b>	<b>.939</b>
C4.3 The lack of marketing skills has been a challenge to the business	Unskilled	234	3.02	.993
	Semi-skilled	75	3.08	1.024
	Skilled	34	2.59	.957
	<b>Total</b>	<b>343</b>	<b>2.99</b>	<b>1.003</b>

<b>TEST STATISTICS</b>			
	The company has suffered from the lack of technical skills in production	There has been a lack of financial management skills among the staff and management	The lack of marketing skills has been a challenge to the business
Chi-square	33.049	9.807	7.453
df	2	2	2
Asymp. Sig.	.000	.007	.024

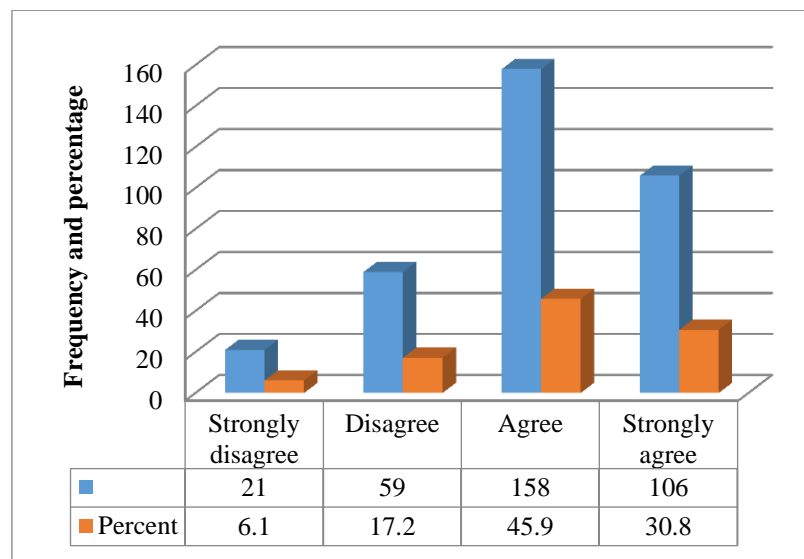
\*\*Differences are significant at p<0.05 level (2-tailed)

\*\*Grouping variable: Employees' level of skill

**6.5.1.4(g) There has been an unreliable supply of inputs to the business**

This heading is extracted from the fifth item under Administrative and Management Challenges in Section C of the questionnaire. As shown in Figure 49, 158 respondents (45.9 % of the total) agreed that there has been an unreliable supply of inputs to their businesses, and 106 (30.8 %) strongly agreed with the statement. However, 17.2 % disagreed, and the remaining 6.1 % strongly disagreed with the statement. The responses on the item produced a mean and standard deviation of 3.01 and 0.852 respectively. The results show that over 76 % of the respondents were of the opinion that there has been an unreliable supply of inputs to their businesses. Binomial test results show that there is a significant agreement with *There has been an unreliable supply of inputs to the business* ( $p < 0.0005$ ). Therefore, an unreliable supply of inputs is likely to constitute a challenge for SMEs in Harare.

**FIGURE 49. THE RELIABILITY OF SUPPLY OF INPUTS TO THE BUSINESS**

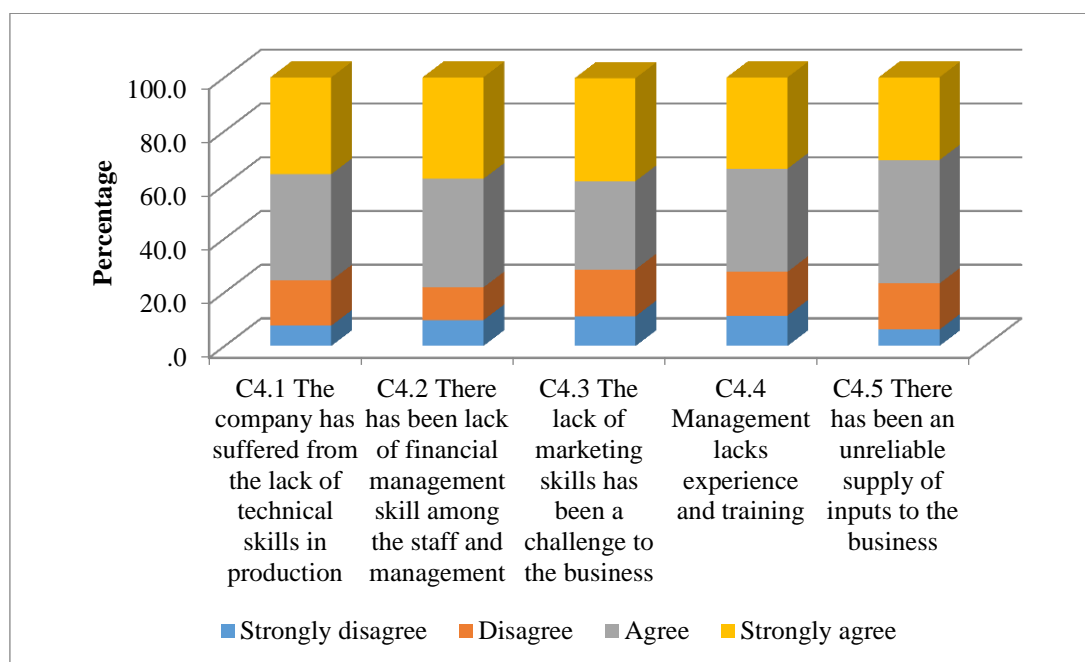


**6.5.1.4(h) Summary of the results on administrative and management challenges**

Figure 50 presents a summary of the results in percentages on administrative and management challenges. The results indicate that more than 75 % of the respondents held the opinion that their businesses suffered from a lack of technical skills in production. Figure 50 also shows that more than 75 % of the respondents were of the opinion that there had been a lack of financial management skills among staff and management. Over 71 % of the respondents concurred with the statement that the lack of marketing skills has been a challenge to their

businesses. More than 72 % were of the opinion that management lacks training and experience, and over 76 % of the respondents were of the opinion that there has been an unreliable supply of inputs to their businesses.

**FIGURE 50. SUMMARY OF THE RESULTS ON MANAGEMENT CHALLENGES**



#### **6.5.1.5 Other challenges**

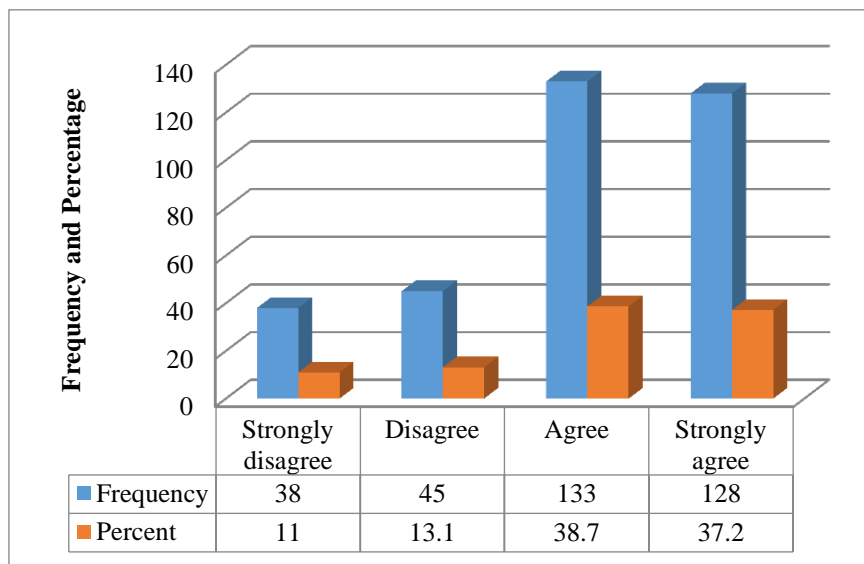
There are other challenges that stifle SME growth in Harare, Zimbabwe. This section seeks to identify those obstacles to SME growth. The results are illustrated in Figures 51–54 and Table 66 below.

#### **6.5.1.5 (a) Poor roads, lack of business shelter, lack of land and lack of communication infrastructure have negatively affected my business**

This heading is extracted from the first item under Other Challenges in Section C of the questionnaire. Figure 51 shows that 38.7 % of the participants agreed and 37.2 % strongly agreed that poor roads, lack of business shelter, lack of land and lack of communication infrastructure had negatively affected their businesses. However, 13.1 % and 11 % of all the respondents disagreed and strongly disagreed respectively with the statement. The responses

on the item produced a mean of 3.02 and a standard deviation of 0.973. The results show that more than 75 % of the respondents were of the opinion that poor roads, lack of business shelter, lack of land and lack of communication infrastructure had negatively affected their businesses. The binomial test indicates a significant a significant agreement with *Poor roads, lack of business shelter, lack of land and lack of communication infrastructure have negatively affected my business* ( $p < 0.0005$ ). The results could mean that poor roads, lack of business shelter, lack of land and lack of communication infrastructure are a challenge for SMEs to the extent that they have negatively affected the operations of the businesses.

**FIGURE 51. POOR ROADS, LACK OF BUSINESS SHELTER, LACK OF LAND AND LACK OF COMMUNICATION INFRASTRUCTURE HAVE AFFECTED BUSINESS**

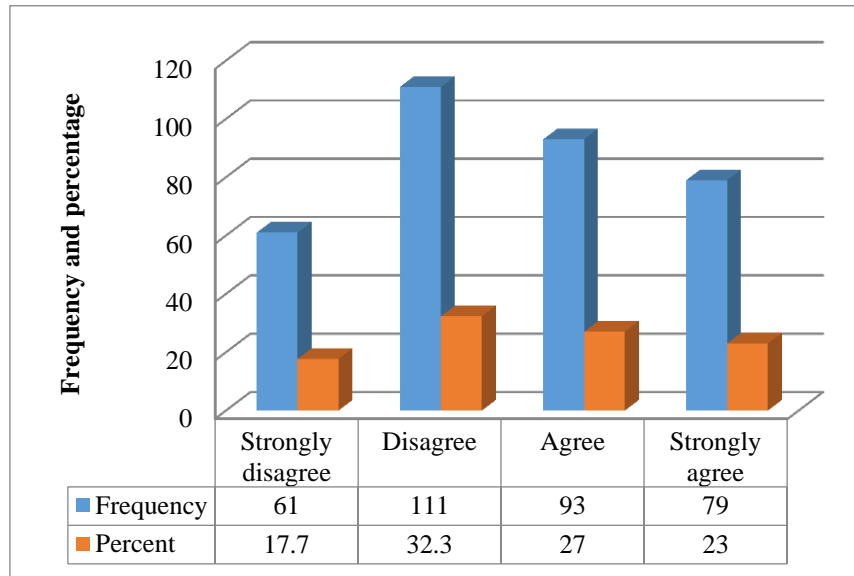


**6.5.1.5(b) The location of the business is poor such that it has negatively impacted on the business**

This heading is extracted from the second item under Other Challenges in Section C of the questionnaire. According to Figure 52, 93 respondents (constituting 27% of the total) agreed that the location of their businesses was poor such that it had a negative impact on the SMEs, and 23% of the respondents strongly agreed with the statement. Conversely, 32.3 % of the participants disagreed with the statement, while the remaining 17.7 % strongly disagreed. The responses on the item produced a mean and standard deviation of 2.55 and 1.032 respectively. The results show that 50 % of the respondents were of the opinion that the location of their

businesses was poor such that it negatively impacted on their businesses. The results mean that for half of the respondents, business location was not a challenge.

**FIGURE 52. POOR BUSINESS LOCATION HAS NEGATIVELY IMPACTED ON THE BUSINESS**



**6.5.1.5(c) The business lacks transport for inputs and outputs**

This heading is extracted from the third item under Other Challenges in Section C of the questionnaire. The results of the responses from participants on the statement, *The business lacks transport for inputs and outputs*, are presented in Table 68, which shows that 129 respondents (37.5 %) agreed and 132 (38.4 %) strongly agreed that their businesses lack transport for inputs and outputs. On the other hand, 16.6 % disagreed and the remaining 7.6 % strongly disagreed with the statement. The responses on the item produced a mean and standard deviation of 3.07 and 0.922 respectively. The results indicate that over 75 % of the respondents concurred with the opinion that their businesses lack transport for inputs and outputs. Binomial test results indicate that there is a significant agreement with *The business lacks transport for inputs and outputs* ( $p < 0.0005$ ). The results indicate that lack of transport for the inputs and outputs of the SMEs is a challenge for most businesses.

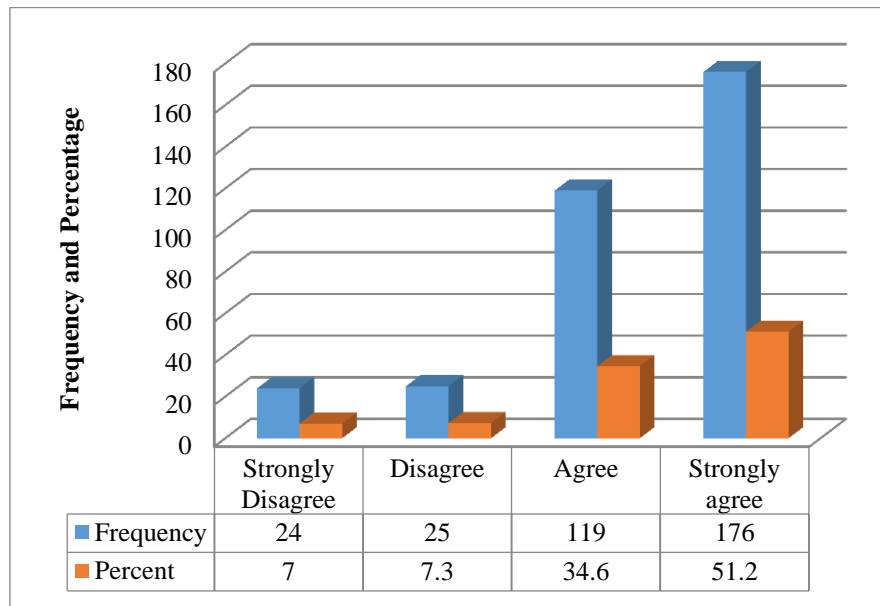
**TABLE 66. THE BUSINESS LACKING TRANSPORT FOR INPUTS AND OUTPUTS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	26	7.6	7.6	7.6
	Disagree	57	16.6	16.6	24.1
	Agree	129	37.5	37.5	61.6
	Strongly agree	132	38.4	38.4	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.1.5(d) Burdensome government regulations have been a challenge for my business**

This heading is extracted from the fourth item under Other Challenges in Section C of the questionnaire. As illustrated in Figure 53, 119 respondents (representing 34.6 % of the total) agreed and 176 (51.2 %) strongly agreed that burdensome government regulations have been a challenge for their businesses. Conversely, 7.3 % and the remaining 7 % disagreed and strongly disagreed respectively with the statement. The responses on this item produced a mean and standard deviation of 3.30 and 0.881 respectively. The results clearly show that over 85 % of the respondents were of the opinion that burdensome government regulations have been a challenge to their businesses. The binomial test indicates a significant agreement with *Burdensome government regulations have been a challenge for my business* ( $p < 0.0005$ ). The results could mean that burdensome government regulations have posed a serious challenge to SMEs in Harare, Zimbabwe.

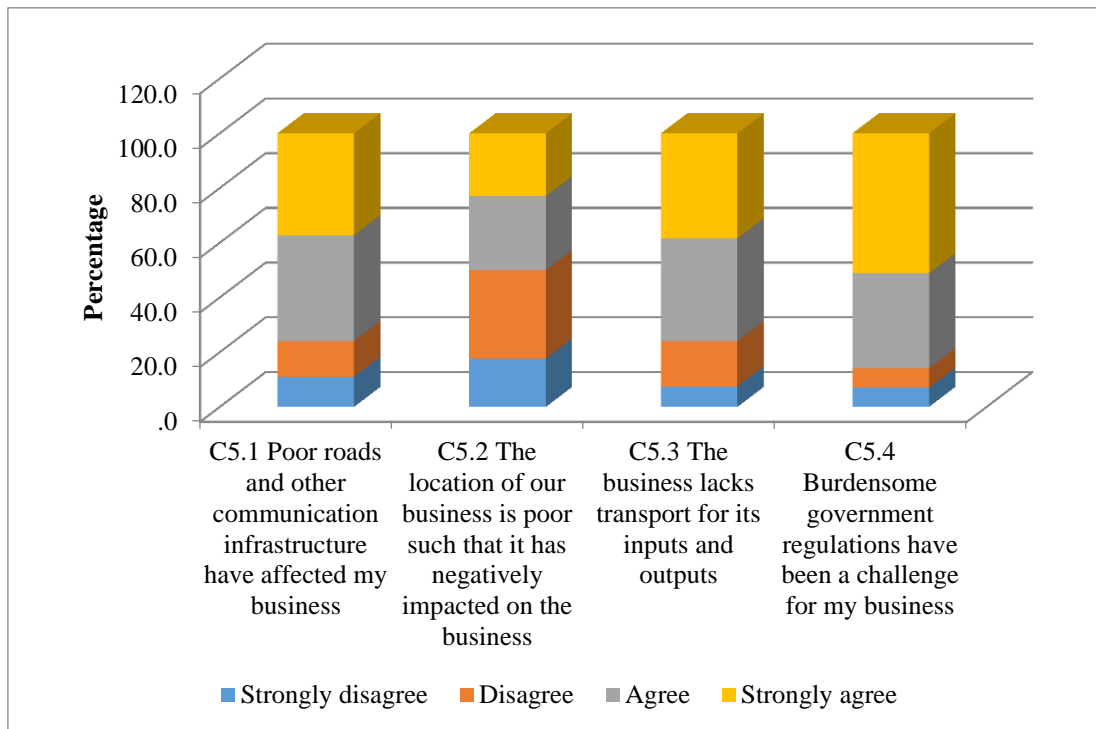
**FIGURE 53. BURDENSOME GOVERNMENT REGULATIONS BEING A CHALLENGE TO BUSINESS**



**6.5.1.5(e) Summary of the results on Other Challenges**

A summary of the results on other SME challenges is presented in Figure 54. More than 75 % of the respondents were of the opinion that poor roads, lack of business shelter, lack of land and lack of communication infrastructure had negatively affected their businesses. The results also show that 50 % of the respondents concurred with the statement that that the location of their businesses was poor such that it negatively affected their businesses. Over 75 % of the respondents concurred with the opinion that their businesses lack transport for inputs and outputs. More than 85 % of the respondents indicated that burdensome government regulations have been a challenge to their businesses.

**FIGURE 54. SUMMARY OF THE RESULTS ON OTHER SME CHALLENGES**



## 6.5.2 Government policies and strategies that deal with the challenges of SMEs

The second objective of the study was to identify the existing key government policies and strategies that deal with challenges confronting the SME sector in Zimbabwe. This section also attempts to address the fourth research objective, which focuses on assessing the effectiveness of these policies and strategies in dealing with the SME challenges.

### 6.5.2.1 Government funding

The GoZ has provided funding to SMEs through the MSMECD, SMEDCO and private financial institutions. The results of this section are presented in Table 67 and Figures 55–59 below.

### 6.5.2.1(a) Government funding has been adequate for my business

This heading is extracted from the first item under Government Funding in Section D of the questionnaire. Table 67 shows that 122 participants (representing 35.5 % of the total) disagreed that government funding was adequate for their businesses, and 192 (55.8 %) strongly disagreed with the statement. Conversely, 6.7 % of the respondents agreed and the remaining 2.0% strongly agreed that government funding has been adequate for their businesses. The responses on this item produced a mean and standard deviation of 1.55 and 0.711 respectively. The results clearly indicate that over 91 % of the respondents were of the opinion that government funding has been inadequate for their businesses. The binomial test shows that there is a significant disagreement with *Government funding has been adequate for my business* ( $p < 0.0005$ ). This could mean that though the government provided funding for some SMEs it was inadequate in their businesses while some could not even access it as it was made available to very few SMEs.

**TABLE 67. GOVERNMENT FUNDING BEING ADEQUATE FOR BUSINESSES**

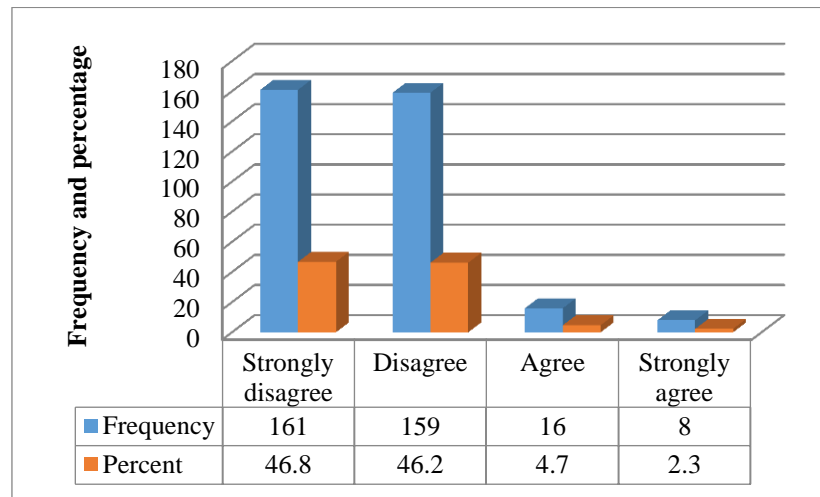
		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	192	55.8	55.8	55.8
	Disagree	122	35.5	35.5	91.3
	Agree	23	6.7	6.7	98.0
	Strongly agree	7	2.0	2.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

### 6.5.2.1(b) Government funding has been effective in my business

This heading is extracted from the second item under Government Funding in Section D of the questionnaire. Figure 55 illustrates that only 4.7 % of the respondents agreed and 2.3% strongly agreed that the government funding has been effective in their businesses. However, 46.2 % of the respondents disagreed and 161 (46.8 %) of the participants strongly disagreed with the statement. The responses on the item produced a mean of 1.63 and a standard deviation of 0.684. The results clearly show that 93 % of the respondents were of the opinion that government funding has been ineffective in their businesses. The binomial test indicates a

significant disagreement with *Government funding has been effective in my business* ( $p < 0.0005$ ). The results indicate that government funding has been ineffective in SMEs.

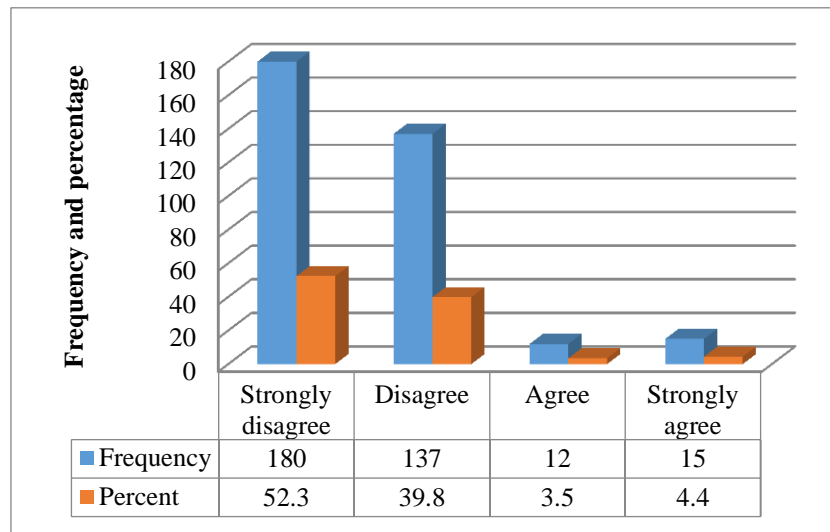
**FIGURE 55. EFFECTIVENESS OF GOVERNMENT FUNDING IN BUSINESSES (SMES)**



#### 6.5.2.1(c) Government funding has been available

This heading is extracted from the third item under Government Funding in Section D of the questionnaire. As shown in Figure 56, only 12 participants (representing 3.5 % of the total) agreed that government funding has been available, and only 15 respondents (4.4 %) strongly agreed. On the other hand, 39.8 % of the participants disagreed and 52.3 % strongly disagreed that government funding has been available. The responses on the statement produced a mean of 1.60 and a standard deviation of 0.757. The results show that over 91 % of the respondents held the opinion that government funding has been unavailable. The binomial test indicates a significant disagreement with *Government funding has been available* ( $p < 0.0005$ ). The results could mean that government funding was available to very few SMEs while the majority did not have access to it.

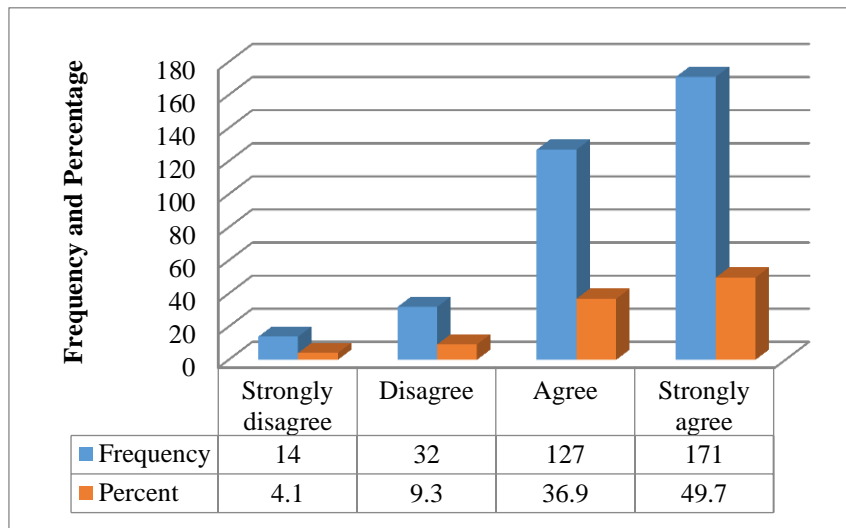
**FIGURE 56. AVAILABILITY OF GOVERNMENT FUNDING**



**6.5.2.1(d) I was aware that there was funding from government**

The heading is extracted from the fourth item under Government Funding as indicated in Section D of the questionnaire. The opinions of respondents regarding their awareness of government funding are presented in Figure 57, which shows that 127 respondents (constituting 36.9 % of the total) agreed that they were aware of government funding, and 171 (49.7 %) strongly agreed. However, 9.3 % disagreed and 4.1 % strongly disagreed with the statement. The responses on this statement produced a mean and standard deviation of 3.32 and 0.807. The results show that more than 86 % of the respondents concurred with the statement that they were aware of government funding. The binomial test shows a significant agreement with *I was aware that there was funding from government* ( $p < 0.0005$ ). The results could mean that SMEs in Harare know that the government is providing funding but do not necessarily understand the finer details of how to access it.

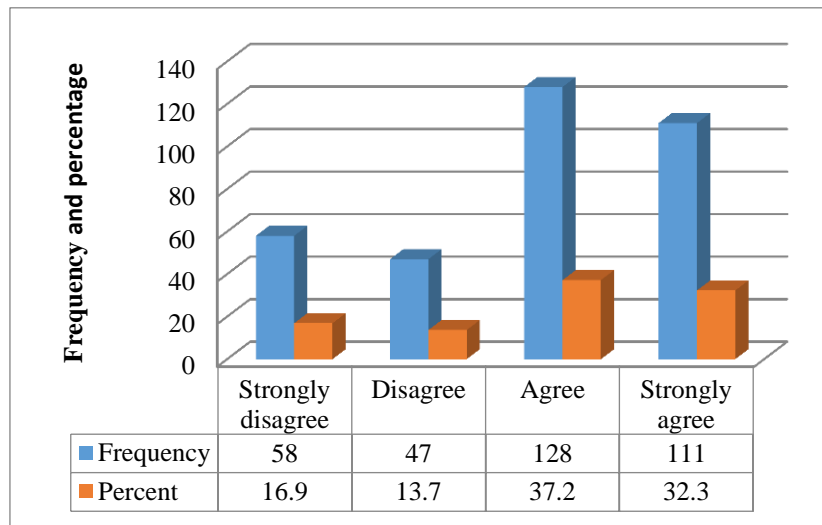
**FIGURE 57. AWARENESS OF GOVERNMENT FUNDING**



**6.5.2.1(e) I did meet requirements for funding**

The heading is extracted from the fifth item under Government Funding in Section D of the questionnaire. With respect to meeting the requirements for funding, 37.2 % of the respondents agreed and 32.3 % strongly agreed that they met the requirements for funding, as they were in the SME sector. Conversely, 13.7 % disagreed and the remaining 16.9 % strongly disagreed with the statement. The results are presented in Figure 58. The responses on the statement produced a mean and standard deviation of 2.85 and 1.056 respectively. The results indicate that over 69 % of the participants were of the opinion that they met the requirements for funding. The binomial test shows a significant agreement with *I did meet requirements for funding* ( $p < 0.0005$ ).

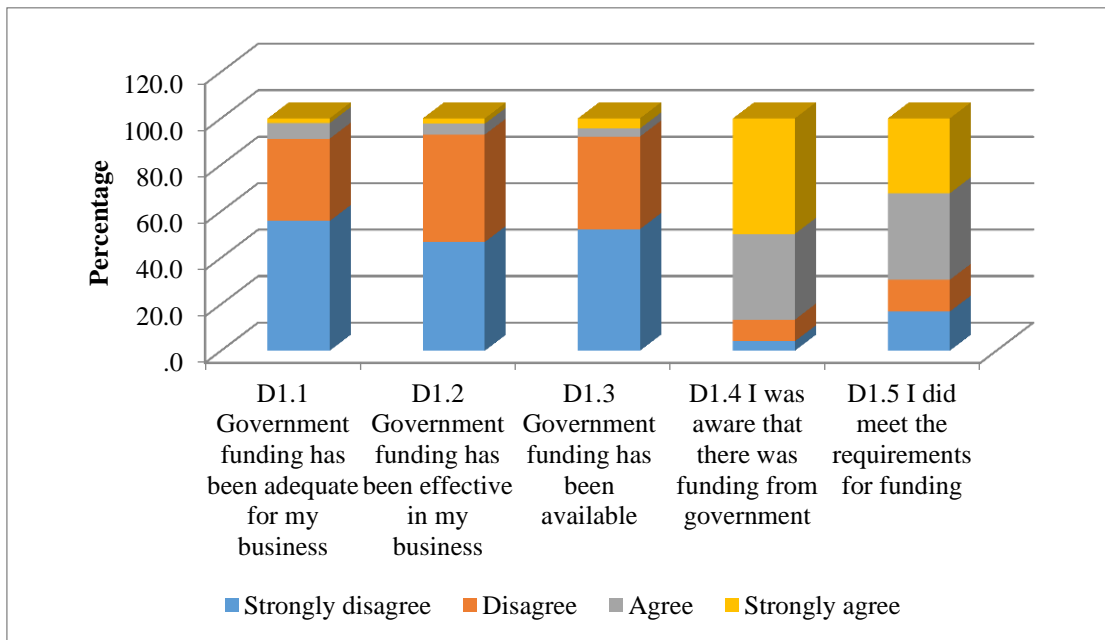
**FIGURE 58. MEETING REQUIREMENTS FOR FUNDING**



**6.5.2.1(f) Summary of the results on government funding**

The results indicate that over 91 % of the respondents were of the opinion that government funding has been inadequate for their businesses, and 93 % of the respondents were of the opinion that government funding has been ineffective in their businesses. Over 91 % of the respondents held the opinion that government funding has been unavailable. More than 86 % of the respondents concurred with the statement that they were aware of government funding, and more than 69 % of the participants were of the opinion that they met the requirements for funding. The results mean that even if the SMEs were aware of government funding and believed that they met the requirements for funding, they could not access it as it was available to very few SMEs (7.9 %). Furthermore, the funding was deemed inadequate by those who accessed it and it did not reach many SMEs. As a result, funding for SMEs has become ineffective. A summary of the results on government funding are presented in Figure 59.

**FIGURE 59. SUMMARY OF THE RESULTS ON GOVERNMENT FUNDING**



### 6.5.2.2 Fiscal incentives

Fiscal incentives constitute part of the government policies and strategies adopted to address SME challenges. The results of this section are presented in Tables 70–73 and Figure 60 below.

#### 6.5.2.2(a) The business was given a tax holiday

The heading is extracted from the first item under Fiscal Incentives in Section D of the questionnaire. With respect to being given a tax holiday, 41.9 % of the respondents agreed and 39.0 % strongly agreed. However, 11 % disagreed and the remaining 8.1 % strongly disagreed with the statement. The results are presented in Table 68. The responses on this item produced a mean of 3.12 and a standard deviation of 0.902. The results show that over 80 % of the SMEs concurred with the statement that they were given a tax holiday. The binomial test results indicate a significant agreement with *The business was given a tax holiday* ( $p < 0.0005$ ). One can conclude that the government was effective in ensuring that SMEs are given a tax holiday.

**TABLE 68. BUSINESSES BEING GIVEN A TAX HOLIDAY**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	28	8.1	8.1	8.1
	Disagree	38	11.0	11.0	19.2
	Agree	144	41.9	41.9	61.0
	Strongly agree	134	39.0	39.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.2(b) The business received a tax rebate**

This heading is extracted from the second item under Fiscal Incentives in Section D of the questionnaire. Turning to whether the SMEs received tax rebates, only 9 % of the respondents agreed and 5.8 % strongly agreed, while 40.1 % disagreed and the remaining 45.1 % strongly disagreed that they received tax rebates. These results are presented in Table 69. The responses on this item produced a mean and standard deviation of 1.76 and 0.846 respectively. The results conspicuously show that over 85 % of the respondents did not concur with the statement that their businesses received tax rebates. The binomial test shows that there is a significant disagreement with *The business received a tax rebate*. The results could mean that tax rebates were not received by many SMEs. Thus, it was an ineffective fiscal incentive for SMEs.

**TABLE 69. BUSINESSES RECEIVING A TAX REBATE**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	155	45.1	45.1	45.1
	Disagree	138	40.1	40.1	85.2
	Agree	31	9.0	9.0	94.2
	Strongly agree	20	5.8	5.8	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.2(c) There is a duty exemption on capital equipment and that has helped my business**

This heading is extracted from the third item under Fiscal Incentives in Section D of the questionnaire. As illustrated in Table 70, 30 respondents (representing 8.7% of the total) concurred with the statement that there was a duty exemption on capital equipment and that it had helped their businesses. Only 6.1 % strongly agreed with the statement. Conversely, 50.9 % of the respondents disagreed and the remaining 34.3 % strongly disagreed that there was a duty exemption on capital equipment that had helped their businesses. The responses on this item produced a mean and standard deviation of 1.87 and 0.811 respectively. The results clearly show that over 84 % of the respondents were of the opinion that there was no duty exemption on capital equipment and that it did not help their businesses. The binomial test indicates that there is a significant disagreement with *There is a duty exemption on capital equipment and that has helped my business* ( $p < 0.0005$ ). One can conclude that the exemption of import duty on capital equipment existed only on paper and not in practice for SMEs. Such an arrangement did not assist SMEs.

**TABLE 70. DUTY EXEMPTION ON CAPITAL EQUIPMENT HELPING BUSINESS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	118	34.3	34.3	34.3
	Disagree	175	50.9	50.9	85.2
	Agree	30	8.7	8.7	93.9
	Strongly agree	21	6.1	6.1	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.2(d) Our businesses are being protected from foreign competition through tariffs on imports**

This heading is extracted from the fourth item under Fiscal Incentives in Section D of the questionnaire. According to Table 71, 64 respondents (representing 18.6 % of the total) agreed that businesses were being protected from foreign competition through tariffs on imports, and 133 respondents (38.7 %) strongly agreed with the statement. Conversely,

10.2 % of the respondents disagreed and the remaining 32.6 % strongly disagreed that the government protected SMEs from international competition through tariffs on imports. The responses on this statement produced a mean and standard deviation of 2.63 and 1.289 respectively. The results indicate that over 57 % of the respondents were of the opinion that their businesses were being protected from foreign competition through import tariffs. The binomial test shows a significant agreement with *Our businesses are being protected from foreign competition through tariffs on imports* ( $p= 0.008$ ). One can conclude that the government has actually protected local SMEs from foreign competition through import tariffs.

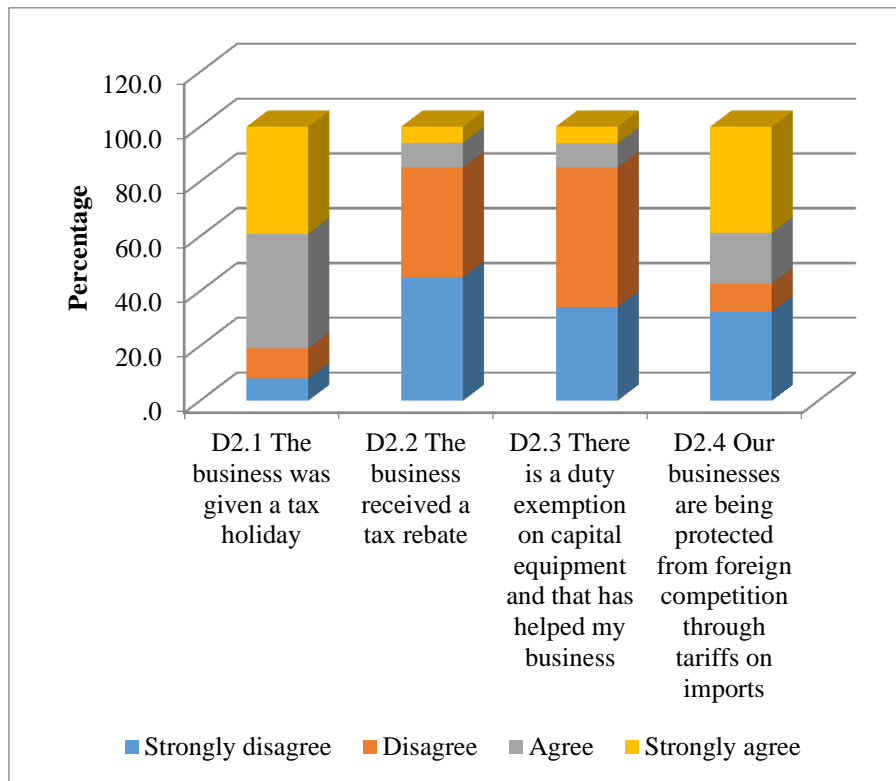
**TABLE 71. PROTECTION OF BUSINESSES FROM FOREIGN COMPETITION THROUGH TARIFFS ON IMPORTS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	112	32.6	32.6	32.6
	Disagree	35	10.2	10.2	42.7
	Agree	64	18.6	18.6	61.3
	Strongly agree	133	38.7	38.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.5.2.2(e) Summary of the results on fiscal incentives

Figure 60 presents a summary of the results on fiscal incentives. The results show that more than 80 % of the SMEs concurred with the statement that they were given a tax holiday. Over 85 % of the respondents did not concur with the statement that their businesses received tax rebates. More than 84 % of the respondents were of the opinion that there was no duty exemption on capital equipment and that it did not help their businesses. The results indicate that over 57 % of the respondents were of the opinion that their businesses were being protected from foreign competition through import tariffs.

**FIGURE 60. SUMMARY OF THE RESULTS ON FISCAL INCENTIVES**



### 6.5.2.3 Marketing and distribution support

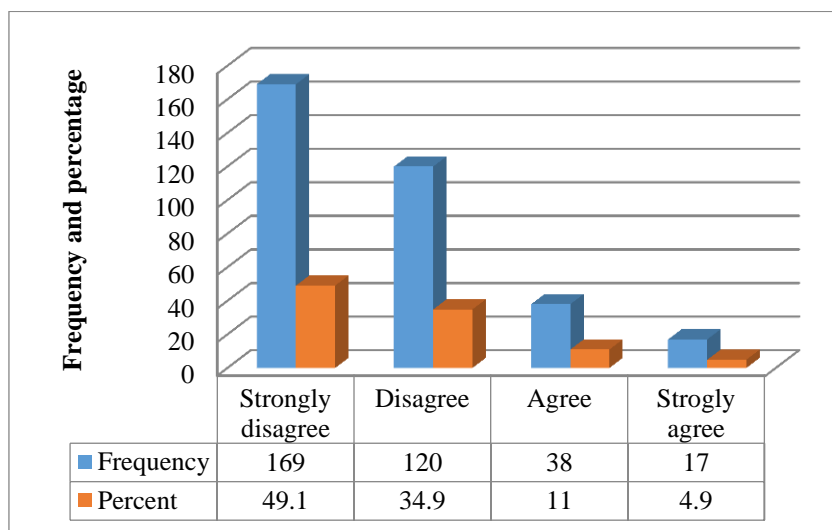
The GoZ has adopted various measures to address the marketing and distribution challenges confronting the SME sector. The results relating to the opinions of respondents are presented in this section in Figures 61–69 below.

#### 6.5.2.3(a) The government has provided adequate information about the local market

This heading is extracted from the first item under Marketing and Distribution Support in Section D of the questionnaire. With respect to the statement that the government has provided adequate information about the local market, 11 % of the participants agreed and only 4.9 % strongly agreed. On the other hand, 34.9 % of the respondents disagreed and the remaining 49.1 % strongly disagreed with the statement. These results are presented in Figure 61. The responses on the statement produced a mean and standard deviation of 1.72 and 0.850 respectively. The results show that 84 % of the respondents were of the opinion that the government has not provided adequate information about the local market. The binomial test shows that there is a significant disagreement with *The government has provided adequate*

information about the local market ( $p < 0.0005$ ). The results could mean that the government has not adequately addressed the SMEs' need for information about the local market.

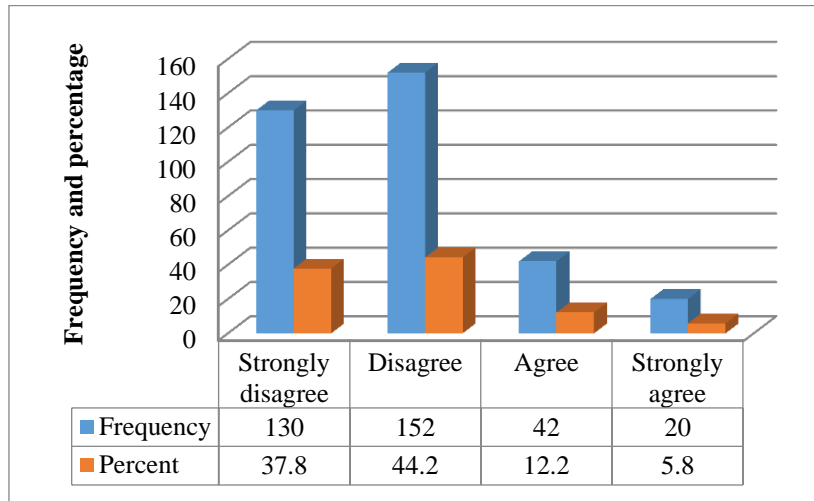
**FIGURE 61. GOVERNMENT PROVISION OF ADEQUATE INFORMATION ABOUT THE LOCAL MARKET**



**6.5.2.3(b) The government has been able to provide enough information about the international market**

This heading is extracted from the second item under Marketing and Distribution Support in Section D of the questionnaire. As illustrated in Figure 62, 42 respondents (constituting 12.2% of the total) agreed and only 5.8% strongly agreed that the government provided enough information about the international market. However, 44.2% of the respondents disagreed with the statement, and 130 respondents (37.8%) strongly disagreed that the government provided adequate information about the international market. The responses on the item produced a mean and standard deviation of 1.86 and 0.846 respectively. The results indicate that 80% of the respondents were of the opinion that the government has not been able to provide adequate information about the international market. The binomial test results show that there is a significant disagreement with *The government has been able to provide enough information about the international market* ( $p < 0.0005$ ). The results show that the government efforts to provide information about the international market have benefited very few SMEs, while the majority of the SMEs could not access the information.

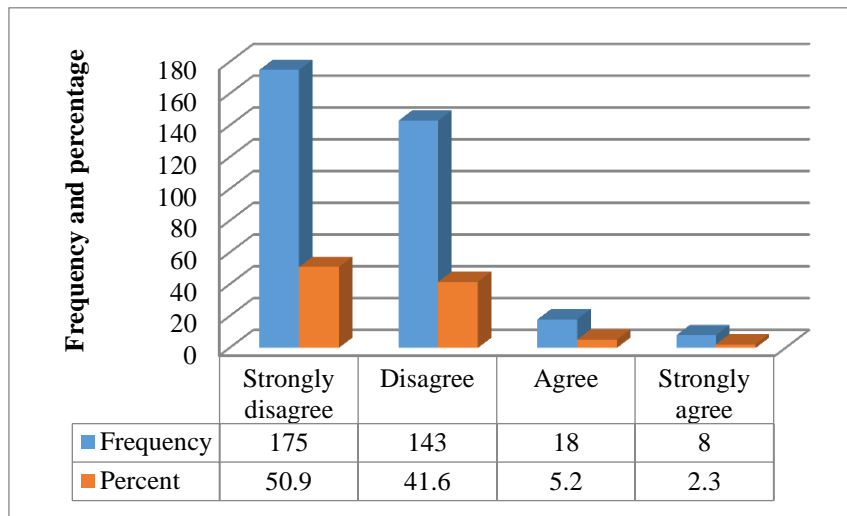
**FIGURE 62. GOVERNMENT PROVISION OF ENOUGH INFORMATION ABOUT THE INTERNATIONAL MARKET**



**6.5.2.3(c) The government has successfully regulated the prices of goods in the market**

This heading is extracted from the third item under Marketing and Distribution Support in Section D of the questionnaire. Regarding the success of the government in the regulation of prices of goods in the market, only 5.2 % agreed and 2.3 % strongly agreed with the statement. Conversely, 41.6 % disagreed with the statement, and the remaining 50.9 % strongly disagreed that the government had successfully regulated the prices of goods in the market. The results are presented in Figure 63. The responses on the item produced a mean of 1.59 and a standard deviation of 0.698. The results indicate that over 92 % of the respondents did not concur with the statement that the government had successfully regulated the prices of goods in the market. The binomial test indicates that there is a significant disagreement with *The government has successfully regulated the prices of goods in the market* ( $p < 0.0005$ ). The results mean that the government has failed to regulate the prices of goods in the market to counter the effects of the poor pricing system in the market.

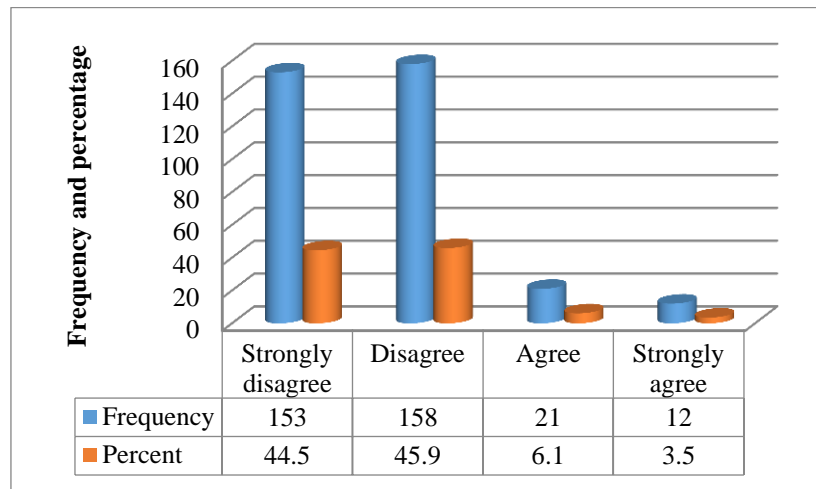
**FIGURE 63. SUCCESSFUL REGULATION OF PRICES BY GOVERNMENT**



**6.5.2.3(d) The government has successfully created distribution networks to support SME exports**

This heading is extracted from the fourth item under Marketing and Distribution Support in Section D of the questionnaire. As illustrated in Figure 64, 21 respondents (representing 6.1 % of the total) agreed and 3.5 % strongly agreed that the government has successfully created distribution networks to support SME exports. However, 45.9 % of the respondents disagreed and 44.5 % strongly disagreed with the statement. The responses on this statement produced a mean and standard deviation of 1.69 and 0.741 respectively. The results show that more than 90 % of the participants were of the opinion that the government has not successfully created distribution networks to support SME exports. The binomial test results indicate a significant disagreement with *The government has successfully created distribution networks to support SMEs exports* ( $p < 0.0005$ ). These results could mean that the government efforts to create distribution networks to support exporting SMEs have not been a success.

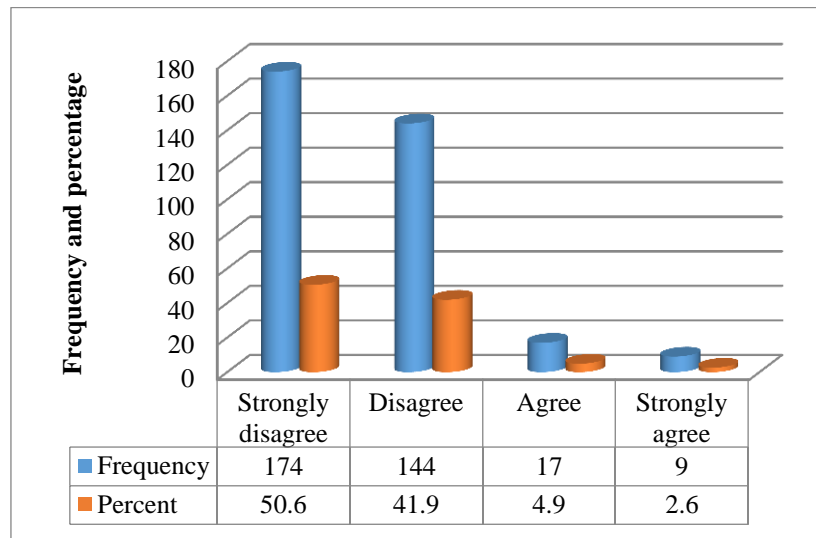
**FIGURE 64. GOVERNMENT SUCCESS IN CREATING DISTRIBUTION NETWORKS TO SUPPORT SME EXPORTS**



**6.5.2.3(e) The government has given SMEs exposure to the international market**

This heading is extracted from the fifth item under Marketing and Distribution Support in Section D of the questionnaire. With regard to government giving SMEs exposure to the international market, 4.9 % agreed and only 2.6 % strongly agreed with the statement. On the other hand, 41.9 % of the respondents disagreed, and the remaining 50.6 % strongly disagreed with the statement. The results are presented in Figure 65. The responses on the item produced a mean of 1.60 and standard deviation of 0.706. The results indicate that more than 92 % of the respondents did not concur with the statement that the government had given SMEs exposure to the international market. The binomial test shows that there is significant disagreement with *The government has given SMEs exposure to the international market* ( $p < 0.0005$ ). The results could mean that the government had not adequately met the SMEs' need for exposure to the international market.

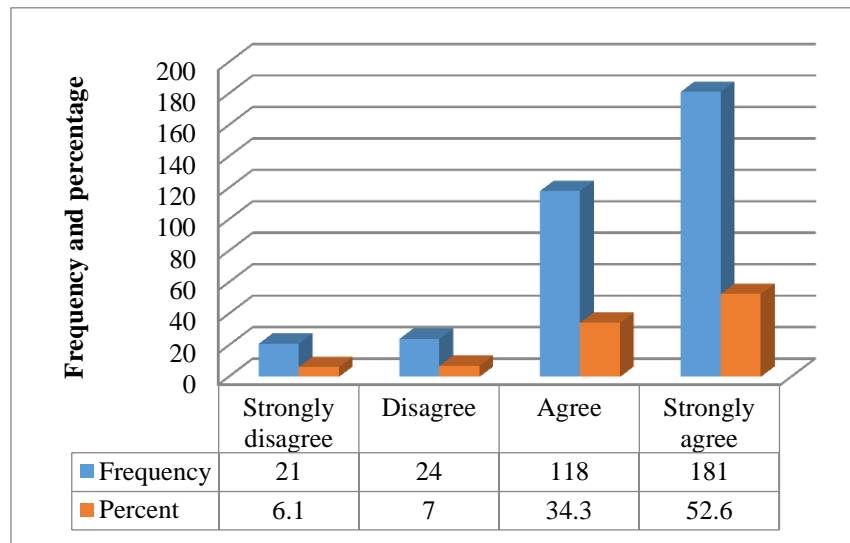
**FIGURE 65. GOVERNMENT GIVING SMES EXPOSURE TO THE INTERNATIONAL MARKET**



**6.5.2.3(f) The government has provided land for SMEs**

This heading is extracted from the sixth item under Marketing and Distribution Support in Section D of the questionnaire. According to Figure 66, 118 respondents (representing 34.3 % of the total) agreed with the statement that the government has provided land for SMEs, and 181 respondents (52.6 %) strongly agreed with the statement. Conversely, 7 % disagreed and the remaining 6.1 % strongly disagreed that the government provided land for SMEs. The responses on this statement produced a mean and standard deviation of 3.33 and 0.855 respectively. The results clearly show that over 86 % of the respondents were of the opinion that the government had provided land for SMEs. The binomial test indicates significant agreement with *The government has provided land for SMEs* ( $p < 0.0005$ ). One can therefore conclude that the government has, with success, provided land for SMEs.

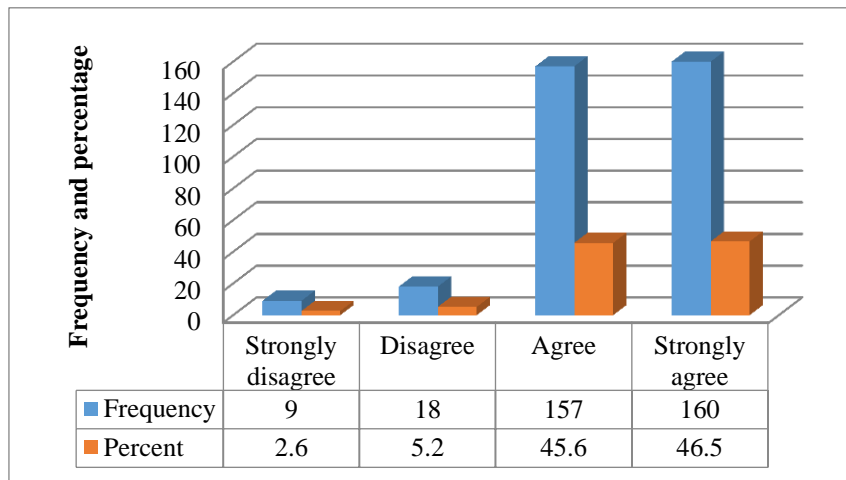
**FIGURE 66. GOVERNMENT PROVISION OF LAND TO SMES**



**6.5.2.3(g) Buildings have been made available to SMEs**

This heading is extracted from the seventh item under Marketing and Distribution Support in Section D of the questionnaire. As shown in Figure 67, 157 respondents (representing 45.6 % of the total) agreed that buildings have been made available to SMEs, and 160 respondents (46.5 %) respondents strongly agreed. However, 5.2 % disagreed and only 2.6 % strongly disagreed with the statement. The responses on this item produced a mean and standard deviation of 3.36 and 0.703 respectively. The results show that over 91 % of the respondents were of the opinion that buildings have been made available to SMEs. Binomial test results indicate that there is a significant agreement with *Buildings have been made available to SMEs* ( $p < 0.0005$ ). The results show that the government has been effective in providing buildings as shelter for SMEs.

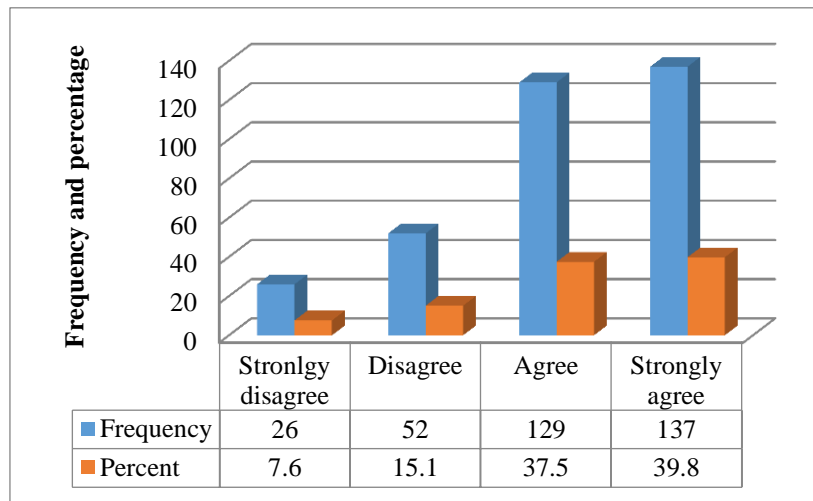
**FIGURE 67. PROVISION OF BUILDINGS TO SMES**



**6.5.2.3(h) The provision of land has assisted SMEs**

This heading is extracted from the eighth item under Marketing and Distribution Support in Section D of the questionnaire. Figure 68 shows that 37.5 % of the respondents agreed and 39.8 % strongly agreed that the provision of land has assisted SMEs. However, 52 respondents (representing 15.1 % of the total) disagreed with the statement, and the remaining 7.6 % strongly disagreed. The responses on this statement produced a mean and standard deviation of 3.10 and 0.919 respectively. The results show that more than 77 % of the respondents concurred with the statement that the provision of land was of assistance to SMEs in Harare. The binomial test results show that there is a significant agreement with *The provision of land has assisted SMEs* ( $p < 0.0005$ ). According to the results, the provision of land to SMEs has been of assistance to SMEs. The GoZ could be considered to have addressed the land issue among SMEs effectively.

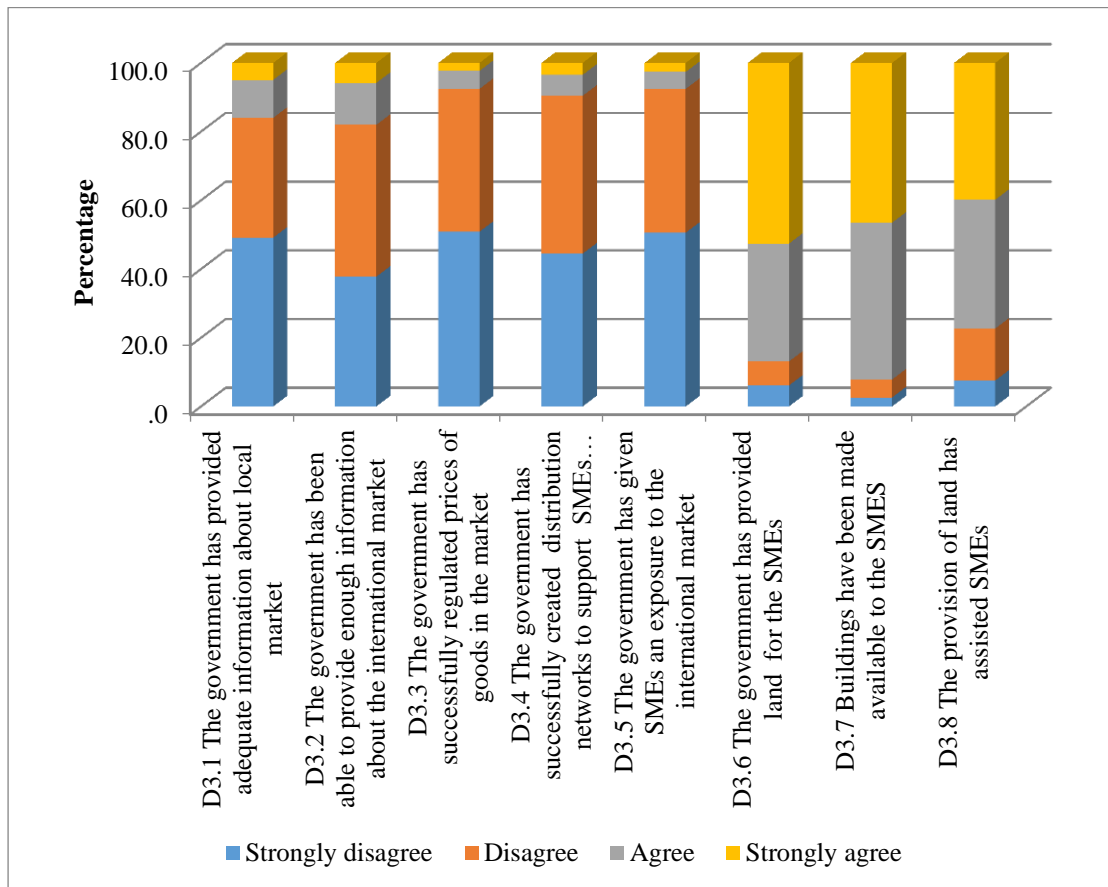
**FIGURE 68. THE PROVISION OF LAND HAS ASSISTED SMES**



**6.5.2.3(i) Summary of the results on marketing and distribution support**

A summary of the results on marketing and distribution support are presented in Figure 69. The results show that 84 % of the respondents were of the opinion that the government had not provided adequate information about the local market, and 80 % were of the opinion that the government has not been able to provide adequate information about the international market. Over 92 % of the respondents did not concur with the statement that the government had successfully regulated the prices of goods in the market. More than 90 % of the participants were of the opinion that the government has not successfully created distribution networks to support SME exports, and more than 92 % of the respondents did not agree with the statement that the government has given SMEs exposure to the international market. Over 86 % of the respondents were of the opinion that the government had provided land for SMEs, and over 91 % of the respondents were of the opinion that buildings have been made available to SMEs. More than 77 % of the respondents indicated that the provision of land has assisted SMEs. Based on these responses, it could be concluded that the GoZ has been successful in the provision of land and shelter for SMEs. However, it seems as if the GoZ has failed to provide adequate information about the local and international markets, to regulate prices, to create distribution networks, and to give SMEs exposure to the international market.

**FIGURE 69. SUMMARY OF THE RESULTS ON MARKETING AND DISTRIBUTION SUPPORT**



#### **6.5.2.4 Training and development**

The GoZ is also involved in the training of SMEs in order to equip them with the relevant knowledge and skills. The results of this section are presented in Tables 72–76 and Figure 70 below.

##### **6.5.2.4(a) I attended the training organised by the government**

This heading is extracted from the first item under Training and Development in Section D of the questionnaire. Table 72 illustrates that 14.8% of the respondents agreed and only 7.0% strongly agreed that they had attended training organised by the government. Conversely, 39.0% disagreed and 39.2% strongly disagreed with the statement. The responses on this statement produced a mean and standard deviation of 1.90 and 0.901 respectively. The results clearly show that more than 78% of the respondents indicated that they had not attended

training organised by the government, hence their businesses did not benefit. The binomial test results indicate that there is a significant disagreement with *I attended the training organised by the government* ( $p < 0.0005$ ). The results could mean that the majority of SMEs have not attended training programmes organised by the government. Hence, such a programme has not really benefited SMEs.

**TABLE 72. ATTENDANCE OF TRAINING ORGANISED BY THE GOVERNMENT**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	135	39.2	39.2	39.2
	Disagree	134	39.0	39.0	78.2
	Agree	51	14.8	14.8	93.0
	Strongly agree	24	7.0	7.0	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### **6.5.2.4(b) I attended training, it did work in my business**

This heading is extracted from the second item under Training and Development in Section D of the questionnaire. With regard to attending training that benefited their businesses, 14.8 % of the respondents agreed that they attended training and that it had been beneficial to their businesses. Only 5.2 % strongly agreed with the statement. However, 30.8 % of the respondents disagreed and 49.1 % firmly disagreed that they had attended training that benefited their businesses. The results are presented in Table 73. The responses on the item produced a mean and standard deviation of 1.76 and 0.891 respectively. The results clearly show that over 79 % of the respondents did not concur with the statement that they had attended training and that it had been beneficial for their businesses. The binomial test indicates a significant disagreement with *I attended training, it did work in my business* ( $p < 0.0005$ ). The results could mean that all those who attended training programmes organised by the government benefited. However, those who could not attend the training programmes could in no way benefit. Only a handful of the respondents, according to the results, benefited from the training programmes run by the government.

**TABLE 73. ATTENDANCE OF TRAINING AND BUSINESSES BENEFITING FROM THE TRAINING**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	169	49.1	49.1	49.1
	Disagree	106	30.8	30.8	79.9
	Agree	51	14.8	14.8	94.8
	Strongly agree	18	5.2	5.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.4(c) I am aware that government assists with training and development**

This heading is extracted from the third item under Training and Development in Section D of the questionnaire. As shown in Table 74, 116 respondents (33.7 % of the total) agreed and 35.5 % strongly agreed that they were aware that government assists with training and development. On the other hand, 18.9 % disagreed with the statement, and the remaining 11.9 % strongly disagreed. The results on this item produced a mean of 2.93 and a standard deviation of 1.009. The results show that more than 69 % of the respondents concurred with the statement that they were aware that the government assists SMEs with training and development. The binomial test results indicate that there is significant agreement with *I am aware that government assists with training and development* ( $p < 0.0005$ ). The results could mean that the level of awareness among SMEs was high regarding the government provision of training and development programmes. SMEs in Harare have access to various forms of media through which they are informed of government training and development programmes.

**TABLE 74. AWARENESS OF GOVERNMENT TRAINING AND DEVELOPMENT PROGRAMMES**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	41	11.9	11.9	11.9
	Disagree	65	18.9	18.9	30.8
	Agree	116	33.7	33.7	64.5
	Strongly agree	122	35.5	35.5	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.4(d) I was invited to attend training sessions organised by government**

This heading is extracted from the fourth item under Training and Development in Section D of the questionnaire. Turning to the invitation to attend training sessions organised by government, 13.7 % of the participants agreed and 6.7 % strongly agreed that they had been invited to attend training programmes. However, 39.2 % disagreed with the statement, and the remaining 40.4 % strongly disagreed that they had been invited to attend training sessions planned by the government. These results are presented in Table 75. The responses on this statement produced a mean and standard deviation of 1.87 and 0.890 respectively. The results indicate that over 79 % of the respondents did not concur with the statement that they had been invited to attend training sessions organised by the government. The binomial test results show that there is a significant disagreement with *I was invited to attend training sessions organised by government* ( $p < 0.0005$ ). These results could mean that the majority of respondents had not been invited to attend training programmes planned by the government.

**TABLE 75. INVITATION TO ATTEND TRAINING ORGANISED BY GOVERNMENT**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	139	40.4	40.4	40.4
	Disagree	135	39.2	39.2	79.7
	Agree	47	13.7	13.7	93.3
	Strongly agree	23	6.7	6.7	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.5.2.4(e) I was invited to and could afford the cost of training

This heading is extracted from the fifth item under Training and Development in Section D of the questionnaire. As illustrated in Table 76, 48 respondents (constituting 14 % of the total) agreed that they were invited to and could afford the cost of training, and 15 respondents (4.4 %) strongly agreed with the statement. Conversely, 34.6 % of them disagreed and the remaining 47.1 % strongly disagreed that they had been invited to and could afford the cost of training. The responses on the item produced a mean of 1.76 and standard deviation of 0.853. The results clearly indicate that over 81 % of the respondents were of the opinion that they had not been invited to and could not afford the cost of training. The binomial test results show that there is a significant disagreement with *I was invited to and could afford the cost of training* ( $p < 0.0005$ ). The results could mean that the government could not invite many SMEs for training and most of the business owners were not able to afford the cost of training.

**TABLE 76. INVITATION TO AND AFFORDING THE COST OF TRAINING**

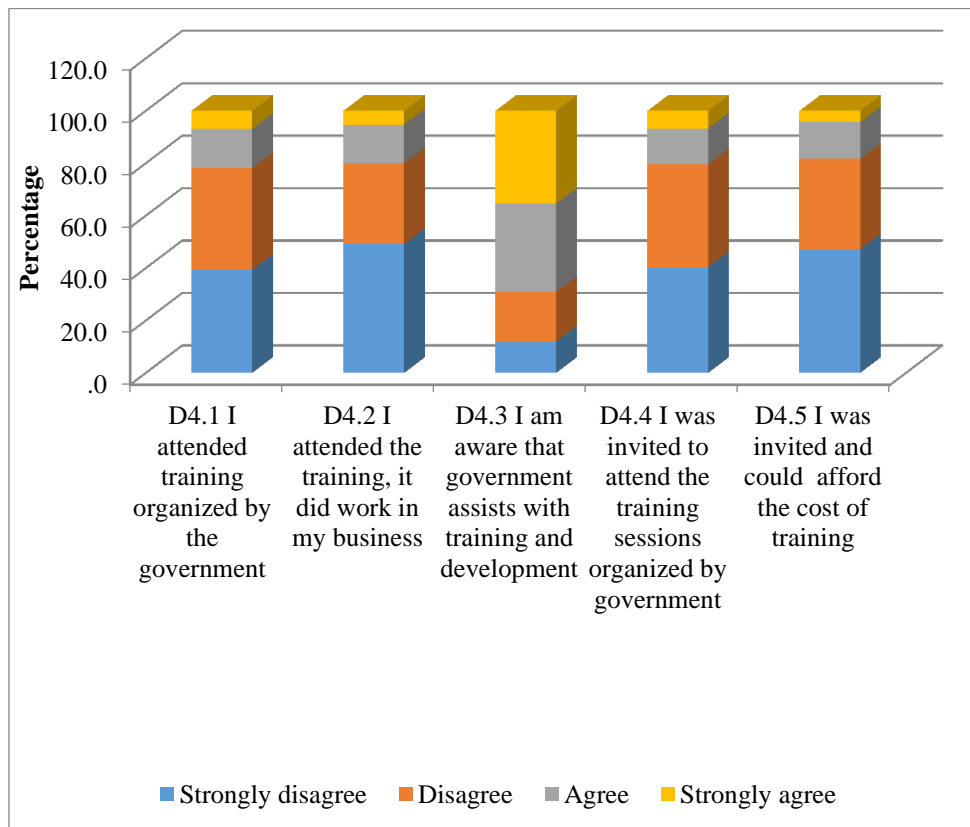
		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	162	47.1	47.1	47.1
	Disagree	119	34.6	34.6	81.7
	Agree	48	14.0	14.0	95.6
	Strongly agree	15	4.4	4.4	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.5.2.4(e) Summary of the results on training and development

The summary of the results on training and development are presented in Figure 70. More than 78 % of the respondents indicated that they had not attended training organised by the government, hence their businesses did not benefit. Over 79 % of the respondents did not concur with the statement that they had attended training and it was beneficial for their businesses. More than 69 % of the respondents concurred with the statement that they were aware that the government assists SMEs with training and development. The results also indicate that over 79 % of the respondents did not concur with the statement that they had been invited to attend training sessions organised by the government. Over 81 % of the

respondents indicated that they had not been invited to and could not afford the cost of training. Though SMEs were aware that the government was providing training to businesses, very few SMEs were invited and could attend. The cost of training was also not affordable for SMEs. According to the results the government, to a large extent, failed to provide training to SMEs.

**FIGURE 70. SUMMARY OF RESULTS ON TRAINING AND DEVELOPMENT**



**6.5.2.5 Business incubation**

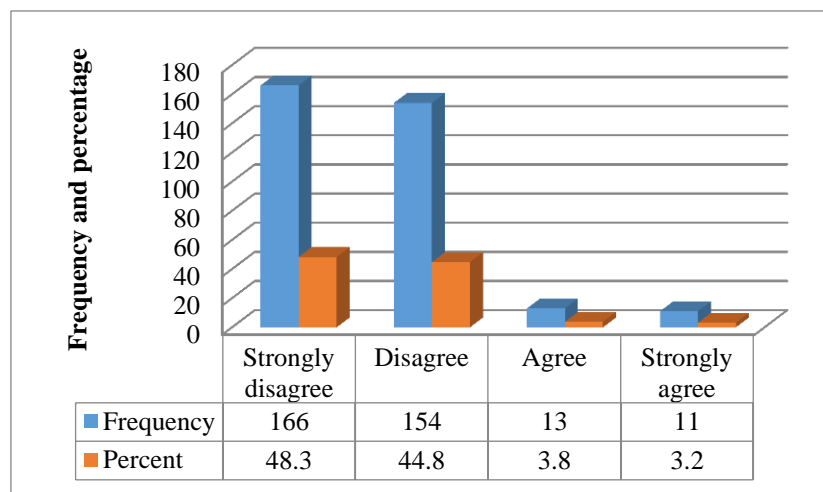
The GoZ adopted various business incubation strategies to promote the growth of SMEs. The results of this section are presented in Figures 71–75.

**6.5.2.5(a) The government assisted me in the starting up of the business**

This heading is extracted from the first item under Business Incubation in Section D of the questionnaire. The results relating to government assistance in starting businesses are

presented in Figure 71, which shows that only 13 respondents (3.8 % of the total) agreed and 3.2 % strongly agreed that the government had assisted them in starting businesses. However, 44.8 % of the participants disagreed with the statement, and the remaining 48.3 % strongly disagreed. The responses on this item produced a mean and standard deviation of 1.62 and 0.710 respectively. The results clearly illustrate that more than 93 % of the respondents indicated that the government had not assisted them in starting their businesses. The binomial test shows a significant disagreement with *The government assisted me in the starting up of the business* ( $p < 0.0005$ ). The results indicate that the role of the government in helping SMEs start their businesses was insignificant.

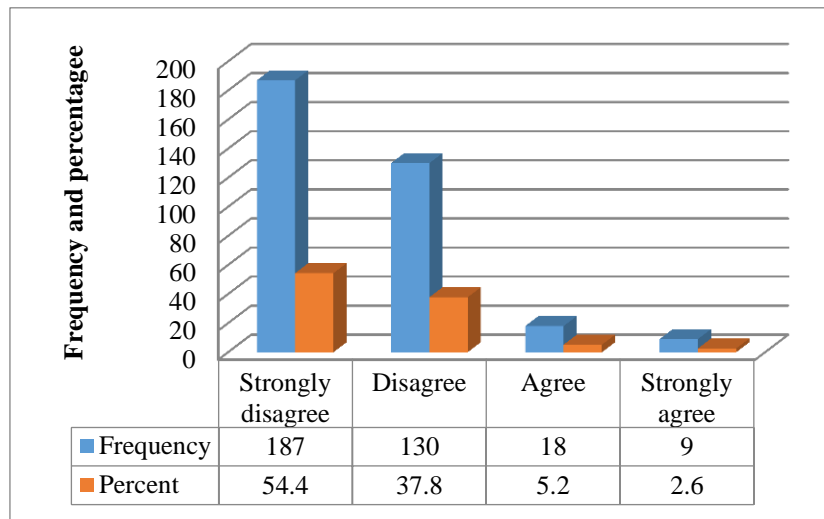
**FIGURE 71. GOVERNMENT ASSISTANCE IN STARTING UP BUSINESSES**



**6.5.2.5(b) I was given expert advice**

This heading is extracted from the second item under Business Incubation in Section D of the questionnaire. Regarding the statement on expert advice being given to SMEs by the government, only 5.2 % of the respondents agreed and 2.6 % strongly agreed. Conversely, 37.8 % of the participants disagreed and 54.4 % strongly disagreed with the statement. These results are presented in Figure 72. The responses on this statement produced a mean of 1.56 and standard deviation of 0.714. The results show that over 92 % of the respondents were of the opinion that no expert advice was given by the government. The binomial test results show that there is a significant disagreement with *I was given an expert advice* ( $p < 0.0005$ ). The results could mean that, in terms of giving SMEs expert advice, the government has not been successful.

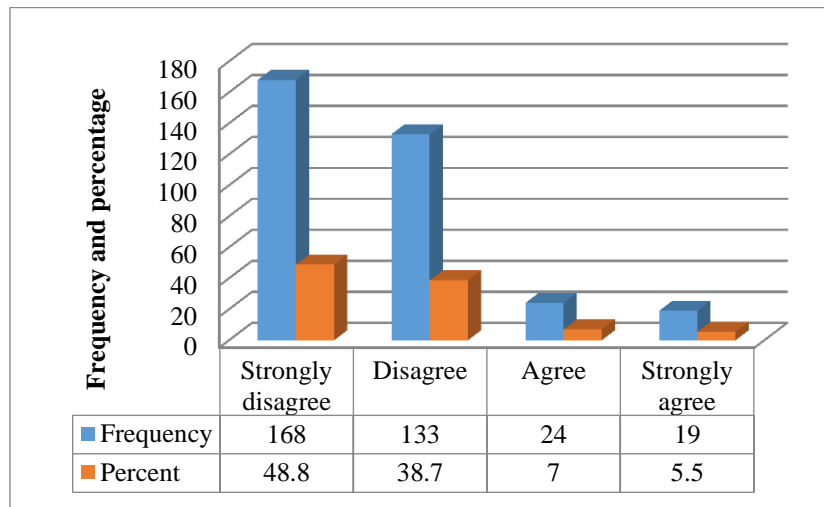
**FIGURE 72. EXPERT ADVICE GIVEN TO SMES**



**6.5.2.5(c) I was linked to other entrepreneurs so that I could learn from them**

This heading is extracted from the third item under Business Incubation in Section D of the questionnaire. Figure 73 shows that 24 respondents (representing 7 % of the total) agreed that they had been linked to other entrepreneurs so that they could learn from them, and 19 respondents (5.5 %) strongly agreed. However, 38.7 % of the participants disagreed and the remaining 48.8 % strongly disagreed. The responses on this item produced a mean of 1.69 and standard deviation of 0.828. The results indicate that over 87 % of the respondents indicated that they were not linked to other experienced entrepreneurs so that they could learn from them. The binomial test results show that there is a significant disagreement with *I was linked to other entrepreneurs so that I could learn from them* ( $p < 0.0005$ ). As much as the government tried to link SMEs to experienced entrepreneurs, there was limited success, as evidenced by the results. Very few SMEs (12.5 %) indicated that they were linked to experienced entrepreneurs.

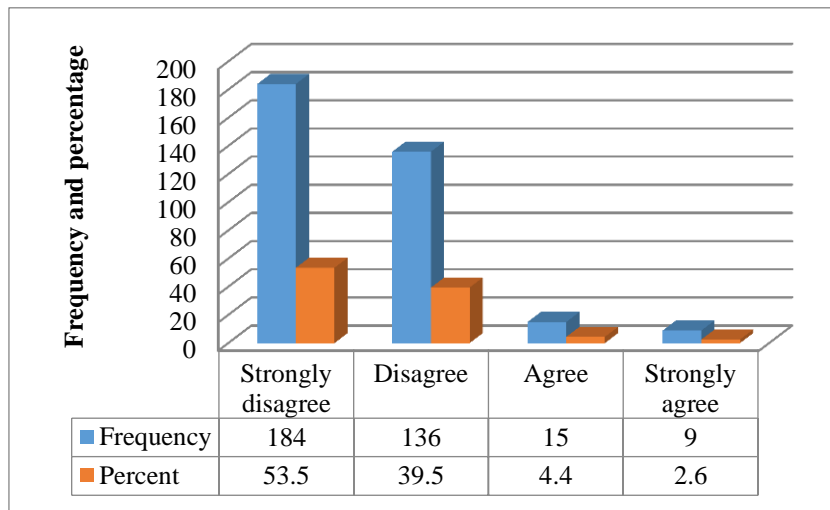
**FIGURE 73. LINKING SMES TO OTHER ENTREPRENEURS TO LEARN FROM THEM**



**6.5.2.5(d) The business was given access to suppliers**

This heading is extracted from the fourth item under Business Incubation in Section D of the questionnaire. As illustrated in Figure 74, 15 respondents (4.4 % of the total) agreed that their businesses were given access to suppliers by the government., and nine respondents (2.6 %) strongly agreed. On the other hand, 39.5 % of the respondents disagreed and the remaining 53.5 % strongly disagreed with the statement. The responses on this item produced a mean and standard deviation of 1.55 and 0.690 respectively. The results show that 93 % of the respondents did not concur with the statement that their businesses were given access to suppliers. The binomial test indicates a significant disagreement with *The business was given access to suppliers* ( $p < 0.0005$ ). The results could mean that the government efforts to give SMEs access to suppliers were ineffective.

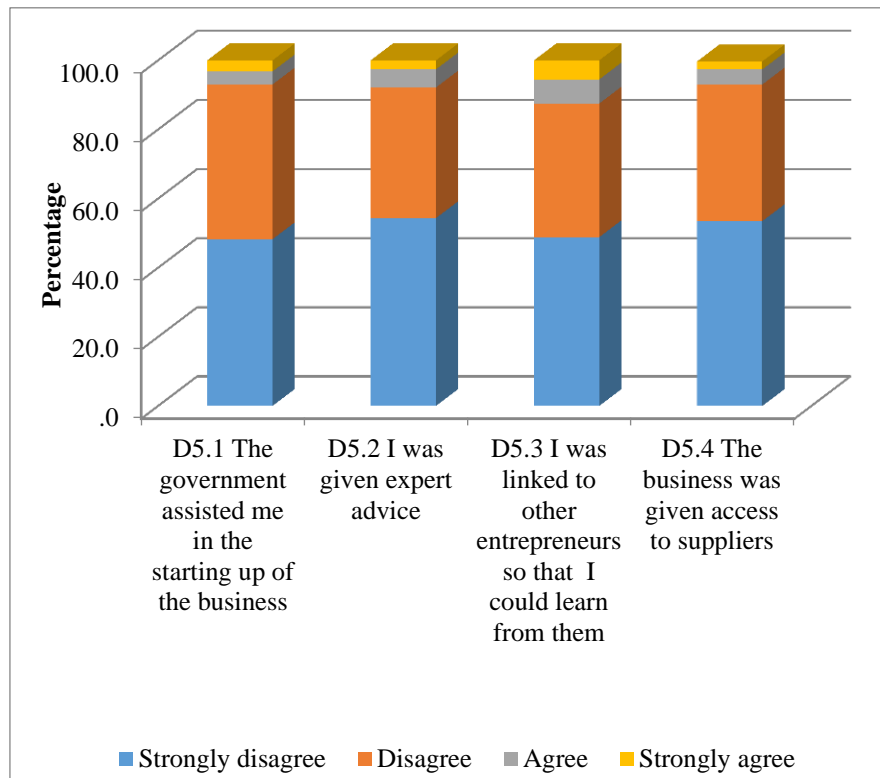
**FIGURE 74. BUSINESSES GIVEN ACCESS TO SUPPLIERS**



**6.5.2.5(e) Summary of the results on business incubation**

A summary of results on business incubation is presented in Figure 75. More than 93 % of the respondents indicated that the government had not assisted them in starting their businesses. Over 92 % of the respondents were of the opinion that no expert advice had been given by the government. The results also show that over 87 % of the respondents indicated that they were not linked to other experienced entrepreneurs so that they could learn from them, and 93 % of the respondents did not concur with the statement that their businesses were given access to suppliers. In terms of business incubation, it is evident that the government has been unsuccessful.

**FIGURE 75. SUMMARY OF RESULTS ON BUSINESS INCUBATION**



**6.5.2.6 Participation in the public procurement process (tendering process)**

SMEs are permitted by the Indigenisation Policy, Indigenisation and Economic Empowerment Act (2007) and the SME Act (2011) to participate in public procurement. The results regarding the participation of SMEs in government tendering are presented in Tables 77–80 and Figure 76.

**6.5.2.6(a) The government assisted my business through participation in the tender process**

This heading is extracted from the first item under Participation in the Public Procurement Process in Section D of the questionnaire. Table 77 shows that 12 respondents (representing 3.5 % of the total) agreed that the government had assisted their businesses through participation in the public procurement process, and 25 respondents (7.3 %) strongly agreed. Conversely, 42.7 % of the participants disagreed and 46.5 % strongly disagreed with the statement. The responses on the item produced a mean of 1.72 and standard deviation of 0.844. The results show that over 89 % of the respondents were of the opinion that the

government had not assisted their businesses through participation in the tender process. The binomial test results indicate a significant disagreement with *The government assisted my business through participation in the tender process* ( $p < 0.0005$ ). The results may mean that the government has not effectively supported SMEs through participation in public procurement.

**TABLE 77. GOVERNMENT ASSISTANCE THROUGH PARTICIPATION IN THE TENDER PROCESS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	160	46.5	46.5	46.5
	Disagree	147	42.7	42.7	89.2
	Agree	12	3.5	3.5	92.7
	Strongly agree	25	7.3	7.3	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.6(b) I applied and got a tender**

This heading is extracted from the second item under Participation in the Public Procurement Process in Section D of the questionnaire. The results relating to applying for and being awarded government tenders are presented in Table 78, which shows that 17 respondents (representing 3.5 % of the total) agreed that they had applied for and had been awarded government tenders, and 19 participants (5.5 %) strongly agreed. On the other hand, 40.4 % of the respondents disagreed and 49.1 % strongly disagreed with the statement. The responses on this statement produced a mean of 1.67 and standard deviation of 0.809. The results clearly indicate that more than 89 % of the respondents were of the opinion that they had not applied for and been awarded government tenders. The binomial test results indicate that there is significant disagreement with *I applied and got a tender* ( $p < 0.0005$ ). The results indicate that the GoZ has not adequately afforded SMEs an opportunity to take part in public procurement.

**TABLE 78. APPLYING FOR AND BEING AWARDED A TENDER**

		Frequency	%	Valid %t	Cumulative %
Valid	Strongly disagree	169	49.1	49.1	49.1
	Disagree	139	40.4	40.4	89.5
	Agree	17	4.9	4.9	94.5
	Strongly agree	19	5.5	5.5	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

**6.5.2.6(c) I have knowledge about the tender process**

This heading is extracted from the third item under Participation in the Public Procurement Process in Section D of the questionnaire. Regarding knowledge about the tender process, 11.9 % of the respondents agreed that they knew the process, and 35 respondents (10.2 %) strongly agreed. However, 32.8 % of the participants disagreed while 45.1 % strongly disagreed with the statement. The responses on the item produced a mean of 1.87 and standard deviation of 0.981. The results show that over 77 % of the respondents were of the opinion that they had no knowledge of the government tender process. The results are presented in Table 79. The binomial test results clearly illustrate a significant disagreement with *I have knowledge about the tender process* ( $p < 0.0005$ ). The results could mean that most of the SMEs lack knowledge of the tender process. Hence, it is difficult for them to participate in a process they have no knowledge of.

**TABLE 79. KNOWLEDGE ABOUT THE TENDER PROCESS**

		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	155	45.1	45.1	45.1
	Disagree	113	32.8	32.8	77.9
	Agree	41	11.9	11.9	89.8
	Strongly agree	35	10.2	10.2	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.5.2.6(d) I could apply for a tender because my business meets the requirements

This heading is extracted from the fourth item under Participation in the Public Procurement Process in Section D of the questionnaire. With respect to being able to apply for tenders because the business meets the tender requirements, 7.6 % of the participants agreed with the statement, and 15 respondents (4.4 % of the total) strongly agreed. On the other hand, 40.4 % of the respondents disagreed and 47.7 % strongly disagreed with the statement. The responses on this statement produced a mean of 1.68 and standard deviation of 0.785. The results indicate that over 88 % of the participants did not concur with the statement that they had applied for tenders because their businesses met tender requirements. These results are presented in Table 80. The binomial test results show that there is significant disagreement with *I could apply for a tender because my business meets the requirements* ( $p < 0.0005$ ). The results could mean that the majority of SMEs do not meet the stringent tender requirements, and that this tends to stifle their participation in the public procurement.

**TABLE 80. APPLYING FOR TENDERS BECAUSE BUSINESS MEETS REQUIREMENTS**

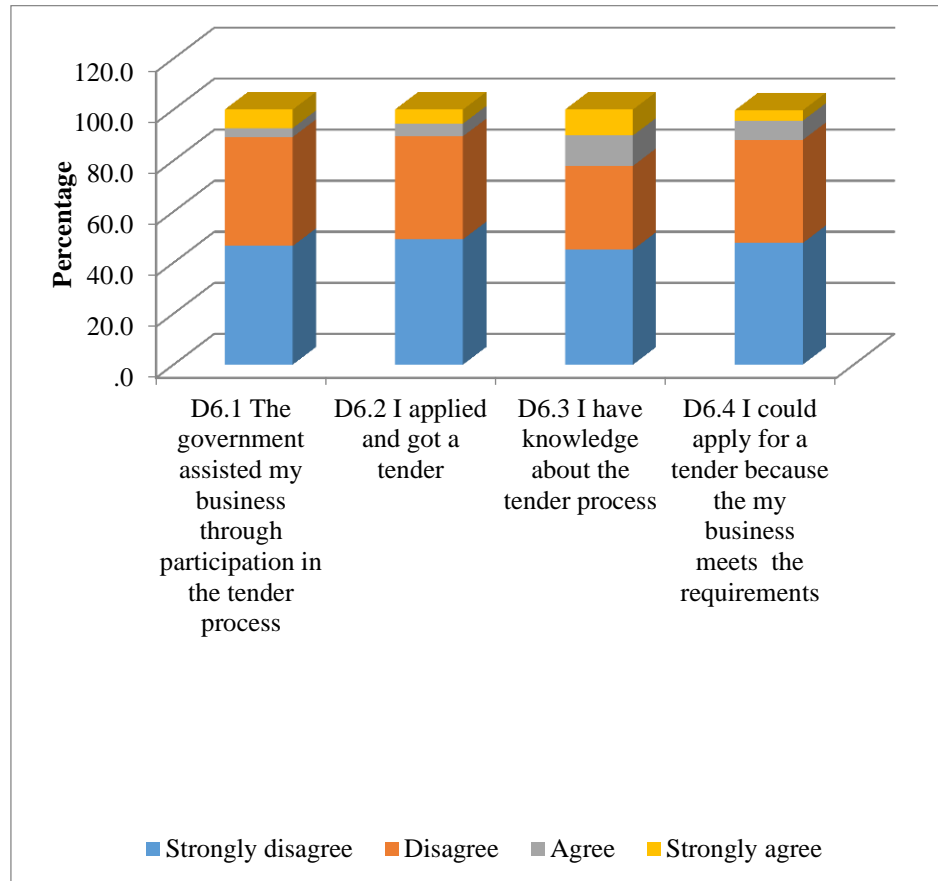
		Frequency	%	Valid %	Cumulative %
Valid	Strongly disagree	164	47.7	47.7	47.7
	Disagree	139	40.4	40.4	88.1
	Agree	26	7.6	7.6	95.7
	Strongly agree	15	4.4	4.4	100.0
	<b>Total</b>	<b>344</b>	<b>100.0</b>	<b>100.0</b>	

#### 6.5.2.6(e) Summary of the results on SME participation in the public procurement process

A summary of the results on SME participation in the public procurement process is presented in Figure 76. The results show that over 89 % of the respondents were of the opinion that the government had not assisted their businesses through participation in the tender process. More than 89 % of the respondents indicated that they had not applied for and hence could not be awarded government tenders. Over 77 % of the respondents were of the opinion that they had no knowledge of the government tender process. The results also

indicate that over 88 % of the participants did not concur with the statement that they had applied for tenders because their businesses met tender requirements. The results show that the participation of SMEs in public procurement is still low due to a lack of knowledge of the tender process and stringent public procurement requirements.

**FIGURE 76. SUMMARY OF THE RESULTS ON SME PARTICIPATION IN THE PUBLIC PROCUREMENT PROCESS**



### 6.5.3 The success of the government policies and strategies in addressing the challenges confronting SMEs in Harare, Zimbabwe

The third objective of the study was to establish the success of the GoZ’s policies and strategies in addressing the obstacles confronting the SME sector in Zimbabwe. A Spearman’s (rho) test was conducted to establish the success of these policies and strategies.

**6.5.3.1 Spearman's correlation between financial challenges and government policies and strategies**

As illustrated in Table 81, a two-tailed test of significance indicated that there was a significant negative correlation between funding challenges and the adequacy of government financial support for SMEs ( $\rho = -0.106$ ,  $p = 0.049$ ). The value of  $p$  is lower than 0.05 and the correlation coefficient is  $-0.106$ , indicating a strong negative correlation. Agreement with *Government funding has been inadequate though available* was associated with disagreement with *Government funding has been adequate for my business*. This indicates that even if the government provided funding, it was inadequate for SMEs.

**TABLE 81. SPEARMAN'S CORRELATION BETWEEN FUNDING CHALLENGES AND THE ADEQUACY OF GOVERNMENT SUPPORT**

		<i>Government funding has been adequate for my business</i>	
Spearman's rho	Business lacks funding	Correlation coefficient	-.106
		Sig. (2-tailed)	.049
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

There was a statistically significant positive correlation between *I had access to funding despite strict collateral requirements* and *Government funding has been effective in my business* ( $\rho = 0.108$ ,  $p = 0.46$ ). Disagreement with *I had access to funding despite strict collateral requirements* is associated with disagreement with *Government funding has been effective in my business*. These results are presented in Table 82. The results could mean that less access to funding has led to the ineffectiveness of government financial support for SMEs.

**TABLE 82. SPEARMAN’S CORRELATION BETWEEN ACCESS TO FUNDING AND THE EFFECTIVENESS OF GOVERNMENT FUNDING**

		<i>Government funding has been effective in my business</i>	
Spearman’s rho	<i>I had access to funding despite strict collateral requirements</i>	Correlation coefficient	.108
		Sig. (2-tailed)	.046
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

There was a statistically significant correlation between *I had access to funding despite strict collateral requirements* and *Government funding has been available* ( $\rho = 0.132$ ,  $p = 0.015$ ). The results are illustrated in Table 83. Disagreement with *I had access to funding despite strict collateral requirements* was associated with disagreement with *Government funding has been available*. The results indicate that a lack of availability of government funding has limited SME access to funding.

**TABLE 83. SPEARMAN’S CORRELATION BETWEEN ACCESS TO FUNDING AND THE AVAILABILITY OF FUNDING**

		<i>Government funding has been available</i>	
Spearman’s rho	<i>I had access to funding despite strict collateral requirements</i>	Correlation coefficient	.132
		Sig. (2-tailed)	.015
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

A two-tailed test of significance indicated that there was a significant negative correlation between *I had access to funding despite strict collateral requirements* and *I was aware that there was government funding* ( $\rho = -0.142$ ,  $p = 0.008$ ). Disagreement that SMEs had access

to funding was associated with agreement that SMEs were aware that there was government funding. This indicates that even if SMEs were aware of government funding, they did not have access to the funding due to strict collateral requirements. Table 84 presents the results.

**TABLE 84. SPEARMAN’S CORRELATION BETWEEN ACCESS TO FUNDING AND AWARENESS OF GOVERNMENT FUNDING**

		<i>I was aware that there was government funding</i>	
Spearman’s rho	<i>I had access to funding despite strict collateral requirements</i>	Correlation coefficient	-.142
		Sig. (2-tailed)	.008
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

### ***6.5.3.2 Spearman’s correlation between marketing challenges and government policies and strategies***

There was a statistically significant positive correlation between *There has been low demand for the product* and *Our businesses are being protected against foreign competition through tariffs on imports* ( $\rho = 0.107$ ,  $p = 0.048$ ). Agreement that there has been low demand for the product was associated with agreement that businesses have been protected from foreign competition through tariffs on imports. The results are presented in Table 85. This could mean that the government has been successful in addressing low demand for the products caused by foreign competition.

**TABLE 85. SPEARMAN’S CORRELATION BETWEEN LOW DEMAND FOR PRODUCTS AND GOVERNMENT PROTECTION OF SMES AGAINST FOREIGN COMPETITION**

		<i>Our businesses are being protected from foreign competition through tariffs on imports</i>	
Spearman’s rho	<i>There is low demand for the product</i>	Correlation coefficient	.107
		Sig. (2-tailed)	.048
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

A statistically significant positive correlation existed between *Imports have been posing a lot of competition and have flooded the market* and *Our businesses are being protected from foreign competition through tariffs on imports* ( $\rho = 0.115$ ,  $p = 0.033$ ). The results are presented in Table 86. Agreement that imports have posed a great deal of competition and have flooded the market was associated with agreement that SMEs have been protected from foreign competition through tariffs on imports. This indicates that the government has been effective in addressing the competition posed by imported products.

**TABLE 86. SPEARMAN’S CORRELATION BETWEEN COMPETITION FROM IMPORTS AND GOVERNMENT PROTECTION OF SMES THROUGH TARIFFS ON IMPORTS**

		<i>Our businesses are being protected from foreign competition through tariffs on imports</i>	
Spearman’s rho	<i>Imports have been posing a lot of competition and have flooded the market</i>	Correlation coefficient	.115
		Sig. (2-tailed)	.033
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

There was a significant negative correlation between *The pricing system in the market has been poor* and *The government has successfully regulated prices of goods and services in the market* ( $\rho=-0.170$ ,  $p=0.002$ ). Agreement that the pricing system in the market has been poor was associated with disagreement that the government has successfully regulated the prices of goods and services in the market. Table 87 presents these results. Such results could mean that the government has been ineffective in addressing the poor pricing system in the market.

**TABLE 87. SPEARMAN’S CORRELATION BETWEEN THE POOR PRICING SYSTEM AND GOVERNMENT SUCCESS IN ADDRESSING THE CHALLENGE**

		<i>The government has successfully regulated prices of goods and services in the market</i>	
Spearman’s rho	<i>The pricing system in the market has been poor</i>	Correlation coefficient	-.170
		Sig. (2-tailed)	.002
		N	344

\*\*Correlation is significant at  $p<0.05$  level (2-tailed)

As shown in Table 88, a two-tailed test of significance indicates that there is a significant negative correlation between *The cost of advertising has been too high* and *The government has successfully regulated the prices of goods and services in the market* ( $\rho= -0.205$ ,  $p=0.000$ ). Agreement that the cost of advertising has been too high was associated with disagreement that the government has successfully regulated the prices of goods and services in the market. These results could mean that the government had not been successful in regulating the prices of goods and services in the market; hence, the poor pricing system continues to be dominant in the market.

**TABLE 88. SPEARMAN’S CORRELATION BETWEEN THE HIGH COST OF ADVERTISING AND THE GOVERNMENT’S SUCCESS IN REGULATING PRICES**

		<i>The government has successfully regulated the prices of goods and services in the market</i>	
Spearman’s rho	<i>The cost of advertising has been too high</i>	Correlation coefficient	-.205
		Sig. (2-tailed)	.000
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

### 6.5.3.3 Spearman’s correlation between lack of skills and government policies and strategies

Tests for correlations indicated that there was a significant negative correlation between *The company has suffered from the lack of technical skills in production* and *I was given expert advice and training* ( $\rho = -0.209$ ,  $p = 0.000$ ). Agreement that the company has suffered from the lack of technical skills in production was associated with disagreement that the SMEs were given expert advice and training. The results are presented in Table 89. The results indicate that the advice and training was effective for the few SMEs who had access to it. However, it did not work for the majority of SMEs who had no access to the business advice and training.

**TABLE 89. SPEARMAN’S CORRELATION BETWEEN LACK OF TECHNICAL SKILLS AND EXPERT ADVICE AND TRAINING**

		<i>I was given expert advice and training</i>	
Spearman’s rho	<i>The company has suffered from the lack of technical skills in production</i>	Correlation coefficient	-.209
		Sig. (2-tailed)	.000
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

There was a statistically significant negative correlation between *There has been a lack of financial management skills among staff and management* and *I attended training organised by the government and it was helpful in my business* ( $\rho=-0.118$ ,  $p=0.028$ ). Agreement that there has been a lack of financial management skills among staff and management was associated with disagreement that the SMEs had attended training and that it was helpful in their businesses. The results are presented in Table 90 below. The results indicate that the training provided by the government has not been effective in addressing the lack of financial management skills among SMEs.

**TABLE 90. SPEARMAN’S CORRELATION BETWEEN LACK OF FINANCIAL MANAGEMENT AND ATTENDING AS WELL AS BENEFITING FROM TRAINING**

		<i>I attended training organised by the government and it was helpful in my business</i>	
Spearman’s rho	<i>There has been a lack of financial management skills among the staff and management</i>	Correlation coefficient	-.118
		Sig. (2-tailed)	.028
		N	344

\*\*Correlation is significant at  $p<0.05$  level (2-tailed)

Tests for correlations indicated that there was a significant negative correlation between the items *There has been lack of financial management skills among staff and management* and *I attended training and it did work in my business* ( $\rho=-0.112$ ,  $p=0.38$ ). Agreement that there has been a lack of financial management skills among staff and management was associated with disagreement that the SMEs attended training and it worked in their businesses. The results indicate that training provided to SMEs did not work in terms of improving the financial management skills among staff and management. Table 91 presents these results.

**TABLE 91. SPEARMAN’S CORRELATION BETWEEN LACK OF FINANCIAL MANAGEMENT SKILLS AND THE EFFECT OF THE TRAINING**

		<i>I attended training and it did work in my business</i>	
Spearman’s rho	<i>There has been a lack of financial skills among staff and management</i>	Correlation coefficient	-.112
		Sig. (2-tailed)	.038
		N	344

\*\* Correlation is significant at  $p < 0.05$  level (2-tailed)

There was significant negative correlation between the items, *The lack of marketing skills has been a challenge to the business* and *I attended training and it did work in my business* ( $\rho = -0.143$ ,  $p = 0.008$ ). This is illustrated in Table 92 below. Agreement that the lack of marketing skills had been a challenge to the business was associated with disagreement that the SMEs attended training and it worked in their businesses. The results indicate that the training provided by the government has not been effective in addressing marketing challenges among SMEs in Harare, Zimbabwe.

**TABLE 92. SPEARMAN’S CORRELATION BETWEEN LACK OF MARKETING SKILLS AND THE BENEFIT FROM TRAINING**

		<i>I attended training and it did work in my business</i>	
Spearman’s rho	<i>The lack of marketing skills has been a challenge to the business</i>	Correlation coefficient	-.143
		Sig. (2-tailed)	.008
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

Tests for correlations indicated that there was a significant negative correlation between *There has been a lack of financial management skills among the staff and management* and *I was invited to attend training and could afford the cost of training* ( $\rho = -0.120$ ,  $p = 0.025$ ). Agreement that there has been a lack of financial management skills among the staff and management was associated with disagreement that the SMEs were invited to attend training and could afford the cost of training. The results are presented in Table 93 below. The results indicate that whilst the SMEs lacked financial management skills, the government could not invite most of them to attend training and the SMEs could not meet the costs of training. Such a scenario has created an environment where the lack of financial management skills continues to be a challenge for SMEs in Harare, Zimbabwe.

There was a statistically significant negative correlation between the statements *The lack of marketing skills has been a challenge to the business* and *I was invited to attend training and could afford the cost of training* ( $\rho = -0.114$ ,  $p = 0.035$ ). The results are presented in Table 93 below. Agreement that lack of marketing skills has been a challenge to the business was associated with disagreement that SMEs were invited to attend training and could afford the cost of training. The results indicate that the lack of training facilitation and the unaffordable nature of existing training restrict SMEs from attending training, with the result that lack of marketing skills continues to be a challenge for SMEs.

**TABLE 93. SPEARMAN’S CORRELATION BETWEEN SKILLS CHALLENGES AND AFFORDING THE COST OF TRAINING**

		<i>I was invited to attend training and could afford the cost of training</i>	
Spearman’s rho	<i>There has been a lack of financial management skills among staff and management</i>	Correlation coefficient	-.120
		Sig. (2-tailed)	.025
		N	344
	<i>The lack of marketing skills has been a challenge to the business</i>	Correlation coefficient	-.114
		Sig. (2-tailed)	.035
		N	344

\*\*Correlation is significant at  $p < 0.05$  level (2-tailed)

There was a significant positive correlation between the items *The location of our business is poor such that it has negatively impacted on the business* and *Buildings have been made available to SMEs* ( $\rho=0.139$ ,  $p=0.010$ ). Agreement that the location of the businesses was poor such that it negatively impacted on the SME was associated with agreement that buildings have been made available to SMEs. These results are presented in Table 94. The results indicate that the government has been successful in addressing the challenge of business premises and poor business location through the provision of shelter for SMEs.

**TABLE 94. SPEARMAN’S CORRELATION BETWEEN POOR BUSINESS LOCATION AND GOVERNMENT PROVISION OF BUILDINGS**

		<b>Buildings have been made available to SMEs</b>	
Spearman’s rho	<i>The location of our business is poor such that it has negatively impacted on the business</i>	Correlation coefficient	.139
		Sig. (2-tailed)	.010
		N	344

\*\*Correlation is significant at  $p<0.05$  level (2-tailed)

## **6.6 ANALYSIS OF QUALITATIVE DATA FROM THE QUESTIONNAIRE**

This section presents the analysis of the qualitative data collected through open-ended questions under Section E of the questionnaire used in this study. This part of the questionnaire was divided into themes. This section constituted items that were structured in such a way as to elicit the respondents’ perceptions on (1) why they thought it has been difficult for SMEs to secure government funding, (2) whether the government policies and strategies have been helpful in their businesses, (3) what they thought were the problems with government support for SMEs, and (4) suggestions for effectively assisting SMEs in Harare, Zimbabwe. These four points constituted the key themes in the analysis of data. The respondents were not restricted in their responses. This section sought to achieve methodological triangulation as well as provide additional information that was difficult to assess through a quantitative method of data collection. The following sections present and interpret non-numeric data collected in this study.

### **6.6.1 Why it has been difficult for SMEs to get funding**

This heading was extracted from the first item under Section E of the questionnaire: *In your opinion, why do you think it has been difficult for the SMEs to get funding?*

The purpose of the item was to establish the reasons for SMEs' experiencing challenges in accessing government funding. The researcher sought further information on funding since it had been identified as a key obstacle to SME growth in Zimbabwe. Respondents gave many reasons, but most of them indicated that strict or harsh requirements, corruption in the funding of SMEs, a lack of adequate information on the funding process, the inadequacy of the funding, and the long and discouraging funding process prevented them from accessing government financial support. The following are some of the responses given by the respondents under Section E of the questionnaire.

Respondent 150:

*“Government has no money. In some cases, where there is limited funding its accessibility is limited by failure to produce collateral on the part of small businesses.”*

This statement reveals that the GoZ does not have adequate financial resources to fund SMEs. In situations where there is credit finance available, SMEs are unable to access the funding due to strict collateral requirements. The government agencies and financial institutions providing credit finance require some form of security before loans are advanced to SMEs.

Respondent 175:

*“The government cannot fund all the SMEs because they are too many. Collateral is required, so SMEs do not have that.”*

This statement indicates that Zimbabwe has so many SMEs that the government cannot fund all of them. The number of SMEs has increased due to the closure of companies and due to retrenchments in Harare. In addition, even if the government had sufficient funding, not all of the SMEs would have access to it, as collateral requirements are used as a way of screening SMEs' access to funding.

Respondent 180:

*“SMEs do not maintain proper documentation required by financial institutions and SEDCO.”*

This statement shows that SMEs in Harare do not keep records of all the transactions that they conduct in their businesses. SMEs should keep records of expenses, income, profits, assets, and liabilities. Before financial institutions advance loans to SMEs, they need to view the financial position of the business and get assurance that they will be able to get their money back. Under such circumstances it becomes difficult for SMEs to access funding.

Respondent 210:

*“Many SMEs in Zimbabwe face a difficulty in accessing funds from banks due to lack of collateral security and also from the government mainly because of corruption. However, the introduction of micro finance institutions in the economy has lessened the burden but they have a high interest rate.”*

This statement emphasises the role of collateral in preventing SMEs from accessing funding. Furthermore, corruption is mentioned as one of the key factors limiting SME access to funding. The funding allocated to SMEs does not reach the intended beneficiaries on the ground, but is intercepted by government officials and a few SMEs privy to the government. Such a scenario makes it difficult for SMEs to grow.

Respondent 230:

*“We don’t have enough information about how to access funding from government.”*

Most of the SMEs indicated that they are simply aware that government provides funding, but lack detailed information on how to access the funding. It is the responsibility of the government to ensure that SMEs have enough information on how and where they can access funding. However, the statement reveals that the government does not provide adequate information, thus limiting SMEs’ access to funding.

Respondent 301:

*“The procedure is long and discouraging.”*

The statement indicates that the procedures involved in accessing government funding are long and discouraging, resulting in some SMEs giving up before they finish the process. Some of them do not even start the process. After going through a rigorous process, SMEs are sometimes told at the end that they have not qualified for funding. In the eyes of the SMEs it appears to be a process that wastes businesspeople’s time. Many SMEs have thus been discouraged from applying for government funding.

### **6.6.2 The success of government policies and strategies in helping businesses**

This heading was extracted from the second item under Section E of the questionnaire. Most of the respondents indicated that the government has been helpful in some way, but to a large extent has failed to address the key challenges confronting the SME sector in Harare, Zimbabwe. According to the respondents, the government has succeeded in giving SMEs tax holidays, in providing land for some businesses, in making shelter or buildings available to some SMEs, in cutting the prices for rentals in government buildings, and in the clustering of SMEs. However, the government has failed to provide adequate funding for SMEs, to provide training for the majority of SMEs, to promote SME access to markets, to incubate businesses successfully, and to deal with corruption. Government tendering has been a challenge for SMEs due to strict requirements and corruption. Though the government has provided land and shelter for SMEs, the provisions are still inadequate. Most of the respondents also indicate that the government has not done anything for them to improve their businesses. The following were some of the responses given by the participants.

Respondent 74:

*“Government policies and strategies have been helpful to a lesser extent.”*

The statement shows that while the SMEs appreciate what the government has done so far to support the SME sector, their policies and strategies have not adequately addressed the needs and expectations of the SMEs. This indicates that the government has delivered less than what was expected. Therefore, the government still has to do more to adequately address the challenges confronting the SME sector in Zimbabwe. This is further supported by the following response from a participant:

Respondent 82:

*“To some extent some policies and strategies have worked out but they are not enough, hence fail to adequately address business requirements.”*

This statement, in support of what Respondent 74 said, indicates that the government has not adequately addressed the requirements of the SME sector in Harare, Zimbabwe. It is, therefore, critical that the government identifies the key areas that have not been adequately addressed and take appropriate action to meet the needs of SMEs.

Respondent 90:

*“Government provided land and buildings. However, should provide more funding, training, and proper business incubation. Tendering has been a challenge for SMEs due to strict requirements and corruption.”*

The statement indicates that the SMEs appreciate that the government has managed to provide land and buildings for SMEs. However, the SMEs still need funding to boost their businesses. SMEs still need to acquire business knowledge through training organised by the government. The government has failed to properly incubate businesses. Therefore, SMEs indicate that the government should properly incubate businesses to reduce the risk of failure. Legislation has provided for SMEs to participate in government procurement through bidding for government tenders. However, SME participation in tendering has been stifled by strict requirements and corruption. The government has not done enough to address the issue of corruption among public servants who work directly with SMEs. The observations of this respondent are further substantiated by Respondent 98:

Respondent 98:

*“One good thing that the government have done is to provide space, but have failed to provide funding and skill. Nothing has been done to ensure that all people have access to funds.”*

This comment shows that the government has provided land. However, the SMEs still lack skills and funding. In the eyes of the SMEs, the government does not seem to be doing anything to address the financial challenges confronting the SME sector in Harare, Zimbabwe. Such an opinion connotes that the SMEs still expect the government to take steps to address the financial obstacles to growth.

Respondent 108:

*“Strategies like tax holiday, clustering of businesses and provision of land have worked. However, the biggest challenge is funding and more land is still needed. More shelter for SMEs is still needed.”*

The respondent indicated that the government has provided a tax holiday for SMEs. For some time SMEs have been paying tax, and this money might have allowed them to build up their capital base. Businesses in Harare, especially SMEs, are clustered in different places. This was a stance taken by the government to ensure that it would be easy to provide services like electricity, training, business advice, information dissemination, and technology. Clustering has been a successful strategy. Land provision to SMEs has been a success. However, the

biggest obstacle cited was inadequate funding. Even if the government has provided land and shelter to SMEs, more land and shelter are still needed.

Respondent 135:

*“Also government cut prices for rentals so that many people can afford to run their businesses.”*

This comment suggests that the government has made the rentals in the shelters or buildings owned by them affordable by reducing them. Such a move indicates that the government is cognisant of the high costs incurred by SMEs as they operate their businesses. In this way SMEs have benefited and the move has been a success.

Respondent 201:

*“Yes, for only the building, but what we need is the market.”*

The respondent indicated that whilst SMEs appreciate that buildings have been provided for them, the government has not done enough to promote access to markets locally and internationally. SMEs, particularly in Harare, struggle to get markets for their products. Therefore, the government should do more to promote SME access to local and international markets.

Respondent 270:

*“No assistance has been received from the government.”*

The statement shows that while some SMEs benefited from government policies and strategies in one way or the other, there are some SMEs that have received virtually nothing from the government. Such SMEs have established and developed their businesses themselves. This is further supported by Respondent 301, who indicates that they were only motivated by the GoZ to operate SMEs but materially did not receive anything from them.

Respondent 301:

*“Yes, but only motivation.”*

This comment indicates that most SMEs were motivated or inspired to operate businesses for the benefit of the country and themselves. However, the government could not assist them in any way, for example through funding, training, and promoting access to markets. Such a situation stifles the growth of the SME sector. Government support must cater for all SMEs in one way or the other. If SMEs cannot get funding, they must at least get land or shelter.

### 6.6.3 The problems with government support

This item was extracted from the third item under Section E of the questionnaire. The majority of respondents indicated the following problems with government funding: inadequate funding; not every SME manages to get shelter or business premises; a lack of transparency; corruption; SMEs lack information about government SME programmes; and inadequate machinery and equipment provided by government. Most of the respondents indicated that some SMEs did not pay back the loans advanced to them by the government. Some even sold machinery, equipment and inputs provided by the government. Below are the responses provided by the participants in this study.

Respondent 17:

*“People who are sent by government are not going down to the people on the ground. The end result is that people who benefit are those involved in the administration of government support and not the operators.”*

This statement indicates that government officials tasked with the responsibility of approaching and assisting SMEs do not actually consult SMEs. They intercept government support meant for SMEs. Consequently, this government support in the form of funding, training, and other forms of services does not get to the intended beneficiaries. The respondent implies that there is corruption among government officials in the administration of government support for SMEs.

Respondent 217:

*“There is lack of information on government support programmes.”*

This statement connotes that the government has not properly and adequately disseminated information about its programmes intended to support SMEs. SMEs are aware that the government assists needy businesses, but they lack adequate information on where and how they can access government support. Such a scenario results in SMEs failing to have government support in their businesses. Closely related to this response was government's lack of transparency in its activities.

Respondent 244:

*“Transparency is lacking at the moment.”*

This respondent indicates that the government's way of operating in relation to its support for small businesses is not clear to the SMEs. The SMEs indicated that transparency is lacking in

the GoZ's provision of funding, its awarding of government tenders, its training of SMEs, and its provision of business premises. Lack of transparency becomes a breeding ground for corruption, which stifles SME development.

Respondent 287:

*“Funding has always been inadequate due to liquidity crunch and unstable macroeconomic environment.”*

The statement shows that the government has not been able to provide adequate funding to SMEs due to the liquidity crisis caused by the unstable macroeconomic environment. The government, under such an environment, has been struggling to fund SMEs and agencies that support SMEs. Therefore, as much as the government might indeed want to support SMEs, its operations are crippled by the unfavourable economic environment.

Respondent 315:

*“Inadequate machinery, equipment and shelter.”*

The respondent indicates that though the government has provided machinery, equipment and shelter for SMEs, these facilities have been inadequate because not every SME has had access to them. Most of the SMEs have not benefited from government support. It is in this context that the government has been viewed as a failure in providing the necessary support for SMEs and addressing the key challenges confronting the sector.

Respondent 340:

*“Previously some of the beneficiaries have failed to honour their debts. Some SMEs have been irresponsible to a point of selling equipment, machinery and other inputs provided by the government.”*

This statement shows that some SMEs could not pay back the loans advanced to them by the government. Therefore, the loans could not revolve to other SMEs that needed funding. The government had also provided some SMEs with machinery, equipment and other inputs, and these SMEs had acted irresponsibly by selling them. Therefore, the growth of SMEs is difficult under these circumstances. The government has also failed to establish a strong monitoring mechanism to ensure that all the resources allocated to SMEs were used for the purposes intended.

#### **6.6.4 Suggested policies and strategies for promoting SME development in Harare, Zimbabwe**

This heading was extracted from the fourth item under Section E in the questionnaire, and addresses the fourth research objective ('Are there any alternative policies and strategies or models for addressing the SME challenges to promote the growth and development of the SMEs in Harare, Zimbabwe?'). The question was intended to assist in the development of a policy and strategy framework for addressing the challenges confronting the SME sector in Harare, Zimbabwe. Most of the respondents indicated that the government should provide machinery, equipment and workshops where SMEs operate. The majority of the respondents also stated that more funding is still needed to boost the SME sector, and that the requirements for such funding should not be strict. Whilst SMEs appreciate that the government has provided land for their businesses, more land should be provided to accommodate those SMEs that remain without it. There was a suggestion from most of the respondents that the government should provide business education through training. If possible, according to the respondents, the government should establish institutions for training SMEs and for technology transfer. Adequate information about government support programmes should be provided. Information about financing, training and tendering should also be disseminated to SMEs. More shelter should be provided and proper business incubation should be conducted for SMEs if the sector is to contribute meaningfully to economic development. Most of the respondents stated that the government should effectively deal with corrupt government officials in order to promote good corporate governance in the public sector. Corruption is one of the worst enemies of SMEs and economic growth. Therefore, the government should stamp out corruption and expose corrupt government officials.

The government, as indicated by most of the respondents, should develop effective marketing strategies for SMEs locally and internationally, and SMEs should have access to adequate information about the markets. The government should be actively involved in the marketing of SME products, because these products are not well known due to a lack of advertising, and SMEs cannot afford advertising costs. Most respondents suggested that a huge complex be established in Harare's central business district (CBD) where SMEs could market their products and services.

The majority of the respondents also indicated that the government should continue its partnerships with NGOs, private companies and other countries to address the challenges facing SMEs in Harare, Zimbabwe.

According to most of the respondents, the government should also monitor the loans, equipment and machinery given to SMEs. The government should ensure that these forms of support are used for their intended purposes.

An interesting suggestion made by most respondents was the establishment of an SME bank for the provision of loans without collateral. The loans would be guaranteed by the government. The following were some of the statements made by the respondents during data collection.

Respondent 93:

*“We need equipment, machinery and workshops to work in.”*

This statement expresses clearly that the government should provide equipment and machinery, especially for SMEs in the agricultural and manufacturing sectors of the economy. The GoZ has provided some machinery and equipment to SMEs through the Indo-Zimbabwe Project, but more machinery and equipment are still needed by the sector. SMEs in the manufacturing sector require workshops for manufacturing their products, and these could be constructed by the government.

Respondent 123:

*“Funding in terms of loans could boost the performance of SMEs.”*

The respondent indicates that funding is a key requirement for SME development. The government has provided a certain amount of funding for SMEs, but more should be provided to cater for all the SMEs. Funding has been inadequate and some SMEs have not been able to benefit from it. In order to boost the performance of SMEs the government should make more funding available to the sector.

Respondent 192:

*“More land and business shelter are still needed.”*

Another suggestion made by the respondents was the provision of more land and shelter for SMEs. The government has provided land for SMEs in Harare. However, more land is still required as there are some SMEs without land from which to operate. There also some SMEs that are struggling to get shelter or building premises to operate from. The government should assist by constructing such buildings to accommodate SMEs in Harare. Alternatively, the government could buy some buildings for the purpose of accommodating the sector.

Respondent 241:

*“More training and grooming for SMEs.”*

The respondents also suggested that more training and grooming are required for SMEs. The government through its agencies has conducted training workshops for SMEs to improve their skills. Technology centres have been established for technology transfer. However, the training workshops and technology centres have benefited very few SMEs. Therefore, more of the workshops should be conducted in venues convenient and affordable to SMEs. Technology centres should be established in many parts of Harare and Zimbabwe so that SMEs have access to technology, equipment and machinery.

Respondent 291:

*“My suggestion is that corruption must stop.”*

Corruption was viewed by respondents as a factor stifling the growth of the SME sector, hence the suggestion that the government should take stern measures to deal with corruption among government officials. Resources allocated to the SME sector do not reach the intended beneficiaries, but are intercepted by individuals involved in the administration of government support programmes.

Respondent 301:

*“Marketing strategies for SMEs.”*

Another respondent suggested that the government should develop comprehensive marketing strategies for SMEs. SMEs lack the skills to market their products and they cannot afford the cost of marketing. Therefore, it is critical that the government assists with marketing SME products. As part of the marketing strategy, the government can be actively involved in the mass advertising of SME products and services. The government should assist SMEs in searching for markets locally and internationally. As part of searching for markets, the government should sponsor more SMEs to participate in the local and international trade fairs and exhibitions. Information about local and international markets should be made available to SMEs.

Respondent 315:

*“There should be a huge complex in the CBD where SMEs market their finished products and services to the consumers.”*

This respondent sees the need to establish a huge complex in the CBD or close to the CBD where SMEs will be able to market their finished products and services to consumers. The CBD is one of the busiest parts of the city, and therefore SMEs will be able to benefit from the passing trade and access customers for their products and services. Increasing sales improves SMEs' income. At the Mbare market, many vegetable growers meet and market their produce. This market has been helpful to SMEs in the agricultural sector, and the same benefit could be realised for SMEs in the manufacturing and service sectors.

Respondent 325:

*“Access to information or organisations who can assist in nurturing our businesses.”*

SMEs require adequate information about government support programmes. Information about where and how SMEs can access support should be made easily available to the sector. SMEs need to know which agencies and NGOs provide assistance to the sector, and they require information about government tender procedures, funding processes, training programmes, business incubation initiatives and technology centres. Access to information is an important ingredient for SME success. Government agencies should approach the SMEs around the city directly to educate them about the government SME programmes.

Respondent 333:

*“More partnership with the private sector and non-governmental organisations to assist SMEs.”*

Previous government partnerships with NGOs, the private sector and other countries have proved to be effective. Therefore, the respondents suggest that there be more of these partnerships to promote the development of the SME sector. The government alone cannot succeed in supporting and developing the SMEs. Assistance is required from private companies and other organisations.

Respondent 340:

*“Government should monitor the use of funds, equipment and machinery given to SMEs.”*

The respondent here indicates that there must be an effective monitoring system for the loans, equipment and machinery provided to SMEs, to ensure that the facilities provided be used for their intended purpose. The misuse of funds or the sale of the equipment and machinery provided for SMEs stifles the development of the sector. In the past, SMEs have misused the funds advanced to them by the government and some have sold the equipment, machinery and

fuel provided for farming. While the government was making efforts to assist the sector, the SMEs did not respect these efforts and take them seriously.

Respondent 344:

*“Open SME banks that give loans without collateral security.”*

This statement suggests that the government should open a bank specifically for SMEs. Such a bank would provide services tailor-made for SMEs, and loans provided by it would be guaranteed by the government. Thus far, collateral requirements have restricted SMEs’ access to loans from government agencies and private financial institutions. The removal of the collateral requirement opens doors for funding for SMEs. India and Russia are examples of countries that have successfully operated SME banks from which SMEs have benefited.

## **6.7 ANALYSIS OF QUALITATIVE DATA FROM THE IN-DEPTH INTERVIEWS**

This section presents an analysis of the qualitative data collected through the in-depth interviews with officials from the MSMECD, officials from SMEDCO, and key informants from the public universities in Harare. Interview schedules specifically designed for interviewing these officials (see Appendix E) and key informants (see Appendix F) assisted the researcher in the collection of data relating to 1) demographic information about the respondents; 2) the challenges facing SMEs in Harare, Zimbabwe; 3) the policies and strategies used so far to address SME challenges; and 4) suggestions for alternative policies and strategies that could be implemented to address the challenges confronting the SME sector in Harare, Zimbabwe. Questions in the interview guide were used as sub-themes in the analysis of data. There were no restrictions on the responses provided by the respondents since the questions were open-ended. The purpose of this section is to achieve methodological triangulation, as well as to provide additional information that could not be assessed quantitatively. Therefore, this section seeks to satisfy the mixed-method approach adopted in this study. The following sections present and interpret non-numeric data collected through in-depth interviews with the selected officials.

### **6.7.1 Analysis of in-depth interviews with the MSMECD officials**

This section presents and describes the responses provided by officials at the MSMECD head office in Harare, Zimbabwe. The key informants were six respondents from the MSMECD:

the chief economist responsible for resource mobilisation and facilitation of the funding of SMEs; an economist responsible for promoting, co-ordinating and monitoring the innovative financing schemes for SME development; a business development officer responsible for technical services; a business development officer responsible for training and consultancy; a senior research officer who co-ordinates research on SMEs; and an officer responsible for the finance and administration of SME programmes.

### **6.7.1.1 Response rate**

There was a 100 % response rate for the in-depth interviews with the officials from the MSMECD and SMEDCO. This indicates that all the participants were available and willing to participate in the study. They provided valuable information for this study. Table 95 below illustrates the response rate of the in-depth interviews.

**TABLE 95. RESPONSE RATE FOR IN-DEPTH INTERVIEWS WITH THE MSMECD AND SMEDCO OFFICIALS**

<b>Target</b>	<b>Sample size</b>	<b>Number of respondents interviewed</b>	<b>Response rate</b>
SEDCO business advisors, loan officers and auditors, technical officers	6	6	100 %
SME Ministry officials for financing, training and advising, and research	6	6	100 %
<b>Total</b>	<b>12</b>	<b>12</b>	<b>100 %</b>

### **6.7.1.2 Information about respondents**

This heading is extracted from Section 1 of the interview schedule. The purpose of this section in the interview schedule was to provide some background information on the participants. Such information was critical, as it indicated that the proper respondents were being interviewed and that they had valuable and relevant data for the study. Such a scenario makes the responses reliable.

### **(a) Position of respondents in the organisation**

This heading was extracted from the first item under Section 1, which focused on information about the respondents. The results indicate that the participants in the study were composed of a chief economist, an economist, a business development officer (training and consultancy), a business development officer (technical services), a senior research officer, and an officer responsible for the finance and administration of SME programmes.

### **(b) Duties and responsibilities of respondents**

This heading was extracted from the second item under Section 1. The results reveal that the respondents who had direct contact with SMEs have various duties and responsibilities meant to promote the development of SMEs. The chief economist is responsible for resource mobilisation and the development of projects that benefit SMEs. The economist works in the same department as the chief economist, where he is responsible for developing resource mobilisation strategies, facilitating the funding of SMEs, and promoting, co-ordinating and monitoring innovative financing schemes for SME development. The business development officer (training and consultancy) is responsible for training SMEs in entrepreneurship and in the management of their businesses, developing markets, and promoting trade, as well as providing consultancy services to SMEs. The business development officer (technical services) provides technical services, conducts technical training and promotes the production of machinery and equipment that assists the development of the SME sector. Another respondent, the senior research officer, formulates policies for SMEs, develops legal and regulatory frameworks for SMEs, conducts research on SMEs, and develops and maintains an up-to-date database of SMEs. The finance and administration officer provides finance and administration services in the implementation of SME programmes. The duties and responsibilities of the respondents indicate that they deal with SMEs. Therefore, the data they provided was relevant, as they interact with SMEs.

### **(c) Time spent dealing with SMEs**

This heading was extracted from the third item in Section 1 of the interview schedule. The purpose of the question was to establish the period spent interacting with SMEs by the respondents. The period spent working with SMEs influences the level of understanding that a respondent has about the sector. Respondents in this study had spent 7–10 years dealing

with SMEs. Such respondents had a great deal of information and a deep understanding of the SME sector.

### ***6.7.1.3 Challenges confronting the SME sector in Harare, Zimbabwe***

This heading is extracted from Section 2 of the interview schedule. This section sought to identify the challenges facing SMEs, the sectors that have been affected most, and the challenges that have caused major setbacks for SMEs in Harare, Zimbabwe. The section addresses the first research objective, which seeks to identify the challenges facing SMEs in Harare in terms of start-up and development.

#### *(a) Challenges which have been common among the SMEs in the primary, secondary and tertiary sectors of the economy*

This heading is extracted from the first item under Section 2, and it sought to identify the challenges facing SMEs in all sectors of the economy. Most of the respondents indicated that the following SME challenges were common to all sectors of the economy: lack of finance; limited access to markets; a restrictive legal and regulatory framework that stifles the development of SMEs; a lack of adequate information about markets and government programmes for SMEs; poor and inadequate infrastructure; competition from imported products; lack of management, technical and marketing skills; and obsolete equipment and machinery. The following were some of the comments made by the respondents under the first item of Section 2 of the interview schedule.

Respondent 1:

*“Lack of management, technical and marketing skills”.*

This respondent indicated that the lack of management, technical, and marketing skills has been a challenge for the SME sector. A lack of management skills leads to business failure, as entrepreneurs do not pay adequate attention to key strategic issues. Management of resources therefore becomes difficult. As a result, the wastage of resources becomes common. The absence of technical skills means that entrepreneurs lack the technical competence to produce quality products and services. Hence, the competitiveness of the products and services in the market becomes compromised. Successful entrepreneurs must have sharp marketing skills in order to increase their sales and income, as well business growth. A lack of marketing skills

reduces sales and income, and restricts business development. Therefore, the success of every business hinges on the level of competency and skills of the entrepreneur.

Respondent 2:

*“Obsolete equipment and machinery.”*

The statement indicates that the outdated equipment and machinery used by SMEs compromises their production efficiency and the quality of their products and services. Low efficiency and low-quality products and services negatively affect the competitiveness of the SMEs in the market, but SMEs cannot afford state-of-the-art equipment and machinery.

Respondent 3:

*“Lack of information about local and international markets, the government support programmes and the tender process”.*

The respondent indicates that SMEs lack information about the local and international markets. Such information is critical for SMEs to become informed on the type and quality of products or services needed by particular markets and how they can make those products available to the markets in question. Lack of information about markets makes it difficult for SMEs to sell their products; hence, the growth of the sector becomes difficult. Most of the respondents indicated that SMEs lack adequate information about the government support programmes. They are not informed on where and how to access government support. The participation of SMEs in the public procurement process is also stifled by a lack of adequate information about the tender process. The government has not been effective in disseminating information about the support programmes and the tender procedures.

Respondent 4:

*“Lack of funding, the high cost of credit capital (high interest rates) and the collateral requirements have stifled the growth of the SME sector.”*

This statement indicates that SMEs in Harare have been failing to grow due to a lack of funding. The high interest rates of the funding that is available make this funding too expensive for SMEs to access. Financial institutions and even SMEDCO require collateral before SMEs are permitted to access funding. Most of the SMEs lack collateral, and therefore funding is difficult for them. Such a scenario limits the development of the SME sector.

Respondent 5:

*“SMEs have a problem of having shelter or premises for conducting their businesses.”*

The above statement shows that SMEs face the challenge of poor and inadequate shelter or business premises from which they can operate. Infrastructure plays a key role in the development of SMEs. There have not been enough sheds and factory shells constructed by the government to accommodate all the SMEs, and some trading markets are overcrowded with entrepreneurs. Therefore, the lack of appropriate and adequate infrastructure has been one of the chief obstacles to SME growth in Harare, Zimbabwe.

Respondent 6:

*“Competition in the market has been strong that SME sales and income have declined over the years.”*

The respondent indicates that competition in the market has compromised the growth of the SME sector. Competition in the market emanates from local and cheap imported products from South Africa, China, India, Zambia, Mozambique and Tanzania. Such competition has reduced the sales and income of SMEs over the years. Therefore, the failure of SMEs has become a common phenomenon in Harare.

Respondent 6:

*“The legal and regulatory environment has not promoted the growth of SMEs.”*

This respondent considers the legal and regulatory environment to be an obstacle to the development of SMEs. The GoZ’s statutory instruments have not been supportive enough to effect SME growth. Government laws, regulations and the taxation system have been so hostile that they actually hinder the development of the SME sector. SMEs pay high taxes to the government, and the process of getting an operating license, permits, and registration documents is very expensive, as well long and exhausting.

***(b) Sectors which have been affected most by the challenges and why***

This heading was extracted from the second item under the challenges confronting SMEs in Harare, Zimbabwe. The purpose of the question was to establish the impact of the challenges on the SME sector. Virtually all the respondents indicated that in general all the sectors have been affected by the challenges. However, the most significantly affected was the

manufacturing sector due to increasing competition from cheap imported products from China, India, South Africa, Mozambique, Zambia and Tanzania. The manufacturing sector requires state-of-the art equipment and machinery to be competitive, but this sector fails to acquire such capital equipment due to high costs. The challenges are further exacerbated by the liquidity crisis in the Zimbabwean economy. The response provided by one of the participants is given below.

Respondent 4:

*“Generally, all sectors of the economy have been affected, but the most affected sector is the manufacturing sector due to increasing competition from cheaper imported products which are of higher quality. The sector cannot purchase state-of-the-art equipment and machinery to offset competition.”*

The respondent accepted that all sectors of the economy were affected in one way or another, but identified the manufacturing sector as the most seriously affected due to competition from imported products. The sector requires up-to-date equipment and machinery to improve its production efficiency and the quality of its products and services. The costs of manufacturing products locally have been high, leading to elevated selling prices. Therefore, imports have become cheaper than certain locally produced products. As a result, SMEs are pushed out of the market.

### ***(c ) Challenges causing major setback for SMEs***

This heading was extracted from the third item under Section 2 of the interview schedule. The purpose of the item was to identify the key challenges that have negatively affected the SME sector in Harare. The majority of respondents indicated that lack of funding has caused major setbacks for SMEs because every business requires an injection of capital to operate effectively. Lack of business infrastructure in the form of shelter or business premises has been cited as having a serious negative impact on SME growth. Every entrepreneur requires a workspace, premises or shelter to operate from. Competition from imported products has also been noted as having seriously affected SMEs, as the imported products are often cheaper and of a higher quality than the locally produced ones. As a result, the market size for local SMEs has become smaller. The following were some of the comments made by some of the respondents during data collection.

Respondent 1:

*“Funding and workspace had a major setback on SME growth. An entrepreneur needs money to produce anything and needs to operate from somewhere. Competition in the market has reduced sales for SMEs.”*

The statement indicates that the lack of financial resources has had a negative impact on the growth of the SME sector. The lack of shelter or workspace has limited the development of some SMEs, as they do not have anywhere from which to operate. Increasing competition in the market has further affected the sector in that sales have declined over the years, leading to a decrease in income for SMEs. Such a scenario compromises the growth of the sector.

Respondent 4:

*“The level of competition in the market has been high and this has reduced the competitiveness of SMEs. Over and above that, SMEs lack adequate information about the local and international markets.”*

The respondent views increasing competition as having reduced the competitiveness of SMEs. This is further worsened by the lack of adequate information about the domestic and foreign markets. The government has not disseminated information about the markets. Hence, SMEs are not informed of the needs, preferences, and expectations of the markets. Different segments of the markets and the geographical areas where the products are needed are not known by the SMEs.

#### ***6.7.1.4 Policies and strategies to address the challenges faced by SMEs***

This heading is extracted from Section 3 of the interview schedule. The purpose of the section is to present and discuss the GoZ's policies and strategies to deal with the challenges confronting the SME sector in Harare, Zimbabwe. Questions in this section also sought to establish the effectiveness of the policies and strategies in addressing the obstacles to SME growth. This section addresses the second and third research objectives, which seek to identify existing government policies and strategies to deal with the challenges confronting SMEs, and to deliberate on the effectiveness of the government's SME policies and strategies in addressing the challenges confronting the SME sector in Harare, Zimbabwe.

**(a) The existing policies and strategies used to address the challenges confronting the SME sector**

This heading was extracted from the first question under Section 3 in the interview schedule. The question sought to identify the policies and strategies that the government has implemented to address the challenges of the SME sector. The majority of the respondents in the MSMECD stated that the government has established the SME Policy, the Indigenisation Policy and the Infrastructure Policy. The SME Policy and the SME Act define the businesses in the SME category and the support they are expected to receive from the government, such as funding, training, technology transfer, and business advice. The Indigenisation Policy permits SMEs to participate in the public procurement process. According to the policy, all government departments and companies should procure a minimum of 50 % of their goods and services from companies owned by black Zimbabweans. Most of the companies owned by black Zimbabweans fall into the SME category. The Infrastructure Policy focuses on the provision of infrastructure critical for the development of the SME sector. Such infrastructure includes factory shells, sheds, business premises, workshops, water facilities, electricity supplies, and proper roads.

It is through these policies that the government has encouraged SMEs to bid for government tenders so that they participate in public procurement, a move that was meant to provide a market for SMEs. In every economy the government is the largest consumer of goods and services. Therefore, it provides a lucrative market for SMEs. The government has, through its various agencies and ministries, embarked on such market development strategies for SMEs. The respondents also indicated that the government, through SMEDCO and private financial institutions, has provided funding to SMEs. In addition, the government has also provided land and shelter or business premises to SMEs in Harare. In order to effectively assist SMEs, the government has also clustered SMEs in various parts of Harare. HEIs have played a pivotal role in the training of SMEs, and the transfer of research and technology to them. The government has also been busy working on the formalisation of the SME sector. The comments made by the respondents during data collection under Section 3 are given below.

Respondent 1:

*“The government has promoted SME access to local and international markets though the participation of SMEs in the local and international trade fairs and exhibitions. The government also conducts market research on behalf of the SMEs. The government also seeks markets for SMEs through trade missions.”*

The statement indicates that the government has been actively involved in market development for SMEs locally and internationally. The government has done this through international trade fairs and exhibitions, where SMEs showcase their products and services. Such platforms enable SMEs to reach domestic and international customers. Businesspeople also learn from each other as they interact at such events. There are also chances for SMEs to develop ties with local and international companies. SMEs are given access to information about markets through research conducted by the government. Markets for SMEs are opened through trade missions.

Respondent 2:

*“The government has embarked on the formalisation of the SMEs to promote the development of the sector. The government has also promoted the participation of SMEs in the public procurement.”*

Formalisation of SMEs refers to the registration of a business with the Registrar of Companies, registering with ZIMRA, and securing an operating license or permit from the government (MSMECD, 2014). This requires a business to comply with the laws and regulations of the government. The formalisation of SMEs, the government hoped, would facilitate access to funding from SMEDCO, as such formalisation is one of the requirements for this funding. The first statement of the respondent indicates that the government implemented the formalisation of SMEs to support and develop the sector.

The second statement from the same participant indicates that the government has promoted the development of SMEs through encouraging them to participate in public procurement. This was a move taken by the government to provide income to SMEs through the provision of a market. More income to SMEs would ensure the growth and sustainability of the sector.

Respondent 3:

*“The government has assisted SMEs through the construction of shelter or market stalls, provision of business premises and land to the sector.”*

The respondent views the provision of shelter, business premises, and land as one of the important steps taken by the government to support SMEs in addressing the challenges confronting the sector. The government had realised that the lack of these facilities had stifled the growth of the SME sector in Harare, Zimbabwe. The government has also provided factory shells, market stalls, sheds and workshops for SMEs. Such a move has promoted the development of the sector.

Respondent 4:

*“The government has also supported SMEs through encouraging higher education institutions (HEIs) to provide entrepreneurial education, training, technology transfer and research on SMEs.”*

The level of economic development of every nation is partly influenced by the quality of its higher education and the role played by HEIs in promoting economic development. It is through the realisation of this that the GoZ has been encouraging HEIs to promote the development of SMEs. HEIs in Zimbabwe offer degrees and diplomas in entrepreneurship. Universities are also involved in conducting short courses for SMEs in marketing management, financial management and the general management of their businesses. Universities are also centres of research. The academic staff conduct research on SMEs and make the information available to SMEs online. Such information is valuable for SME development in Harare, Zimbabwe. Universities of technology have been instrumental in the transfer of technology to SMEs. The Harare Institute of Technology has been involved in technology transfer that has improved the quality of products produced by SMEs.

Respondent 5:

*“The government of Zimbabwe realised that they could not address all the challenges of the SME sector alone; therefore, they entered into a partnership with the private sector, non-governmental organisations and other countries in the funding, training and technology transfer.”*

The statement indicates that the government has had to seek assistance from other countries, the private sector and NGOs to support and develop the SME sector. The government had realised that they could not effectively assist the sector alone, and therefore adopted this strategy to develop the sector.

Respondent 6:

*“Most of the SMEs have been clustered to facilitate information dissemination, provision of facilities and services, and the transfer of technology. The Ministry of Small and Medium Enterprises and Co-operative Development, through its financing agency, the Small and Medium Enterprise Development Agency, has been involved in the provision of funding to SMEs.”*

The respondent indicates that the government has organised SMEs in clusters in order to disseminate information easily about government regulations, laws, the local and international markets, the tendering procedures, and any changes that may affect the sector. SMEs require

facilities such as water, electricity, and security. Clustering SMEs facilitates the provision of these services more efficiently. SMEs also require services such as business advice, training, and funding. Such services are able to be provided more easily and efficiently when SMEs are clustered. SMEs in the manufacturing sector, such as furniture manufacturers, require technical know-how in the production of furniture. Therefore, technology transfer to these entrepreneurs is also facilitated by such clustering. That is the reason why SMEs at Glen View Area 8 Furniture Complex were clustered.

Limited access to funding has been cited as one of the key obstacles to SME growth. The interest rates on loans have been too high for SMEs. Over and above that, SMEs are required to have collateral as security for the loans. The government has responded to this challenge by providing funding to SMEs through SMEDCO. Many SMEs have benefited from the loans provided by SMEDCO, which has advanced loans to over 4 900 SMEs (Moyo, 2011).

**(b) Policies and strategies that have been successful and reasons for their success**

This heading is extracted from the second item under Section 3 of the interview schedule. All the respondents indicated that the government has been successful in the provision of land and shelter to SMEs. The majority of the respondents stated that the clustering of SMEs has also been a success story. Technology transfer has also been deemed effective as it has improved the quality of the products manufactured by SMEs. HEIs have been effective in training SMEs, in transferring technology to SMEs, and in conducting research on SMEs. The following were some of the statements made by the respondents during data collection.

Respondent 1:

*“Most of the SMEs in Harare have access to land and shelter in Harare.”*

The respondent sees the government as having been successful in the provision of land and shelter. Prior to the provision of land and shelter, most SMEs struggled to find workspace in the form of sheds, workshops, and business premises from which they could operate. The government responded by providing land and shelter to SMEs. Shelter has been provided to SMEs in areas such as Glen View Area 8, High Glen Shopping Complex, Gazaland, Hatcliff, Kuwadzana, Mbare, and Mupedzanhamo. It is against this backdrop that SMEs have viewed the government as having been effective in the provision of land and shelter.

Respondent 3:

*“Technology transfer through the Indo-Zimbabwe Project has been a success since the quality of products manufactured by SMEs improved tremendously. Such products include furniture, soft drinks, ice-cream juices and grinding mills.”*

The statement indicates that the government, through its partnership with the Indian government, has successfully facilitated the transfer of technology to SMEs in the manufacturing sector of the economy. This was evidenced by the improvement in the quality of products produced by SMEs. For example, the furniture manufactured by SMEs is of such a quality that it can compete with furniture made by large and established companies. Such furniture has become attractive to the local market. SMEs have also had access to machinery and spare parts.

Respondent 4:

*“Most of the SMEs in Harare are clustered according to the type of industry and the service provided.”*

The statement indicates that the government has successfully clustered SMEs in Harare. The majority of SMEs in Harare are clustered in specific areas such as Glen View Area 8, High Glen Shopping Complex, Gazaland, Mbudzi Area, Mupedzanhamo, Hatcliff, and Willowvale. The government has clustered SMEs to make it easier to disseminate important information, and to provide essential services and facilities to SMEs. It is easier to train SMEs and transfer technology to SMEs that are clustered. The government also realised that clustering SMEs could facilitate addressing certain key challenges confronting the sector, such as the need for water, electricity, technology, and funding.

### **(c) Policies and strategies that failed and reasons for their failure**

This heading was extracted from the third item under Section 3 of the interview schedule. The majority of the participants stated that policies and strategies related to the participation of SMEs in public procurement, the provision of financial support, business training, and the development of markets for SMEs were a failure. The following were the opinions of the respondents regarding the failure of the government policies and strategies.

Respondent 2:

*“SME participation in the public procurement process has been a challenge due to strict requirements and corruption in the awarding of tenders.”*

The government decided to encourage SMEs to bid for government contracts as a way of providing a market for SMEs and improving their income. However, the participation of SMEs in public procurement, as noted by the respondent, has been stifled by stringent requirements. Such requirements include the payment of high tender fees, and capital requirements. SMEs lack adequate capital, and the managerial and technical competencies to fulfil government contracts. The awarding of tenders has also been flawed with irregularities such as corruption. This means that even if SMEs are able to bid for government tenders, they still fail to be awarded contracts due to corrupt officials involved in the awarding of tenders. It is against this background that the participation of SMEs in public procurement has been a failure.

Respondent 3:

*“The formalisation of SMEs failed due to lack of government incentives for formalisation, long process of registration and corruption in the office of the Registrar of Companies.”*

The respondent implies here that the government has failed in its efforts to formalise the SME sector due to a multiplicity of challenges. Firstly, SMEs cannot see any incentives for formalisation. The process of formalisation would be expensive for them, as they would be forced to pay tax, business registration fees, and license or permit fees. The process of registration also takes a long time in Zimbabwe — approximately 106 days at a cost of US\$780 (World Bank, 2014a). In the office of the Registrar of Companies, corruption is rampant. Entrepreneurs have to pay bribes to the registering officials to have their registration applications processed. All these factors discourage SMEs from formalising their businesses. Hence, the government has failed to achieve the formalisation of SMEs

Respondent 4:

*“Business training has been a failure due to a few SMEs that benefited from the training programmes.”*

Limited funding from the National Budget has limited the MSMECD to training only a few SMEs. The majority of the SMEs have never had access to government training programmes, and some professed ignorance of the programmes. It is in light of this situation that one could conclude that the government has failed to address the training needs of the SMEs in Harare,

Zimbabwe. This indicates that the GoZ needs to do more to meet the skills needs of the SMEs.

Respondent 5:

*“The provision of finance to SMEs has been a challenge due to inadequate funding from the National Budget.”*

Having realised that lack funding was a key stumbling block to the growth of the SME sector, the government responded by providing funding through SMEDCO and commercial banks such as Agribank, the NMB, and the IDBZ. However, the MSMECD, as indicated by the respondent, could not provide adequate financial support to SMEs through SMEDCO due to inadequate funding from the National Budget. Inadequate funding crippled the operations of the MSMECD and rendered the ministry ineffective. Therefore, the government has been ineffective in the provision of financial support to SMEs in Harare, Zimbabwe.

Respondent 6:

*“Market development strategies have not been a success. Very few SMEs participated in the local and international trade fairs and exhibitions. The government has not been able to provide adequate information about the local and international markets. The government could not conduct market research due to inadequate funding.”*

The respondent indicated that the government has not been successful in the development of markets for SMEs. The government failed due to inadequate financial resources to conduct market research on behalf of SMEs. Such a scenario has barred SMEs from having access to critical information about the domestic and foreign markets. Due to inadequate funding, very few SMEs have participated in the local and international trade fairs and exhibitions. This meant that the majority of SMEs had no information about the markets. It is against this backdrop that one could conclude that the government has been a failure in developing markets for SMEs.

#### **(d) Criteria for assisting SMEs**

This heading was extracted from the fourth item under Section 3 of the interview schedule. Most of the respondents stated that there are some requirements that a business in the SME sector should fulfil before accessing support from the MSMECD. SMEs must provide security in the form of collateral for the loans, they must be involved in legal business activities, they must submit a business plan, they must qualify to be an SME according to the

SME Act, and they must be owned by a Zimbabwean citizen. Whilst most of the requirements may be easy for SMEs, the need for collateral deters emerging entrepreneurs from accessing government funding. Therefore, lack of funding continues to be an obstacle to the growth of the sector. The following were some of the statements given by the respondents during the in-depth interviews.

Respondent 1:

*“The business must meet the requirement of an SME according to the SME Act.”*

The statement indicates that if a business is to seek assistance from the government, it must qualify to be an SME as outlined in the SME Act. This prevents large companies from benefiting from services intended for SMEs, and ensures that the MSMECD assists the targeted sector. The SME Act states that an SME must have assets worth between US\$10 000 and US\$2 million, must have 2–20 full-time employees, and must have an annual income ranging from US\$30 000 to US\$5 million.

Respondent 4:

*“The business must submit a business plan.”*

The respondent states that a business plan is critical if an entrepreneur is to access funding from the government. The business plan indicates the products and services of the entity, the marketing strategies, the market size, and the current and projected cash flow. In fact, the business plan convinces the government that the business is viable and qualifies for funding. The government is also assured of the loan repayment when the loan is advanced to the entrepreneur.

Respondent 6:

*“The business must be owned by a Zimbabwean citizen. The business must have collateral for the loan.”*

The statement shows that for any entrepreneur to access support from the government, they must prove beyond a reasonable doubt that they are Zimbabwean citizens. This requirement applies when an entrepreneur needs assistance in the form of training, advisory services, technology transfer, and infrastructural support. This is intended to ensure that the SMEs assisted are owned by the citizens who contribute to the development of their country, and to ensure that the government provides some form of employment to the local people and alleviates poverty amongst them.

When a business needs financial support from the government, the entrepreneur is required to have collateral for the loan. The government agency responsible for advancing loans to SMEs needs to be convinced that the business will be able to repay the loan. Such a requirement is an obstacle to SME development, as most of the entrepreneurs lack collateral.

**(e) Ability of the MSMECD to assist all SMEs that needed assistance**

This heading was extracted from the fifth item under Section 3 of the interview schedule. The purpose of the item was to establish if the MSMECD is effective in meeting the needs of all SMEs that need assistance. Virtually all participants mentioned that not all SMEs could access funding due to the large number of SMEs. There are many entrepreneurs that require funding, but the demand for funding far exceeds the financial resources available. The MSMECD could not get adequate funding from the National Budget to render effective support to the SME sector. The majority of the respondents also indicated that shelter and land were not available to all SMEs, as too many SMEs require land and shelter. Very few SMEs have access to the training provided by the government through the MSMECD due to the limited capacity of the ministry to provide such training to all entrepreneurs. Some of the responses provided by participants on this item are given below.

Respondent 3:

*“No, due to lack of adequate financial support from the National Budget.”*

The respondent indicates that the MSMECD is not able to assist all SMEs that require funding, training, and technology transfer due to limited funding from the National Budget. Every programme undertaken by the MSMECD to promote SME growth relies on funding from the National Budget. Therefore, limited funding stifles the operations of the MSMECD and compromises the quality of service provided to the SME sector.

Respondent 5:

*“Land and shelter were not available to all SMEs due to their large numbers. Very few SMEs had access to training provided by the government.”*

The respondent noted that the MSMECD is not able to effectively assist SMEs because of the large number of SMEs — Harare has more than 54 366 (FinScope, 2012). Therefore, it is difficult to provide land and shelter for all the SMEs. Though the government has achieved success in providing land and shelter, more SMEs still need the same facilities from the government. The government has failed to train all SMEs due to the MSMECD’s limited

capacity to provide the service. The demand for SME training in Harare has far outstripped the capacity of the government to render the service.

**(f) SME augmentation of government support**

This heading was extracted from the sixth item under Section 3 of the interview schedule. The purpose of the item was to find out if the SMEs had done enough to supplement government efforts. The research sought to establish if the SMEs themselves have contributed to the failure of the government support programmes. Virtually all the respondents indicated that the SMEs had not done enough to augment government support because many SMEs in Harare are still informal, are not registered and do not contribute to government revenue through paying tax. The informal nature of the SMEs prevents them from accessing funding from the government. Most of the respondents indicated that sometimes the SMEs mismanage and misappropriate the financial resources advanced to them as loans by the government. However, very few SMEs have supplemented government efforts through formalising their business operations, paying tax to government, properly managing the credit finance from the government, and developing effective marketing strategies to boost their sales. It can therefore be concluded that the failure of the ministry in promoting the development of SMEs has partly been as a result of the failure of the SME sector to augment ministry efforts. The following were some of the statements made by the key informants during data collection.

Respondent 2:

*“SMEs have not done enough to augment government efforts because most of them are not registered (informal). However, the ministry is in the process of formalising the informal sector.”*

The statement shows that while the government has made serious efforts to promote the growth of the SME sector, SMEs have not been done their part to augment government support. This is demonstrated by the fact that many of the SMEs want to remain informal, even though the ministry has made efforts to formalise the sector. SMEs do not see any incentives for the formalisation of their businesses.

Respondent 4:

*“When some of them secure government funding, they misappropriate the funds.”*

The respondent observes here that some of the SMEs have been mismanaging and misappropriating the credit finance provided by the government. The prime controller of

business viability is the amount of financial capital injected into the enterprise. SMEs use the funds elsewhere, instead of for their businesses. Such misuse of credit finance stifles the development of the SMEs. Therefore, the ineffectiveness of the ministry can be partly attributed to the failure of the SMEs to augment the available government support

**(g) Mechanisms in place to ensure that credit finance is used for the intended purpose**

This heading was extracted from the seventh item under Section 3 of the interview schedule. The purpose of the question was to seek an explanation for the failure of the government support programmes for SMEs. The researcher wanted to find out if the government had a monitoring mechanism in place to ensure that the credit finance advanced to SMEs was used for the intended purpose. All the respondents stated that the government has monitoring and evaluation mechanisms in place for projects carried out by the ministry. However, no specific monitoring tools are in place to ensure that the financial or capital resources advanced to SMEs are effectively utilised in the businesses. The absence of a monitoring mechanism partly accounts for the ineffectiveness of the government financial support scheme. The credit finance given to SMEs is open to abuse, as the government is not able to follow up on how the funding had been used. One of the responses provided by a participant is given below.

Respondent 6:

*“Monitoring and evaluation of projects is done; however, no monitoring is done on individual SMEs to ensure that the credit finance was used for the intended purpose.”*

The respondent states that the government monitors and evaluates its own projects, such as constructing shelters, conducting workshops or training, facilitating technology transfer, and providing funding to SMEs. However, the government does not have clear-cut monitoring mechanisms for individual SMEs to ensure that the credit finance is used for the intended purpose. Once loans are advanced to entrepreneurs, the MSMECD and SMEDCO are only interested in the repayment of the loans, and do not pay particular attention to the impact of the loans on the SMEs’ growth. Therefore, the government has to establish a monitoring mechanism to ensure that any form of support is used for the intended purpose.

#### **(h) Sectors of the economy that the MSMECD concentrates on most**

This heading was extracted from the eighth item under Section 3 of the interview schedule. The purpose of the item was to find out if the failure or success of the government policies and strategies was because they were concentrating on particular sectors of the economy and neglecting other sectors. The majority of the respondents indicated that the MSMECD generally assists SMEs in all sectors of the economy. However, more emphasis is placed on the manufacturing sector, as it is viewed as the key driver of the economic development of Zimbabwe. The competitiveness of every nation hinges on the quality of its manufacturing sector and the level of technological development in the sector. Such an emphasis on the secondary sector results in other sectors which are also critical for the economic development of Zimbabwe being neglected. Such sectors include transport, agriculture, mining and tourism. A statement provided by one of the respondents is given below.

Respondent 2:

*“The MSMECD concentrates on all of them as they are important for the development of the economy of Zimbabwe. However, more emphasis is placed on manufacturing and processing sectors as key drivers of the economy.”*

The statement implies that although the MSMECD assists SMEs in all sectors of the economy, more emphasis is placed on the manufacturing and processing sectors. The perception of the ministry is that the secondary sector is the key driver of the economic development of the nation, and a major source of the country’s competitiveness. While this perception could be appreciated, neglecting other sectors has hampered the development of SMEs in those sectors.

#### **(i) SME awareness of government support schemes**

This heading was extracted from the ninth item under Section 3 of the interview schedule. The purpose of the question was to establish if the government has been effective in disseminating information about its policies, strategies and programmes. Being aware of government support schemes, and having adequate information about where and how to access them, influences SME access to the assistance they need to develop their businesses. Most of the respondents indicated that some SMEs lack awareness of government support programmes because the government has not disseminated information about its schemes. Very few SMEs have adequate information about how to access government support. A statement that was given by one of the respondents is provided below.

Respondent 4:

*“Some of the SMEs lack awareness of the government support schemes because the government has not effectively embarked on the information dissemination programmes due to limited funding. Very few SMEs have adequate information about how to access government support.”*

The response implies that some SMEs are not aware of the government programmes intended to support the development of the sector. The government has not been effective in the dissemination of such information due to inadequate funding from the National Budget. A limited number of SMEs has adequate information on where and how to access government assistance. The dissemination of information has also been made difficult because some of the SMEs are not clustered, although most of them are. The results indicate that the development of the SME sector has been hampered partly by the lack of information about government schemes intended to support and develop the sector. Though the government has well-designed policies and strategies, they have little impact because the SMEs have no knowledge of them. Therefore, the government has to mobilise adequate resources to fund the dissemination of information that is critical for the development of the sector. In addition to that, more clustering of SMEs must be encouraged to further facilitate the efficient and effective dissemination of information to SMEs.

**(j) Challenges faced by the MSMECD in the implementation of SME policies and strategies**

This heading was extracted from the tenth item under Section 3 of the interview schedule. The purpose of the item was to identify the challenges that might have deterred the successful implementation of the government policies and strategies intended to develop the SME sector. Virtually all the participants indicated that the key obstacle to the implementation of policies and strategies was inadequate funding from the National Budget. Inadequate funding has crippled the operations of the MSMECD to an extent that compromises the quality of service provided to the SMEs in Harare. Most of the respondents complained about the mismanagement and misappropriation of resources advanced to SMEs as loans. In addition to that, the majority of the respondents stated that the SMEs did not augment government support. Furthermore, most of the SMEs are not skilled in the businesses they operate. The following were some of the statements made by the respondents during data collection.

Respondent 2:

*“Corruption has been a challenge in the awarding of government contracts.”*

The statement indicates that the government efforts to promote the development of the SME sector are frustrated by corruption in awarding of tenders. SMEs, according to the SME Act and the Indigenisation Policy, are required to participate in public procurement. However, their participation is stifled by corruption. Tenders are often awarded to friends and relatives of the officials who are responsible for awarding government contracts. Corruption, therefore, also accounts for the failure of government policies and strategies to address the challenges facing the SME sector.

Respondent 4:

*“Inadequate resources, especially finance from the National Budget, have always crippled our implementation of policies and strategies.”*

The statement indicates that the failure of the SME policies and strategies can be partly attributed to the inadequate financial resources allocated to the ministry in the National Budget. Therefore, the Ministry of Finance should consider the challenges confronting the MSMECD in fulfilling its mandate of promoting the development of SMEs in Zimbabwe.

Respondent 6:

*“Some of the SMEs misappropriate or misuse the resources allocated to them by the government. SMEs do not augment government efforts to promote the sector. Most of the entrepreneurs are not skilled in the businesses they operate.”*

The misappropriation of funds and lack of augmentation of government efforts have already been alluded to in the previous sections. The respondent here indicates that these have been some of the key challenges in the successful implementation of government policies and strategies. Most of the entrepreneurs, as stated by the respondents, lack skills in the businesses they operate. Thus, even if the government develops and implements meaningful policies and strategies, the SMEs still fail due to inadequate skills in the types of businesses they operate. Lack of skills has been cited as one of the key obstacles to SME growth (Karedza *et al.*, 2014; Musanzikwa, 2014).

**(k) What the MSMECD has done to address challenges in the implementation of policies and strategies**

This heading was extracted from the eleventh item under Section 3 of the interview schedule. The researcher sought to establish if the MSMECD had done enough to address the obstacles to the implementation of government policies and strategies intended to promote SME growth. Most the participants stated that the ministry has entered into partnerships with NGOs, the private sector, and with other countries to assist the MSMECD with funding, training, and technology transfer to SMEs. The ministry, according to the majority of respondents, has implemented monitoring and evaluation of the SMEs. Further to that, the MSMECD has educated SMEs about the importance of investing resources from the government in their businesses. In addition to that, the majority of respondents indicated that the government had also crafted and reviewed the policy and regulatory framework to address the challenges. The following were some of the responses given by the participants during the in-depth interviews.

Respondent 3:

*“The government has approached the non-governmental organisations (NGOs), private sector and other countries to assist the MSMECD with funding, training and technology transfer to SMEs.”*

The response implies that the ministry realised that addressing obstacles to policy and strategy implementation required a concerted effort from the stakeholders, such as NGOs, the private sector and other countries, in providing funding and training, and transferring technology to SMEs. The stakeholders have assisted with funding the training programmes and technology transfer initiatives. In this way, inadequate funding, one of the key obstacles to the implementation of government policies and strategies, has been addressed.

Respondent 5:

*“The government has crafted and reviewed the appropriate regulatory framework to address the challenges. We have educated SMEs about the need to invest resources from government in their businesses.”*

The respondent indicates here that in an attempt to deal with the obstacles to the implementation of policies and strategies, the government has reviewed the regulatory framework. For example, it has become a requirement that the government financially assists SMEs that have businesses that are operating and that are viable. This ensures that assistance is provided to serious businesspeople. Entrepreneurs are also required to present twelve-

month cash-flow statements before accessing government funding, in order for the government to assess how the business acquires its income and how this income is used in the business. Before securing funding from the government, a business is required to present tax-clearance and registration certificates. This ensures that the business is a formal entity and contributes to the national tax base. Such formal procedures indicate an entrepreneur's level of seriousness and commitment in running a business.

However, even if the government has reviewed the regulations, SMEs continue to misuse the credit finance. Such a situation indicates that the government's regulations do not adequately assist in the monitoring of the credit finance advanced to SMEs.

#### ***6.7.1.5 The way forward (alternative policies and strategies)***

This heading was extracted from Section 4 of the interview schedule. This section presents suggestions from respondents regarding the policies and strategies that should be implemented to address the challenges confronting the SME sector in Harare, Zimbabwe. Furthermore, participants also present suggestions from stakeholders that could promote the development of the SME sector. 'The way forward' sought to address the fourth research objective, which seeks to develop a policy and strategy framework for addressing the challenges confronting the SME sector in order to promote the development of the sector in Harare, Zimbabwe.

#### **(a) Policies and strategies suggested by respondents to deal with the challenges faced by SMEs**

This heading was extracted from the first item under Section 4 of the interview schedule. The purpose of the question was to get suggestions from the respondents regarding the alternative policies and strategies that could be implemented to address the challenges confronting the SME sector in Harare, Zimbabwe. Virtually all the respondents suggested that there must be an SME bank to provide funding and related services tailor-made for the sector. Most of the respondents also indicated that the government should revise the legal and regulatory framework that hinders the development of the SME sector. The majority of the participants were of the opinion that there should be more technology centres to facilitate the technology transfer that is critical for the development of the sector. There was another suggestion from all the respondents that the government partnerships with NGOs, the private sector and other

countries should continue in order to provide funding, technology and infrastructural development for SMEs. Furthermore, most of the participants indicated that an SME development agency should be established for the support of SMEs through business incubation, training, advisory services, and assisting SMEs in the development of business plans. In addition, the SMEs that are not clustered, as stated by most of the respondents, should be clustered to facilitate technology transfer, the dissemination of information from government, and the provision of critical facilities and services. Very few respondents indicated that the government should stage awareness campaigns about the regulatory framework and government-support programmes.

Respondent 1:

*“The legal and the regulatory framework that hamper the development of SMEs should be reviewed.”*

This statement implies that the Zimbabwean legal and regulatory framework discourages the development of SMEs. Therefore, it is important that the government revises such laws and regulations, examples of which include high taxes, expensive operating permits and licenses, and a long and expensive process of registering businesses. Stringent requirements for tendering and funding also need to be revisited, as they negatively affect the development of the sector.

Respondent 3:

*“Establishment of an SME bank to provide funding and other services for SMEs. The government should also establish technology centres for technology transfer.”*

The statement suggests that the government should establish a bank specifically for SMEs, in order to provide credit finance and related services that are tailor-made for the sector. In Russia, India and Malaysia the SME sector has developed partly due to the support from their SME banks that provide credit finance and services that are specifically designed for the sector. Such a move assists in the development of SMEs in Harare, Zimbabwe.

The second statement from the respondent implies that the government should establish more technology centres for the purpose of transferring technology to the SMEs. Technology is important for promoting the competitiveness of the sector locally and internationally through improving the quality of its products and services.

Respondent 5:

*“There is need to establish an SME development agency for the purpose of promoting the development of SMEs through business incubation, training, advisory services and assisting SMEs in the preparation of business plans for funding purposes. SMEs that are not clustered should be clustered to facilitate technology transfer, dissemination of critical information from the government and the provision of services.”*

The respondent sees the importance of establishing a development agency for SMEs that would be a one-stop shop for critical services such as business advice, business incubation, and the preparation of business plans for SMEs. South Africa has SEDA, which has played a critical role in the development of SMMEs in the country. The establishment of a similar institution in Zimbabwe would facilitate the growth of the SME sector.

According to the respondent there is need to cluster all SMEs with a view to promoting the dissemination of information. The government can effectively communicate with SMEs that are clustered. The transfer of technology is also facilitated by the clustering of SMEs, and it is easier for the government to provide facilities such as electricity, water, toilets, and shelter to entrepreneurs who are clustered. The provision of important services, such as business advice, is facilitated by business clustering. Thus, it is critical that all SMEs in Harare be clustered.

#### **(b) Policies and strategies suggested by the stakeholders of the MSMECD to address challenges of SMEs**

This heading was extracted from the second item under Section 4 of the interview schedule. The researcher sought to collect suggestions from the stakeholders of the MSMECD regarding alternative policies and strategies that could promote the development of the SME sector. The key stakeholders were the entrepreneurs in the SME sector. Most of the respondents indicated that their stakeholders needed more funding, shelter, and land. Though most of the SMEs have received shelter and land, there are some entrepreneurs that still need it. All the respondents stated that the SMEs require more training to equip them with technical, marketing, and managerial skills. Such skills are essential for business success. In addition, the majority of the respondents indicated that the government should address the problem of corruption that has negatively affected the growth of the SME sector. The following were some of the statements made by the respondents during the in-depth interviews.

Respondent 2:

*“Stakeholders have been consulted in all stages of crafting policies, strategies and acts. Hence, their suggestions have been incorporated. Such suggestions included more funding, provision of shelter and land. The government should deal with corruption.”*

The response from the participant implies that the SMEs have suggested that more funding, shelter and land should be made available to SMEs. Though the government has been successful in the provision of shelter and land, there are some SMEs that are still in need of these facilities. Funding has always been a challenge for SMEs. Therefore, the government should strenuously endeavour to provide funding to SMEs through partnerships with NGOs, the private sector, and other countries. The government should be actively involved in the mobilisation of resources for the sector.

Respondent 4:

*“Training is a requirement for SME growth.”*

This respondent indicates that SMEs are of the opinion that training is important for the development of their businesses. As indicated in the previous sections, very few SMEs have benefited from the training programmes organised by the government. Therefore, it is imperative that the government trains more entrepreneurs to promote the growth of the sector.

#### ***6.7.1.6 Summary of the results of the in-depth interviews with the MSMECD officials***

This section presents a summary of the findings from the MSMECD officials. The challenges facing SMEs in Harare include the following: lack of access to credit finance; inadequate and poor infrastructure; lack of land or premises from which to operate; limited access to markets; antiquated equipment and machinery; lack of information about markets and government support programmes; competition from local and imported products; lack of management, marketing and technical skills; and corruption.

To address these challenges, the government implemented certain policies and strategies, such as providing funding, providing training and facilitating technology transfer through SMEDCO. The government has also entered into partnership with NGOs, private companies and other countries to fund, train and transfer technology to SMEs. In addition, SMEs are

encouraged to participate in public procurement. Furthermore, the government has facilitated SME access to land and infrastructure, such as factory shells, sheds, business premises, workshops, water facilities, electricity, toilets, and proper roads. To facilitate the dissemination of information and the provision of facilities such as water, electricity, toilets, and roads, the government has clustered most of the SMEs in Harare. Moreover, the government has been involved in developing markets for SMEs. The government has also encouraged the formalisation of SMEs to promote SME growth and economic development. As part of the grand strategy to facilitate the development of SMEs, the government has encouraged HEIs to promote the development of the sector through technology transfer, research and training.

Some of the policies and strategies have been effective while others have failed to address the challenges confronting the SME sector in Harare. Policies and strategies that have been effective include the provision of land and shelter to SMEs, the clustering of SMEs, and the transfer of technology to SMEs. HEIs have been effective in the transfer of technology, training and research that has benefited SMEs. Policies and strategies that have failed to address the key challenges confronting the SME sector have been the participation of SMEs in public procurement, the provision of financial support, the provision of business training and advisory services, the development of markets for SMEs, the legal and the regulatory framework, and the promotion of SME access to markets. Furthermore, the government has not been able to address the problem of corruption among public officials in the awarding of tenders. The formalisation of SMEs has been ineffective because the entrepreneurs do not see any incentives for formalisation and have been further discouraged by the long and corrupt process of registering a business.

From the responses of the officials of the MSMECD it is clear that some of government's policies and strategies have been effective. However, to a large extent, most of the policies and strategies have failed to deal adequately with the challenges stifling the growth of the SME sector in Harare, Zimbabwe.

### **6.7.2 Analysis of the in-depth interviews with SMEDCO officials**

This section presents an analysis of the qualitative data collected through the in-depth interviews with the officials at the SMEDCO head office in Harare, Zimbabwe. In-depth interviews were conducted with officers responsible for issuing loans, technical training, internal auditing, business development and advisory services.

### ***6.7.2.1 Information about the respondents***

This heading was extracted from Section 1 of the interview schedule that was used to collect qualitative data from the SMEDCO officials (Appendix E). This section presents the positions of the respondents, their duties and responsibilities, and the period of time they spent working with SMEs. The researcher interviewed six respondents from SMEDCO.

#### **(a) Position of the respondent in the organisation**

This heading was extracted from the first item under Section 1 of the interview schedule. The SMEDCO officials interviewed were from various positions and departments. The officers interviewed were responsible for the processing of loans for SMEs, technical training, internal auditing, business development and advisory services.

#### **(b) Duties and responsibilities of respondents**

This heading was extracted from the second item under Section 1 of the interview schedule. The purpose of this section was to show that the officers interviewed worked closely with SMEs or provided services closely linked to SMEs. Therefore, they were the relevant individuals who could provide valid and reliable data. Loan officers were responsible for receiving applications and comparing the applications with the requirements for funding. If the entrepreneurs met the requirements for funding, the application was passed on to senior management for approval. The internal auditor was responsible for ensuring that the corporation would not lose assets and funds intended for SME development. Therefore, the internal auditor had a duty to curb the misappropriation of funds and the loss of corporation assets through fraud, pilferage or corruption, and fraudulent reporting. The auditor ensures that funds from the National Budget are used for the intended purposes, such as funding SME growth. The technical training officer was responsible for facilitating training intended to transfer knowledge, skills and technical know-how to SMEs, while the business development officers focused on providing SMEs with advice and information, and with providing consultancy services to the sector.

### **(c) Period spent working with SMEs**

This heading was extracted from the third item under Section 1 of the interview schedule. This item was intended to establish the period of time for which the respondents had worked with SMEs. A person's level of knowledge and understanding of the sector hinges upon the time they have spent dealing with SMEs. Data from knowledgeable individuals would be reliable. The number of years of experience among the officers in dealing with SMEs ranged from seven to 12. This indicates that the individuals interviewed had interacted with SMEs for a long time, and had accumulated a significant amount of valid and reliable information about the sector.

### ***6.7.2.2 Challenges confronting SMEs in Harare, Zimbabwe***

This heading was taken from Section 2 of the interview schedule. The purpose of this section is to identify the challenges confronting SMEs, the sectors most affected by these challenges, and the challenges that have resulted in major setbacks for SMEs in Harare. The section addresses the first research objective, which seeks to identify the challenges facing SMEs in Harare in terms of start-up and development

#### **(a) Challenges that have been common among SMEs in all economic sectors**

This heading was extracted from the first item under Section 2 of the interview schedule. The purpose of the question was to identify the challenges faced by SMEs in all the sectors of the economy in Harare, Zimbabwe. Most of the respondents indicated that these challenges include limited access to credit finance, lack of access to markets, strong competition from local and imported products, antiquated equipment and machinery, infrastructural obstacles, stringent government laws and regulations, and lack of management, technical and marketing skills. The following were some of the responses from the participants during the in-depth interviews.

Respondent 1:

*“Lack of funding has been a challenge because the SMEs do not meet that stringent requirements expected by the financiers. The rates of interest on the loans have been very high. Stringent government laws and regulations have hampered the development of the SME sector.”*

The respondent notes that lack of credit finance has been one of the key obstacles to SME growth. The challenge has been caused by stringent funding requirements, such as collateral, registration of the business, operating permits or licenses, tax clearance certificates, and twelve-month cash-flow statements, as well as balance sheets and income statements for the business. Such requirements are too stringent for SMEs, making it difficult for them to access funding from SMEDCO. The rates of interest for the loans are also too high, making credit finance expensive for SMEs.

The statement also indicates that the legal and regulatory environment created by the government discourages the growth of the SME sector. The process of registering a business in Zimbabwe is long and expensive, taking about 106 days and costing US\$780. A business must be registered with the office of the Registrar of Companies; with ZIMRA for income tax, value added tax (VAT) and pay as you earn (PAYE); with the National Social Security Authority for pension and for the Accident Prevention and Compensation Scheme; and with the Manpower Development Fund. Before the commencement of business, an entrepreneur must also obtain an operating license or permit from the local government, which would either be the local municipality or the rural council. Therefore, there are multiple legal obstacles to the registration of a business in Zimbabwe.

SMEs are required by the Income Tax Act (Chapter 24:0) and the Finance Act (Chapter 23:04) to pay tax. The tax rate is very high for SMEs, who also have to pay tax to local authorities in the form of stamp duties, property tax, business permits, and licenses, increasing the costs of operating a business. Hence, the growth of the sector becomes compromised.

Respondent 2:

*“SMEs have limited access to markets caused by inadequate information about markets and low product demand.”*

The statement implies that SMEs lack access to markets as they lack adequate information about the local and international markets. The government does not disseminate adequate information about the domestic and foreign markets, and so SMEs do not know where to sell their products and what kind of products are on demand in those markets. Due to this lack of information, SMEs sometimes produce and sell products that do not have a market. Consequently, the demand for SMEs' products and services is often low. Therefore, it is critical that the government disseminates information in order for SMEs to be adequately informed of the markets.

Respondent 3:

*“Competition in the market is very strong and it reduces their sales and income.”*

The respondent views competition in the local market as a challenge for SMEs in Harare, Zimbabwe. This competition is caused by cheap imported products from China, South Africa, Botswana, Tanzania, and Dubai. Products from these countries have flooded the Zimbabwean market, and the demand for locally produced products has declined, leading to low sales and income for SMEs. Such a situation compromises the viability of the SMEs, and hence their survival and growth.

Respondent 4:

*“SMEs use outdated equipment and machinery and cannot afford state-of-the-art equipment and machinery. This has compromised the quality of products and services.”*

The statement indicates that since SMEs struggle to secure credit finance, they also find it difficult to buy state-of-the-art equipment and machinery to improve production efficiency and the quality of their products and services. Therefore, entrepreneurs often continue to use antiquated equipment and machinery, which compromises the quality of their products and reduces their competitiveness in the market. Under such circumstances, the growth of the SME sector becomes difficult.

Respondent 5:

*“SMEs lack infrastructural facilities and land from which to operate.”*

The response here indicates that a lack of infrastructural facilities such as shelter, electricity, water, and toilets has been a challenge for SMEs in Zimbabwe. Every business requires a shelter or premises to operate from. Some SMEs require land from which to operate and this has been a challenge for the SME sector. SMEs that are involved in manufacturing require a sheltered area or workshops. Those businesses that are involved in market gardening require land to cultivate.

Respondent 6:

*“Lack of management, technical and marketing skills posed a challenge for SMEs.”*

Another respondent noted that SMEs in Harare face the challenge of having inadequate management, technical and marketing skills. Such inadequacy of skills compromises the quality of management, production and service provision to the market. Ultimately, it

compromises the competitiveness of the business. Hence, failure becomes imminent. The success of a business is also dependent on the marketing strategies it adopts. The impact of the business's marketing strategies on its sales and income depends on the marketing skills of the entrepreneur. Poor marketing skills produce low sales and income.

**(b) Sectors of the economy that have been affected most**

This heading was extracted from the second item under Section 2 of the interview schedule. The purpose of the question was to establish the impact of the challenges on different sectors of the economy. The majority of the respondents stated that in general all sectors of the economy are negatively affected by the challenges. However, the most severely affected SMEs are in the agricultural, manufacturing, mining, and retail sectors. The following were some of the responses given by the respondents during the in-depth interviews.

Respondent 1:

*“Generally all sectors have been affected. However, the most affected sectors include the manufacturing and the retail sectors. The manufacturing sector has faced competition from imported products. The retail sector is infested with reputable companies like OK Zimbabwe, Pick ‘n Pay, Spar and Food World.”*

The respondent notes that the challenges have negatively affected all SMEs in general. However, the manufacturing and retail sectors have been affected most. The manufacturing sector has been affected by increasing competition from cheap imported products that have dominated the Zimbabwean market. Furthermore, the manufacturing sector finds it difficult to acquire up-to-date equipment and machinery. Antiquated equipment and machinery have a negative impact on the quality of a business's products and services, as well as on the competitiveness of the business in the market.

The retail sector, according to the respondent, has many large and well-established businesses like OK Zimbabwe, Pick ‘n Pay and Food World. Such businesses have a large market share due to the wide range of products they stock that are of a higher quality at more affordable prices than locally produced products. Such a situation leads to the reduced competitiveness of SMEs in the local market.

Respondent 3:

*“The government gazetted the prices of agricultural commodities such that farmers ended up getting an income that could not even cover their overhead expenses.”*

The agricultural sector, according to the respondent, has been negatively affected by government regulations, as the state gazettes the prices of agricultural products (cash crops). The farmers end up selling their products at a lower price than expected. As a result, the income from their sales sometimes does not cover their overhead costs. This affects the sustainability of their businesses, as their income does not cover all the costs incurred in production. Such a scenario discourages SMEs in the agricultural sector and even slows down the development of the SME sector.

Respondent 5:

*“The tax for the mining sector was increased by the government.”*

The statement indicates that the development of the SME sector has been compromised by the increasing taxation of SMEs. An increase in tax increases costs for a business, leading to a decrease in its profitability. The increase in taxes on the mining sector limits the growth of SMEs in this sector, as much of their income would be directed towards covering their operational and administrative costs. Increasing taxation discourages SMEs from formalising their operations, and this lack of formalisation limits SMEs’ access to funding and any other form of government assistance.

### **(c) Challenges which had a major setback on SMEs**

This heading was extracted from the third item under Section 3 of the interview schedule. The purpose of the question was to identify the key obstacles to SME growth in Harare in order to develop a policy and strategy framework to address them. The majority of the respondents indicated that the challenges that resulted in major setbacks for SME growth include competition from imported products, the use of antiquated equipment and machinery, limited access to markets, lack of land and shelter for SMEs, and lack of management, marketing and technical skills. A detailed description of these challenges is presented in section 6.7.2.2 (a).

### ***6.7.2.3 Policies and strategies to address SME challenges***

This heading was extracted from Section 3 of the interview schedule. The purpose of the section is to present and discuss the policies and strategies that the government has implemented to address the challenges facing SMEs in Harare, Zimbabwe. The section also seeks to assess the effectiveness of these policies and strategies in dealing with the obstacles

confronting SMEs. Questions asked in this section sought to address the second and third research objectives. The second research objective seeks to identify the challenges facing SMEs in Harare, Zimbabwe in terms of start-up and development. The third objective focuses on assessing the effectiveness of the policies and strategies in dealing with SME challenges in Harare, Zimbabwe.

**(a)The existing policies and strategies facing the SME sector**

This heading was extracted from the first item under Section 3 of the interview schedule. The purpose of the question was to identify the existing government policies and strategies to address SME obstacles to growth. Virtually all the respondents indicated that the existing government policies and strategies included the establishment of the Indigenisation Policy, the Indigenous and Economic Empowerment Act, and the SME Act; the formalisation of SMEs; the participation of SMEs in the public procurement process; provision of funding through SMEDCO; SMEDCO partnerships with NGOs and private companies; the clustering of SMEs; and training and technology transfer through business incubation and HEIs. The following were some of the responses provided by the SMEs during the in-depth interviews.

Respondent 1:

*“The government has embarked on the formalisation of SMEs.”*

As a strategy for promoting the development of SMEs, the government has embarked on a programme of formalising the SME sector, which has involved ensuring that SMEs are registered with the office of the Registrar of Companies and with ZIMRA, ensuring that SMEs obtain operating licenses and permits from local government, and ensuring that SMEs pay the required fees and taxes. The formalisation of SMEs would enable entrepreneurs to secure funding from SMEDCO as well as from private financial institutions, and would enable them to get shelter for their businesses.

Respondent 2:

*“The government established the Indigenisation Policy, the Indigenisation and Economic Empowerment Act, and the SME Act that permits SMEs to participate in the public procurement.”*

The policies and legislation, as seen by the respondent, were established to promote the growth of the SME sector through participation in public procurement. The Indigenisation Policy and the Indigenisation and Economic Empowerment Act require government

ministries and departments to procure 50 % of their goods and services from companies owned by black Zimbabweans. The majority of these companies are SMEs. The SME Act also promotes SME participation in government tenders by stating that 25 % of the state contracts for goods and services should be awarded to SMEs.

Respondent 3:

*“The government has been involved in the development of markets for SMEs through research, information dissemination to SMEs, trade missions and the attendance and participation of SMEs in the local and international trade fairs, business expos and exhibitions.”*

The respondent implies that the government has sought to promote SME access to markets through the collection of information by conducting research, disseminating information about local and foreign markets, organising and funding trade missions, and funding the attendance and participation of SMEs at domestic and international trade fairs, business expos, and exhibitions. Such market development strategies enable SMEs to interact with their potential markets and create linkages with other businesspeople. Trade fairs, expos and exhibitions afford SMEs an opportunity to showcase their products and services.

Respondent 4:

*“The government was involved in the provision of funding through SMEDCO and commercial banks. The government has also partnered with NGOs, private companies and other countries in the provision of funding, training and technology transfer.”*

This respondent indicates that the government has been involved in the provision of funding to SMEs through SMEDCO and commercial banks. In this way the government has sought to address the financial challenges facing SMEs in Harare, Zimbabwe. Having realised that they could not address the challenges of SMEs alone, the GoZ has partnered with NGOs, private companies and other countries to provide funding and training programmes, and to transfer technology to SMEs. A combined effort has been required from the government and all stakeholders to support and develop the SME sector to stimulate economic development in Zimbabwe.

Respondent 5:

*“The government supported the SME sector through the provision of land and shelter and other important infrastructure.”*

The respondent notes that the government has provided shelter and land as these were needed by SMEs in Harare. Critical infrastructure needed by SMEs included buildings for conducting business, electricity, water facilities, and toilets. Many SMEs operated in open spaces. The government responded by providing buildings with water, electricity, and toilet facilities. Such a move was intended to promote SME development in Harare.

Respondent 6:

*“HEIs have been instrumental in technology transfer, training and the provision of research information to SMEs. There has been the clustering of SMEs in Harare.”*

The respondent views HEIs as a vehicle that has been instrumental in the transfer of technology, training and the provision of critical research information to SMEs. The government has targeted HEIs as key partners in their overall strategy for promoting SME growth in Harare. It is in light of this understanding that HEIs like the Harare Institute of Technology have been involved in the transfer of technology to SMEs and in providing training in entrepreneurship, financial management, and technopreneurship.

The respondent also notes that SMEs in Harare have been clustered. SMEs in the same industry, producing and providing similar products and services, were clustered to promote technology transfer and the provision of facilities such as buildings, electricity, and water. SMEs in different parts of Harare have been clustered, such as Glen View, Kuwadzana and Gazaland.

#### **(b) Policies and strategies that have been successful**

This heading was extracted from the second item under Section 3 of the interview schedule. The purpose of the item was to measure the success of the SMEs as required by the third objective of the study, which seeks to assess the effectiveness of the policies and strategies in dealing with the challenges facing SMEs in Harare, Zimbabwe. This section, therefore, presents policies and strategies that have been successful. The following were some of the statements made by the respondents during data collection.

Respondent 2:

*“Most of the SMEs could have access to land and shelter. Therefore, the government was successful in this regard.”*

The respondent implies that the government has successfully distributed land and shelter to SMEs, as most of the SMEs have shelter. Prior to the allocation of land and shelter to SMEs, most entrepreneurs struggled to find land and premises from where they could operate their businesses. In terms of the provision of land and shelter, the government has been effective. The allocation of land to SMEs has also entailed the successful implementation of the Indigenisation and Economic Empowerment Act, which was intended to economically empower the local black population.

Respondent 4:

*“HEIs have been effective in technology transfer, training and provision of information through research, for example the Harare Institute of Technology and the University of Zimbabwe. Technology transfer through the Indo-Zimbabwe project improved the quality of SME products and services.”*

The statement suggests that the government strategy of involving HEIs in technology transfer, in training, and in the provision of critical research information has been a success. The technology transfer at the Harare Institute of Technology through the Indo-Zimbabwe Project has improved the quality of SME products and services. Therefore, the strategy has been effective.

Respondent 6:

*“The partnerships entered into by the government and the private sector, NGOs and other countries effectively provided funding, training and technology transfer.”*

The respondent appreciates the government’s move to seek partnerships with the private sector, NGOs and other countries, as it has been effective in the provision of funding, training and technology transfer to SMEs. The government partnership with the GoI has resulted in the successful transferred of technology to SMEs, as the quality of products has improved (MSMECD, 2011, 2014). The involvement of Empretec in the training of SMEs has led to the creation of SMEs, the involvement of SMEs in exporting products, and the creation of employment (Empretec, 2011). Therefore, the partnerships have yielded meaningful results.

### **(c) Policies and strategies which have failed**

This heading was extracted from the third item under Section 3 of the interview schedule. The purpose of the item was to assess the effectiveness of the policies and strategies. This section presents the policies and strategies that have failed, and the reasons for their failure. Below

are some of the responses given by the respondents during data collection. Virtually all the participants stated that the formalisation of SMEs, the promotion of SME access to markets, the government provision of funding, the training of SMEs, the dissemination of information to SMEs about government programmes and tender procedures, and the participation of SMEs in tendering for government contracts have failed. The following are some of the statements made by the respondents during the in-depth interviews.

Respondent 1:

*“Formalisation of SMEs is difficult because SMEs are unwilling to be formal as there are no incentives attached.”*

The statement indicates that the formalisation of SMEs has been a failure. Several reasons are advanced for the failure of the formalisation of SMEs. One of the reasons is that the SMEs cannot see many incentives for formalisation. For them, formalisation could mean paying a great deal of money for registration, enduring a long and exhausting process of registration, exposing themselves to taxation as an additional expense, and paying for operating licenses and permits from local government. Such disincentives discourage SMEs from formalising their business operations.

Respondent 3:

*“Government promotion of SME access to markets could not yield meaningful results due to lack of adequate funding for market research, the government could not disseminate information to all SMEs about the local and international markets. Very few SMEs participated in the local and international trade fairs, expos and exhibitions. Training of SMEs was a failure as very few entrepreneurs were trained.”*

The respondent indicates that the government policies and strategies directed at promoting SME access to markets have been ineffective. The MSMECD has had inadequate funding from the National Budget to conduct market research and disseminate important information to SMEs about the domestic and foreign markets. Though some SMEs have participated in the local and international trade fairs, expos and exhibitions, the majority have not, as the government has had limited funding to finance such a programme. Consequently, the promotion of SME access to markets has been largely ineffective.

The respondent further notes that the government has introduced training programmes for SMEs to improve their skills. However, these programmes could not yield meaningful results, as very few entrepreneurs have been trained. The government training programmes have been severely constrained by inadequate funding from the National Budget, and have therefore

been extremely limited in their effectiveness. Moreover, there are too many SMEs that require training from the government, and the state is not able to cater for all of them (Maunganidze, 2013).

Respondent 5:

*“The participation of SMEs in the public procurement was ineffective in the promotion of the development of SMEs. Most of the SMEs could not bid and win government contracts due to competition in bidding for tenders, lack of capital to fulfil government contracts, strict requirements for tendering and corruption in the awarding of tenders.”*

The statement shows that the government efforts to promote SME growth through the awarding of government contracts has been a failure. The SMEs compete with large and well-established companies that have adequate capital, as well as the technical and managerial competencies to fulfil government contracts. Furthermore, there are stringent requirements for submitting tenders, such as particular skills, capital requirements, a proven track record, and the payment of tendering fees. Corruption is rampant in the awarding of tenders, making it difficult for SMEs to be awarded government tenders.

Respondent 6:

*“The corporation could not effectively address the financial challenges due to large numbers of SMEs that required funding. SMEDCO lacks funding from the National Budget. In the past two and a half years, SMEDCO has not received funding from the National Budget.”*

The respondent indicates that the financial challenges of SMEs could not be adequately addressed by the government. SMEDCO could not receive adequate funding from the National Budget. Inadequate funding has therefore crippled the operations of SMEDCO so that it is not able to fulfil its mandate of promoting SME development through providing credit finance. As indicated by the respondent, SMEDCO has not received any funding from the National Budget for the past two and a half years. This lack of resources has incapacitated the corporation. Therefore, the government has been ineffective in their attempt to address the financial obstacles facing SMEs in Harare.

#### **(d) Criteria for assisting SMEs**

This heading was extracted from the fourth item under Section 3 of the interview schedule. The purpose of the item was to establish if there were specific criteria for assisting SMEs. The researcher sought to establish if these criteria could have led to the failure of government policies and strategies in addressing the challenges of SMEs. The following were some of the statements provided by the respondents during the in-depth interviews.

Respondent 4:

*“Yes, SMEs must comply with some requirements before they can access funding from the corporation. Such requirements include registration of business, tax registration with Zimbabwe Revenues Authority, meet SME Act definition of an SME and collateral for the loan as well as business plan with projected cash flow and income statements for twelve months.”*

The statement from the participant shows that there are some stringent requirements with which an entrepreneur must comply before accessing funding from SMEDCO. A business must be registered with all the relevant authorities and must comply with the collateral requirements. However, registration is a tedious and expensive process, and most of the SMEs lack collateral. The preparation of a business plan with projected cash flow and income statements is difficult for SMEs, and sometimes they may need to get the services of a business consultancy. This could be expensive for SMEs. Such requirements limit SMEs' access to funding.

Respondent 6:

*“Yes, an entrepreneur must have a three months' bank statement, trade references from the previous and present creditors and a balance sheet as well as a trading, profit and loss account for the past two years.”*

The statement illustrates further requirements that SMEs must satisfy in order to access credit finance from SMEDCO. Three months' worth of bank statements, trade references, and financial statements constitute too much documentation for accessing funding from SMEDCO. Furthermore, SMEs are required to pay a non-refundable application fee. As a result, very few SMEs access credit finance from the corporation. Thus, financial challenges continue to be obstacles to SME development in Harare.

**(e) Whether or not the corporation has been able to assist all SMEs that needed assistance**

This heading was extracted from the fifth item under Section 3 of the interview schedule. The purpose of the question was to establish whether the government has been able to assist all SMEs that needed assistance. Responses from the participants have been used to assess the effectiveness of the policies and strategies in meeting the needs and expectations of SMEs. All the respondents indicated that the government, through SMEDCO, could not assist all SMEs that required assistance. The following were some of the responses from the respondents during the data collection.

Respondent 2:

*“The corporation has not been able to assist all SMEs that needed credit finance because not all of them could meet requirements for funding.”*

The statement indicates that the government, through SMEDCO, has not been able to assist all the SMEs that required funding because not all of the SMEs could comply with the funding requirements. The business must operate as a legal entity, possess a tax-clearance certificate, possess trade references, have a business plan with projected financial statements, and have financial statements for the past two years. All these requirements are difficult for SMEs to meet. Therefore, not all of them have been able to access funding from SMEDCO.

Respondent 5:

*“The corporation could not train, transfer technology and provide finance to all SMEs because of their large numbers. The available financial resources are far exceeded by the demand for funding. The corporation does not receive adequate funding from the National Budget.”*

The respondent notes that SMEDCO has not been able to attend to the needs of all SMEs because too many SMEs seek government assistance. The demand for funding outstrips the financial resources available for lending to the SMEs. A large number of SMEs require financial assistance from the government. SMEDCO also lacks adequate financial support from the National Budget to effectively assist SMEs. As indicated earlier, the corporation has not received any funding from the National Budget for the past two and a half years. Such a situation makes it difficult for SMEDCO to attend to most of the SMEs that need credit finance.

#### **(f) SME augmentation of government support**

This heading was extracted from the sixth item under Section C of the interview schedule. The question was intended to establish if SMEs have done enough to supplement government efforts in promoting the development of the sector in Zimbabwe. Responses from the participants were used to account for the failure or success of government support programmes. The majority of the respondents indicated that most of the SMEs have not done enough to supplement government efforts, as most of them are still informal and are reluctant to formalise their operations. Some SMEs mismanage or misappropriate the financial resources advanced to them as loans by the government through SMEDCO. Very few SMEs have augmented government efforts to facilitate the growth of the SME sector. The following were some of the statements provided by the respondents during the in-depth interviews.

Respondent 1:

*“SMEs have not done enough to augment government efforts as most of them continue to be informal.”*

The statement indicates that while the government has made serious efforts to promote the growth of the sector, most of the SMEs have not been forthcoming in supporting these government efforts. This is demonstrated by the fact that most SMEs choose to remain informal, even though formalising SMEs opens doors to funding and participation in public procurement, which could lead to the growth of the SME. Therefore, one can conclude that the failure of government efforts is partly attributed to the lack of SME support for the government schemes.

Respondent 4:

*“SMEs have not done enough to support government efforts as some SMEs actually mismanage or misappropriate the financial resources availed to them by the government through the corporation.”*

The respondent observes that the government has made efforts to fund the SME sector. However, the entrepreneurs do not use the financial resources for the intended purposes, but mismanage or misappropriate the financial resources, leading to the stunted growth of the SME sector. The government has made efforts to assist SMEs but the entrepreneurs have not supported the programmes as expected. Under such circumstances the failure of government policies and strategies is inevitable.

Respondent 6:

*“However, a few SMEs have been forthcoming in augmenting government support through registering their businesses, complying with the relevant regulations (such as tax regulations) and laws. They have also properly managed resources advanced to them as loans by SMEDCO. They have also effectively mobilised resources for their businesses through seeking alternative sources of funding.”*

The participant indicates that not all SMEs have been unsupportive of government efforts. A few SMEs have worked tirelessly to support government programmes to promote the growth of the sector. Those entrepreneurs have supported government efforts through formalising their businesses operations, and properly managing the financial resources advanced to them by SMEDCO as loans. Furthermore, these SMEs have also mobilised financial resources for their businesses through seeking alternative sources of funding.

**(g) Mechanisms in place to check if the resources or support given to SMEs were used as intended**

This heading was extracted from the seventh item under Section 3 of the interview schedule. The purpose of the question was to establish if SMEDCO had a monitoring mechanism in place to ensure that the loans advanced to SMEs are used for the intended purposes. The misappropriation of the resources advanced to SMEs is partly attributed to the lack of monitoring tools in place to ensure the appropriate utilisation of credit finance in the business. Most of the respondents stated that SMEDCO does not have a clearly defined mechanism to monitor the use of loans by SMEs, but SMEs are encouraged to engage the services of professional auditors to ensure that their financial resources are used properly. The following was a response from one of the respondents.

Respondent 4:

*“Generally, SMEDCO does not have any clear-cut mechanism of monitoring SMEs to ensure that the finances advanced to them are used for the intended purposes. However, SMEDCO encourages SMEs to engage the services of auditors and do proper bookkeeping, ensuring proper use of resources in their businesses. The challenge is that SMEs are not forced to use auditors in their businesses.”*

The respondent states that SMEDCO does not have a clearly defined mechanism to ensure that loans or equipment and machinery advanced to SMEs are used for their intended

purposes. However, SMEDCO encourages SMEs to use the services of professional auditors and to maintain proper books of accounts. It is not compulsory for SMEs to engage the services of auditors and to keep proper books. However, it enhances their chances of success and of securing funding. Such a lack of monitoring on the part of the government leads to the misappropriation of resources, thereby decreasing the chances of growth for SMEs.

#### **(h) Sectors on which SMEDCO concentrated most**

This heading was taken from the eighth item under Section 3 of the interview schedule. The purpose of the item was to establish if the government only concentrates on certain sectors and neglects others. Neglecting other sectors leads to the failure of government policies and strategies in addressing the challenges confronting the sector. The majority of respondents indicated that SMEDCO assists all SMEs in the economy. However, more emphasis is placed on the agricultural, manufacturing and retail sectors. The following statements were given by some of the participants during data collection.

Respondent 3:

*“SMEDCO was mandated by the MSMECD to assist SMEs in all sectors of the economy as they are important for the economic growth of Zimbabwe. But more emphasis is on the agricultural and manufacturing sectors. Agriculture is the mainstay of the Zimbabwean economy while the manufacturing sector is the key driver of economic development.”*

This respondent indicates that SMEDCO focuses a great deal on SMEs in the manufacturing and agricultural sectors, and neglects SMEs in other sectors of the economy. Lack of inclusivity in government policies and strategies has compromised the growth of SMEs in other sectors, as more resources are channelled towards manufacturing and agriculture. The government should treat SMEs in all sectors of the economy equally.

Respondent 6:

*“The retail sector is also the main focus of the corporation because it is the only sector that has proved to be vibrant during these times of economic crisis in the country.”*

The statement shows that SMEDCO has concentrated a great deal on the retail sector, as this sector has proved to be vibrant during the economic crisis in Zimbabwe. The mining, agricultural, and manufacturing sectors are struggling under the current economic

environment in Zimbabwe (AEO, 2014; RBZ, 2014a). However, the retail sector has been very successful (Robertson, 2012; RBZ, 2013). It is in light of the current scenario in Zimbabwe that SMEDCO has also made the retail sector one of its main areas of emphasis. The corporation understandably wishes to advance loans to companies that are able to pay them back. The ability of a business to repay loans is determined by the viability of the enterprise. The challenge with this approach is that SMEDCO is only focusing on the repayment of its loans without considering investing in other sectors that are important for the long-term sustainability of the economy.

#### **(i) SME awareness of government support schemes**

This heading was extracted from the ninth item under Section 3 of the interview schedule. The purpose of the item was to establish if the government had done enough to promote SME awareness of government support programmes. SMEs are expected to have detailed information about where and how to access government support, but most of the respondents stated that the majority of SMEs are not informed of the government support programmes, as the government has not been effective in disseminating information on the government support schemes. SMEs also lack information about where and how to secure government support. The following is one of the responses provided during the in-depth interviews.

Respondent 5:

*“Not all SMEs are aware of the government support programmes as the government has not been effective in the dissemination of information to all SMEs in Harare. Most of the SMEs lack adequate information about where and how they can get government support.”*

The statement implies that while there are some SMEs that are aware of the government support schemes, there also many that are not aware of the programmes. The statement also indicates that the majority of the SMEs do not have adequate information on where and how to secure government support. This shows that the government has not been effective in the dissemination of information regarding its programmes for SMEs. Therefore, the failure of government policies and strategies is attributed to this lack of adequate information about the government schemes. For example, SMEs lack knowledge on the process of accessing funding. Furthermore, SMEs lack information about the tender processes (Chipangura & Kaseke, 2012; Uromi, 2014).

## **(j) Challenges faced in the implementation of government policies and strategies**

This heading is extracted from the tenth item under Section 3 of the interview schedule. The purpose of the item was to identify the challenges faced by the government in the implementation of policies and strategies to deal with SME challenges. Such challenges would help account for the failure of the government efforts directed at addressing the challenges of the SME sector. All the respondents stated that SMEDCO faces a number of challenges, such as inadequate funding from the National Budget to effectively assist SMEs, some SMEs failing to repay the loans advanced to them, SMEs' lack of financial management skills in handling the resources loaned to them by SMEDCO, and SMEs' resisting change by not implementing what they are advised or taught by SMEDCO, as well as poor attendance of training programmes. The following were some of the statements made by respondents during the in-depth interviews.

Respondent 2:

*“The operations of the corporation have been crippled by inadequate funding from the National Budget. Training SMEs, technology transfer and developing infrastructure for SMEs and funding the businesses have been difficult due to inadequate funding.”*

The statement indicates that inadequate funding from the National Budget has been a challenge in the implementation of government policies and strategies. For example, training, technology transfer, the development of infrastructure, and funding SMEs have been compromised by inadequate financial support from the National Budget. SMEDCO is not able to assist all SMEs that require credit finance, as the demand for funding far exceeds the resources available. This means that even if the corporation has designed meaningful strategies to support and develop the SME sector, they are being frustrated by inadequate funding.

Respondent 4:

*“The revolving of funds to other SMEs was hampered by the poor repayment of loans by some borrowers.”*

The respondent notes that some of the SMEs could not repay the loans advanced to them by SMEDCO. As a result, the loans could not revolve to other SMEs. Failure to pay back the loans can be partly attributed to the mismanagement of the credit finance. The mismanagement or misappropriation of resources may be caused by a lack of financial management skills (Karedza *et al.*, 2014; Musanzikwa, 2014). Government loans are

advanced to SMEs so that the loans can revolve to all SMEs that require credit finance. Mismanagement of resources on the part of the SMEs thus limits the access of other SMEs to this revolving finance.

Respondent 6:

*“Resistance to change by the SMEs even if they are taught new methods of production, service provision, marketing and management.”*

The statement indicates that entrepreneurs have a tendency to resist the implementation of new ideas, methods of production, and service provision, as well as marketing and management. Resistance occurs due to the fear of the unknown, and sometimes SMEs are not ready to take risks by using new methods of running their business. However, such new methods can improve the quality of their products and services, as well as the competitiveness of their businesses. This resistance to new ways of running businesses frustrates the efforts of SMEDCO to improve the sector.

#### **(k) Addressing the obstacles to the implementation of policies and strategies by SMEDCO**

This heading was extracted from the eleventh item under Section 3 of the interview schedule. The item sought to identify the steps taken by SMEDCO to address the challenges to the implementation of government policies and strategies. Addressing the challenges would enhance the chances of success of the policies and strategies. Most of the interviewed respondents stated that SMEDCO had to seek alternative sources of funding, it encouraged companies to engage the services of auditors and maintain proper record keeping of all financial transactions, and it encouraged SMEs to repay their loans, the failure of which could lead to the loss of property they would have used as collateral for the loans. The corporation has also explained to SMEs the need to invest the loans in their businesses and use them for their intended purpose. The following were some of the responses from the respondents during data collection.

Respondent 1:

*“The corporation had to seek alternative sources of funding like creating partnerships with NGOs and establishing its own companies like Litefold Engineering.”*

Having realised that the funding from the National Budget was inadequate, according to the respondent, SMEDCO had to seek alternative sources of funding, such as creating partnerships with NGOs. The partners would assist SMEs with funding, training and technology transfer. The corporation realised that it needed partners to promote the development of the SME sector. For example, TechnoServe has assisted SMEs in the provision of financial support to small-scale farmers and agri-businesses (ZMIC, 2012).

Respondent 3:

*“The SMEs are often encouraged by the corporation to maintain proper books of accounts and involve auditors in their businesses. The corporation also explains to entrepreneurs the need to invest the loans in their businesses.”*

The respondent observes that SMEDCO, through its business seminars, workshops and training programmes, has often encouraged emerging businesspeople to run their enterprises along professional lines by maintaining proper books of accounts. The engagement of auditors assists SMEs in understanding how resources are being utilised in their businesses. Hence, auditing ensures the proper utilisation of resources, as well as preventing the loss of property through fraud, misappropriation and any acts of dishonesty. Furthermore, the corporation also explains to SMEs the importance of investing the loans they receive into their businesses. The purpose of the loans is to effect business growth. Such explanations help in changing the mindsets of entrepreneurs, leading to the utilisation of loans in their businesses.

Respondent 5:

*“SMEs are encouraged to repay the loans advanced to them in case they lose property used as collateral against the loans.”*

The statement implies that when loans are advanced to entrepreneurs, the corporation expects the loans to be repaid so that the funds revolve to other SMEs. It is in light of this understanding that SMEs are encouraged by SMEDCO to repay the loans. Failure to repay the loans results in the loss of the property used as collateral for the loans. All this information is made clear to entrepreneurs when they secure loans from SMEDCO.

#### **6.7.2.4 Theme 3: The way forward (alternative policies and strategies)**

This heading is extracted from Section 4 of the interview schedule. The purpose of this section is to present the way forward, or the alternative policies and strategies that could be implemented to address the challenges confronting the SME sector in Harare, Zimbabwe. This section addresses the fourth research objective, which seeks to develop a policy and strategy framework for addressing the challenges confronting the SME sector in order to promote the development of the sector. The responses from the respondents would inform the researcher in developing an alternative policy and strategy framework for addressing SME challenges in Harare. The section covers suggestions from the respondents themselves, as well as their key stakeholders, the entrepreneurs.

##### **(a) Suggested policies and strategies to address challenges of SMEs**

This heading was extracted from the first item under Section 4 of the interview schedule. The purpose of the question was to elicit suggestions from the respondents on policies and strategies that could be implemented to address the challenges facing the SME sector. The majority of the respondents indicated that the government should mobilise more resources for the purpose of funding and promoting the development of the SME sector. Moreover, the participants were of the opinion that the government should adequately address the problem of corruption in the awarding of tenders at the SPB, and in the government ministries and departments. Corruption in the registration of companies in the office of the Registrar of Companies, according to the majority of respondents, requires government attention. Virtually all the respondents indicated that the government should revise stringent laws and regulations that stifle the growth of the SME sector, and disseminate information about the programmes for supporting SMEs, as well as information about the local and international markets and the tendering procedures. Most of the respondents also stated that the government should establish an SME bank to provide funding and related services that are specific to the sector. The following were some of the statements made by the respondents during data collection.

Respondent 1:

*“Mobilisation of resources on the part of the government is important for availing funding to SMEs.”*

The statement implies that the government should be actively involved in the gathering of the financial and physical resources that are important for the development of SMEs in Harare. Physical resources required by SMEs include equipment, machinery, and shelter. All these resources require the government to mobilise adequate resources.

Respondent 2:

*“The government should ruthlessly deal with corruption in the issuing of tenders and in the office of the Registrar of Companies.”*

Corruption in the SPB, government ministries, government departments and local municipalities in the awarding of tenders should be dealt with so that SMEs are able to secure government tenders. Companies known to officials responsible for issuing tenders are the ones that currently secure tenders, and such a scenario stifles SMEs’ participation in public procurement. Corruption in the office of the Registrar of Companies also hampers the formalisation of SMEs. Therefore, the government should deal with such corruption ruthlessly in order to encourage the formalisation of SMEs.

Respondent 3:

*“The government should revisit the stringent laws and regulations that stifle the growth of the sector.”*

Stringent laws and regulations have stifled the growth of the SME sector in Zimbabwe. The government should reduce the amount of taxes paid by SMEs. High taxes constitute one of the reasons why SMEs are reluctant to formalise their businesses. The process of registering businesses, especially SMEs, should be shortened to less than six days. The cost of registering businesses should also be reduced from US\$780 to US\$40. Revisiting the stringent laws and regulations would create an environment more conducive to the growth of the SME sector.

Respondent 4:

*“Stringent requirements for SME participation in the public procurement should be revisited to accommodate the sector.”*

The respondent indicates that the government should revise the requirements for SME participation in public procurement. The capital requirements and documentation should be revised so that SMEs are able to participate in tendering for government contracts. Currently SMEs are required to have at least US\$10 000 before tendering for government contracts, and such a requirement stifles SME participation in public procurement.

Respondent 5:

*“There should be an SME bank that provides financial services tailor-made for the sector.”*

The respondent indicates that the government should establish an SME bank to provide funding and other related services specifically designed for the sector. Like the SME bank in Malaysia, the SME bank in Zimbabwe would provide training in investment, financial literacy, and financial management. Furthermore, the bank would also provide business advisory services in the area of financial management.

Respondent 6:

*“The government should disseminate adequate information regarding government support schemes for SMEs, information about the local and international markets and about the tender procedures.”*

The statement connotes that the government should disseminate important information to SMEs. Entrepreneurs require information regarding the government support schemes for SMEs. Adequate information is also needed on the processes and procedures followed in tendering for government contracts, and information is required on the local and international markets. Access to information is required for the success of the SME sector.

#### **(b) Suggestions from the key stakeholders of SMEDCO, the entrepreneurs**

This heading was extracted from the second item under Section 4 of the interview schedule. The purpose of the item was to elicit information on the opinions of SMEDCO’s key stakeholders regarding alternative policies and strategies to address SME challenges in Harare, Zimbabwe. All the respondents indicated that SMEs were of the opinion that the government should provide funding without stringent requirements such as collateral, financial statements, and trade references. Furthermore, most of the respondents stated that more land and shelter should be availed to SMEs, so that they have somewhere to operate from. Over and above that, SMEs require training to effectively manage their businesses. Training in, for example, financial management, assists in imparting skills critical for the proper handling and effective utilisation of financial resources in the businesses. The following were some of the responses provided by participants during the in-depth interviews.

Respondent 2:

*“The government should avail funds to SMEs without complicated conditions attached like collateral security, financial statements and trade references.”*

The respondent implies that stringent requirements such as collateral, financial statements and trade references limit SMEs’ access to credit finance. Therefore, the government should provide funding without such complicated conditions attached. The loans, according to the respondents, must be guaranteed by the government through its various institutions and agencies, like the Credit Guarantee Company (CGCZ) of Zimbabwe. Guaranteeing credit finance would enhance SME access to funding, thus leading to the development of the sector.

Respondent 4:

*“SMEs hold the opinion that more land and shelter should be provided to them by the corporation.”*

The statement connotes that while the government has successfully provided land and shelter to SMEs, there are some entrepreneurs that are still in need of these resources. Some of the SMEs lack land and business premises from which their operations can be conducted. The shelter provided must have important facilities such as electricity, water, toilets, and security, and be accessible to the market and suppliers. Such a situation would promote the development of the SME sector.

Respondent 6:

*“SMEs require training to effectively operate their businesses.”*

The respondent indicates that SMEs need training in order to be equipped with skills such as the general management, technical, marketing, and financial management skills that are critical for business success. Most of SMEs in Harare, Zimbabwe lack these skills (FinScope, 2012; Karedza *et al.*, 2014; Musanzikwa, 2014; RBZ, 2014a), and that accounts for the high failure rate among businesses in the sector (Derera *et al.*, 2013; Karedza *et al.*, 2014). Therefore, training would assist in addressing these challenges.

#### ***6.7.2.5 Summary of the results of the in-depth interviews with the SMEDCO officials***

This section presents a summary of the results of the in-depth interviews with the SMEDCO officials at head office in Harare, Zimbabwe. The interviewed respondents' positions, duties, and responsibilities were linked to SMEs. Therefore, they were able to provide important data about the sector. In terms of the time spent working with SMEs, all the respondents had spent between seven and 12 years. These results show that the researcher collected data from experienced individuals who had a deep understanding of the sector.

According to the results, the challenges confronting SMEs in Harare, Zimbabwe include the following: limited access to credit finance; lack of access to markets; inadequate information about government support schemes for SMEs; and inadequate land and shelter. Furthermore, SMEs also lack technical, general management, marketing, and financial management skills, and suffer the negative impact of corruption in the awarding of government tenders and in the registration of their businesses. In addition, the growth of the SME sector is stifled by increasing competition in the market from cheap imported products, and antiquated equipment and machinery compromise the quality of SMEs' products and services, and thus their competitiveness in the market. The stringent legal and regulatory environment has also posed a challenge to the development of the sector. Challenges that constitute major setbacks for SMEs include lack of funding, limited access to markets, increasing competition in the market, and lack of land and the necessary infrastructure. Generally, the challenges have affected SMEs in all sectors of the economy. However, the most severely affected sectors are the agricultural, manufacturing, retail, and mining sectors.

In response to the obstacles confronting SMEs, the government has implemented certain policies and strategies. Such policies and strategies have included the Indigenisation and Economic Empowerment Act and the SME Act, which promote SME participation in public procurement and access to finance, land and other forms of government support. The government has also provided funding through SMEDCO and other commercial financial institutions. Furthermore, the government has also attempted to formalise SMEs to promote their access to credit finance. Strategies for developing markets have been adopted to facilitate SME access to markets, through research, trade missions, and the participation of SMEs in domestic and international trade fairs, business expos, and exhibitions. Partnerships have been created with NGOs, private companies, and other countries to facilitate the funding, training, and transfer of technology to SMEs. The clustering of SMEs has been undertaken to facilitate technology transfer, the provision of services and facilities such as water, electricity, toilets, proper roads and refuse collection, and the dissemination of

important information to SMEs. Moreover, the government has also encouraged HEIs, as part of its overall strategy, to promote the development of SMEs through training, technology transfer, and research.

Some of the policies and strategies have been effective in addressing the challenges confronting the SME sector, while some have failed. Effective policies and strategies have included the allocation of shelter and land to SMEs, as most of the SMEs have managed to secure land and shelter from the government. Moreover, the HEIs have been effective in the training of SMEs, technology transfer, and in the provision of business and entrepreneurial information through research. Government partnerships with NGOs, private companies and other companies have also been effective in technology transfer to entrepreneurs, and training and funding SMEs.

However, there some policies and strategies that have not been able to address the challenges of SMEs. Such policies and strategies have included the participation of SMEs in public procurement, the training of SMEs by SMEDCO, the provision of funding, the promotion of SME access to markets, and the formalisation of SMEs. SME involvement in public procurement has failed due to stringent requirements for tendering, and corruption in the awarding of tenders. SMEs have lacked adequate information about the tender procedures. Inadequate funding from the National Budget has accounted for the failure of government training programmes and of the provision of credit finance to SMEs. Stringent requirements for funding have limited SME access to credit finance. The demand for training and funding has far exceeded the resources available, and the promotion of SMEs' access to markets has also been a failure, partly due to inadequate funding from the National Budget. Very few SMEs have participated in the local and international trade fairs, business expos and exhibitions. The government has failed to disseminate information about the local and international markets, and therefore SMEs lack adequate information about the markets. The formalisation of SMEs has not achieved the expected results, due to a lack of incentives to attract SMEs into formalisation. The formalisation of businesses is viewed as an expense by SMEs because they are required to pay registration fees, tax, and fees for operating licenses and permits. The registration process is also a long and exhausting exercise.

Some policies and strategies have also failed because the SMEs themselves have not augmented the government support. The government has lacked an effective monitoring mechanism to ensure that the loans advanced to SMEs have been used for the intended purpose, and the financial support to SMEs has been rendered ineffective. SMEDCO concentrates on the agricultural, manufacturing and retail sectors of the economy, neglecting other sectors that are also important for the economic development of Zimbabwe.

The respondents suggested that the government should deal with corruption in the awarding of tenders and in the office of the Registrar of Companies. Furthermore, the government should revise its legal and regulatory framework that stifles the development of SMEs. In addition, the government should disseminate information about its programmes, and should mobilise more resources to support the SME sector. Most of the respondents stated that more land and shelter should be made available to SMEs. The establishment of an SME bank is critical as it provides services tailor-made for the sector. The requirements of SME participation in public procurement, according to the respondents, should be revised to accommodate SMEs. Funding provided to SMEs should be granted without stringent requirements, and the loans must be guaranteed by the government through the CGCZ.

### **6.7.3 Analysis of in-depth interviews with key informants from public universities in Harare**

This section presents an analysis of the in-depth interviews conducted with key informants from the state universities in Harare. The universities involved in the study were the Harare Institute of Technology (HIT), the University of Zimbabwe (UZ), and Zimbabwe Open University (ZOU). The purpose of interviewing university respondents was to collect data regarding the role of universities in the promotion of SME development in Harare, Zimbabwe. Universities constitute part of the government's overall strategy for developing the SME sector. The key informants interviewed in the study were members of the academic staff directly involved in research, training and technology transfer to SMEs. The researcher chose knowledgeable, experienced key informants who had interacted with SMEs. The informants had also conducted research on SMEs in Zimbabwe. The following sections present an analysis of the role of each university in supporting SMEs in Harare.

#### ***6.7.3.1 Analysis of the in-depth interview with the informant from the Harare Institute of Technology***

HIT, a university of technology established in 2005, is one of the HEIs in Harare, the capital city of Zimbabwe. The university conducts research on, designs, manufactures, develops, incubates, transfers and commercialise technology for all Zimbabwean economic sectors. The university has been involved in many programmes to facilitate the development of the SME sector in Harare. The role of the university has been part of the government's strategy to

develop SMEs in the capital city. The following sections present an analysis of the role of HIT in promoting the development of SMEs.

**(a) Information about the respondent**

This heading was extracted from Section 1 of the interview schedule (Appendix F). This section provides information about the respondent. Such information is important, as it shows that the researcher collected data from the relevant individual who had the critical data needed for the study. The informant from HIT was involved in the teaching of bio-technology, electronic engineering and technopreneurship, and other duties included research in bio-technology, electronic engineering and technopreneurship, and the supervision of students on industrial attachment. The respondent was also involved in community-service programmes, such as training SMEs in technopreneurship, financial management and new venture creation. The respondent had spent six years working at the university and interacting with SMEs in various programmes of the university. The information about the key informant at HIT indicates that he was a suitable candidate to be interviewed.

**(b) Institution's activities in promoting the development of SMEs in Harare, Zimbabwe**

This heading was extracted from Section 2 of the interview schedule. The purpose of this section is to outline the activities that are related to the promotion of SME development in Harare. This section also identifies the activities that have been successful and those that have failed to effectively assist SMEs. Reasons for the success or failure of such programmes are also provided. Therefore, this section is related to the second and third research objectives. The second research objective focuses on identifying the policies and strategies adopted by the government to address the challenges facing SMEs. The third objective seeks to assess the effectiveness of the policies and strategies in dealing with SME challenges.

**(i) The role of the university in promoting the development of SMEs**

This heading was extracted from the first item under Section 2 of the interview schedule. This section is linked to the second research objective which seeks to identify the policies and strategies adopted by the government to address the challenges facing SMEs in Harare. The university, through its various academic and professional programmes, is involved in the

teaching of technology and technopreneurship to promote the creation and development of SMEs. Short training courses and programmes are presented in which students and SMEs are taught about the registration of companies, marketing strategies and the preparation of business plans to facilitate the securing of funding. In the programmes presented at HIT, SMEs and students are taught how to commercialise their business ideas. The university has also created partnerships with the private sector and NGOs for the training of and transfer of technology to SMEs. Informal businesses are trained on how to generate innovative ideas, on the process of formalising their businesses, and on how they could benefit from the formalisation of their businesses. Furthermore, the university also houses the Indo-Zimbabwe project, which has been instrumental in the transfer of technology to SMEs and the promotion of SME access to equipment and machinery. The project is run by the university's Technology Centre. The following were some of the statements made by the key informant during data collection.

*“The university is involved in the teaching of technology and technopreneurship to create SMEs. Students are taught Bio-technology and Electrical Engineering to start companies or SMEs.”*

The statement implies that one of the reasons for teaching technology, technopreneurship, bio-technology and engineering is not only for students to be absorbed by large companies but to create sustainable businesses. After graduation, the trained individuals provide valuable personnel for SMEs that are involved with technology and manufacturing.

*“Students and SMEs are taught about the registration of companies, registering for tax with the Zimbabwe Revenue Authority (ZIMRA) and obtaining operation permits and licenses from the local government offices before commencement of business.”*

The statement implies that the university has been involved in the training of students and existing informal SMEs, and in the formalisation of SMEs through registration with the Registrar of Companies, and registration with ZIMRA and the local government. Therefore, the university has been active in the education and dissemination of information to SMEs regarding formalisation. To date, graduates from the university have established businesses in the fields of training and consultancy, machining and fabrication, wholesaling (in the field of pharmaceuticals) and advertising.

*“SMEs are taught general management, financial literacy, marketing and business plan writing.”*

The respondent indicates that the university is involved in imparting financial management, marketing and general management skills to the SMEs in Harare. Extant literature indicates that inadequate skills has been a key challenge leading to the failure of SMEs. Therefore, the transfer of skills to SMEs would ensure the success of the SME sector.

*“The university houses the Indo-Zimbabwe Project. This is a project between the government of Zimbabwe and India. The project was meant to transfer technology to SMEs and promote SME access to machinery and spare parts.”*

The informant states that the university has accommodated the government project intended to enhance the development of the SME sector. The project has managed to transfer technology to SMEs leading to an improvement in the quality of products manufactured by the entrepreneurs. The Indo-Zimbabwe Project is run by the Technology Centre of the university.

*“HIT also conducts research and commercialises innovative ideas for the benefit of SMEs.”*

The statement implies that the university is involved in the commercialisation of successful research and development from its various departments. HIT has registered Insti-Holdings as a business entity for the commercialisation of research and development. Insti-Foods, a company owned by the university, has produced soy-yoghurt, soy-milk, soy-sour milk, ice-creams and mineral water. The technology used in the production of these items is transferred to SMEs.

## **(ii) Activities that have been successful**

This heading was extracted from the second item under Section 2 of the interview schedule. This section addresses the third research objective which seeks to assess the effectiveness of the government policies and strategies in addressing the challenges facing SMEs. Most of the activities that the university has been engaged in to assist the development of SMEs have been successful, as they have enhanced business success through addressing challenges confronting SMEs in Harare, Zimbabwe. The following statements were provided on SMEs during data collection from the university’s key informant.

*“Technology transfer has been successful as it improved the quality of SME products such as furniture, metal products and food.”*

The statement implies that technology transfer through technical training, and the promotion of SME access to equipment and machinery has been effective, as it has resulted in the improvement of the quality of the products and services provided by SMEs. The quality of the products of SMEs in the furniture, metal fabrication, and food processing sectors has improved tremendously. Therefore, the university, as an HEI has been instrumental in promoting the development of SMEs.

*“The university has also been successful in the commercialisation of research and development of products. Innovative ideas were commercialised through the production of products such as soy-milk, soy-yoghurt and ice-creams.”*

The respondent indicates that the university has also been successful in the research and development of products. The innovative ideas regarding new products have been successfully commercialised by companies owned by the university. The production of soy-yoghurt, soy-milk and ice-creams is adequate evidence that the university has been successful in the research and commercialisation of innovation for the benefit of SMEs. The technology used to produce these products was transferred to the SMEs.

*“Training in business plan writing has also helped SMEs as they could access funding from the Commercial Bank of Zimbabwe (CBZ) and SMEDCO. The CBZ stated that 75 % of the applications for funding were rejected because the business plans were not bankable.”*

Training SMEs in the preparation of business plans or proposals has been effective, as most of the SMEs that have been assisted have been able to access funding from commercial banks such as the CBZ and NMB, as well as from SMEDCO. A business plan is one of the key requirements for accessing funding from the government and from private financial institutions. Therefore, training SMEs in the preparation of business plans has enhanced the SMEs' chances of securing funding. According to the respondent, applications for funding could be rejected by the commercial banks and SMEDCO because they were not comprehensive and could not be relied upon.

*“Technology transfer through the technology centre of the university was effective as there has been a notable improvement in the quality of products and services provided by SMEs.”*

The respondent implies that the Technology Centre of the university, under which the Indo-Zimbabwe Project operates, has been successful in the transfer of technology to SMEs. The Indo-Zimbabwe Project has improved the quality of products and services provided by SMEs.

Thus, the university has promoted the competitiveness of SMEs in the market. Therefore, the university has played a key role in supporting and developing the SME sector.

**(iii) Activities that have been unsuccessful**

This heading was extracted from the third item under Section 2 of the interview schedule. This section presents the activities of the university that have been ineffective in promoting the growth of SMEs. The section is linked to the third research objective, which seeks to assess the effectiveness of the government policies and strategies in addressing the challenges confronting SMEs in Harare. The following statements were made by the key informant during the in-depth interviews.

*“Training SMEs for formalisation was ineffective as most the SMEs were unwilling to formalise due to costs involved.”*

The statement shows that the university made an effort to promote the formalisation of SMEs. However, the SMEs have been unwilling to formalise their businesses due to the costs involved, such as paying registration fees, paying tax, and payment for operating licenses and permits. SMEs try their best to avoid such costs by remaining informal. However, remaining informal stifles the development of the sector as SMEs continue to be limited in their ability to secure government funding and any form of assistance.

*“Very few SMEs were trained in the management, technical and marketing skills. This was caused by the university’s limited capacity to accommodate many SMEs and due to limited funding.”*

The respondent indicates that, while it is appreciated the university has managed to train some SMEs in management, technical and marketing skills, very few SMEs have been trained, and the majority of entrepreneurs remain untrained. Therefore, more SMEs need to be involved in the university’s training programmes. The university has a limited budget to spend on training SMEs, and therefore charges fees for the training offered. Most of the SMEs are not prepared to pay for such training and choose to remain ignorant.

#### **(iv) The response of SMEs to the initiatives of the university**

This heading was extracted from the fourth item under Section 2 of the interview schedule. This section presents the responses of the SMEs to the programmes of the university. The purpose of the item was capture data on the perception of the SMEs on the programmes offered by the university and the impact of the programmes on their businesses. Some of the statements given by the respondent were as follows.

*“SMEs are coming in numbers to get help on how to prepare business plans to access funding from banks and SMEDCO. SMEs have been attracted by the investment loans provided by commercial banks.”*

This respondent indicates that SMEs have been coming for assistance in the preparation of business plans, indicating that the university has been providing a high-quality service to SMEs in that regard. SMEs want to secure funding from commercial banks that provide investment loans. Therefore, they seek assistance from the university regarding the preparation of their business plans

*“Technology transfer programmes have attracted a large number of SMEs, especially those in the technology and manufacturing sectors of the economy.”*

The statement indicates that the response of SMEs to the technology transfer programmes has been tremendous, because of the high-quality service provided and the perceived impact of such training and technology transfer on the competitiveness of their businesses in the market. This shows that SMEs have been satisfied with the training and technology transfer programmes of the university.

#### **(v) Suggested future programmes for supporting the development of SMEs**

This heading was extracted from the fifth item under Section 2 of the interview schedule. The purpose of the section is to present the future plans of the university for supporting SMEs. Such plans may inform the researcher on the development of the policy and strategy framework for promoting the development of SMEs in Harare, Zimbabwe. Therefore, this section addresses the fourth research objective, which seeks to develop a policy and strategy framework for addressing the challenges confronting SMEs in Harare. The respondent indicated that the university has planned to establish an incubation centre to assist in the establishment and growth of SMEs in Harare. Most of the universities in South Africa have played a leading role in the establishment of incubation centres, which have been effective in

the development of SMMEs (Nbabeni, 2008, cited in Dubihlela & Van Schaikwyk, 2014; DUT 2011). Zimbabwean universities should follow suit.

**(vi) Suggestions from key stakeholders (SMEs)**

This heading was extracted from the sixth item under Section 2 of the interview schedule. The purpose of the section is to present the suggestions from SMEs regarding the programmes and activities the university should engage in for the benefit of SMEs. This section addresses the fourth research objective, which seeks to develop a policy and strategy framework for the development of SMEs in Harare. Therefore, suggestions from SMEs inform the researcher in the development of a policy and strategy framework for the development of SMEs in Harare, Zimbabwe. The SMEs suggested to the university that there should be sector-specific training programmes. For example, some training programmes must be designed particularly for manufacturers, while some should be for the retail or health and safety sectors. Such programmes would be effective in further promoting the development of SMEs. The following was a statement from the respondent.

*“Sector-specific training programmes have been requested especially for the manufacturing, technology, retail and service sectors.”*

The statement implies that the university should provide training programmes tailor-made for specific sectors of the economy. Such programmes are effective as they deal with sector-specific challenges. As a result, SMEs in different sectors of the economy are bound to grow.

***6.7.3.2 Analysis of the in-depth interview with the informant from the University of Zimbabwe***

The UZ, which opened in 1952, is the oldest comprehensive university in Zimbabwe. All the state universities in the country were born out this institution. As the largest and most comprehensive university in Zimbabwe, the institution has been involved in the provision of programmes intended to develop the SME sector in Harare. In addition to their teaching responsibilities, the academic staff have been involved in research and community-service programmes, such as running programmes and short courses intended to benefit SMEs. The university has been running short training courses in computer science, crop production,

poultry production, financial management, technical skills, and technology transfer. The following sections provide an analysis of what the university has done to promote SMEs.

**(a) Information about the respondent**

At UZ, the researcher interviewed an informant who was a lecturer in the Business Studies Department. The respondent's duties included research and teaching small business management and entrepreneurship skills development. The academic was also involved in community outreach programmes, such as running SME courses on entrepreneurship, starting new businesses, financial management, and computer literacy. The respondent had been with UZ for ten years. It is in light of the information provided that the informant was deemed a suitable respondent for the study.

**(b) Institution's activities in promoting the development of SMEs in Harare, Zimbabwe**

This heading was extracted from Section 2 of the interview schedule. The purpose of the section is to present the activities of UZ in promoting the development of SMEs in Harare. Furthermore, the section also assesses the effectiveness of the policies and strategies in addressing SME challenges and promoting SME growth. As indicated earlier, this section is linked to the second research objective, which seeks to identify the policies and strategies adopted by the government through its agencies and institutions to address the challenges facing SMEs. The section is also related to the third research objective, which seeks to assess the effectiveness of the government policies and strategies in dealing with the challenges faced by SMEs.

**(i) Activities of the institution to promote the development of SMEs**

This heading was extracted from the first item under Section 2 of the interview schedule. The purpose of the item was to identify the activities of the institution intended to promote the development of SMEs. This heading is linked to the second research objective, which seeks to identify the government policies and strategies to address the SME challenges and promote SME development. In this context, the emphasis is on what the government has done through the university to promote SME development. The following were some of the statement made by the respondent.

*“The UZ has been offering Entrepreneurship Skills Development and Small Business Management courses to Business Studies students. Therefore, the university has been a seedbed for SME development through the impartation of entrepreneurial and small business management skills to students and SMEs.”*

The statement implies that UZ provides courses to students in the areas of entrepreneurship and small business management. Such skills are used when students start up their own businesses as entrepreneurs. In some cases, graduates from the university provide valuable and skilled human resources for the SMEs in Harare.

*“In their third year of studying UZ students will be on industrial attachment, where they apply the theory they would have learnt in their first and second years of study. It is that time when students apply their knowledge of accounting, marketing, finance and general management in the SMEs.”*

The statement indicates that UZ students apply their business studies knowledge in the SMEs, leading to the improvement in the financial and general management of the businesses. Marketing skills applied in the SMEs improve the marketing strategies of the businesses leading to the success of the enterprises. During industrial attachment, students are not paid full salaries, but a stipend. In that way UZ provides a cheap source of labour for SMEs.

*“In their community outreach programmes the university provides short computer courses, financial management programmes and marketing management to SMEs and members of the community.”*

The statement indicates that the university is involved in imparting the skills critical for the development of the SME sector in Harare. Key skills taught include computer literacy, and financial and marketing management. The high failure rate among SMEs is caused by the lack of these skills.

*“The university supports small-scale commercial farmers with advisory services, technical expertise, training in marketing and provision of latest research information in farming.”*

The statement implies that the university has played a critical role in the development of SMEs in the farming sector. Small-scale commercial farmers are trained in marketing their produce and in how to use inputs in farming. During training, farmers are also taught how to use machinery and equipment. Thus, the university facilitates technology transfer to farmers. Advisory services are provided during planting, harvesting and marketing of the produce. The

university provides the latest research information in the field of farming so that farmers are informed of the current methods of farming that are productive.

*“The university has established a very powerful social club, Enactus-Boost Fellowship, where students are groomed for entrepreneurship. The fellowship facilitates students’ interaction with SMEs in which they apply the skills as well as acquire practical experience.”*

The respondent indicates that the social club established at UZ has groomed and exposed students to practical entrepreneurship. Students are required to develop business plans and develop practical skills related to how SMEs operate. Students are also required to develop business ideas that enable them to compete with other students locally and internationally. Such an environment creates individuals with an entrepreneurial mindset and therefore facilitates the establishment of new businesses as well the growth of existing businesses.

#### **(ii) Activities that have been effective**

This heading was extracted from the second item under Section 2 of the interview schedule. The purpose of the question was to collect data on the activities of the university that have been successful in promoting the development of SMEs. The following were some of comments made by the key informant during data collection.

*“Training entrepreneurs in financial management, general management, marketing and computer literacy has been effective. Most of the trained SMEs indicated that they now have established systems of record keeping and stock-taking, marketing strategies and could use computers.”*

The statement implies that the university training programmes have been effective in improving the management of SMEs. There has been proper financial management in the trained businesses, and the businesses developed proper marketing strategies. The use of computer technology improves the efficiency and competitiveness of businesses. Such an improvement in the management of businesses leads to the growth of the sector.

*“The university has been effective in the provision of trained and skilled graduates for SMEs.”*

The respondent indicates that most of the UZ graduates have been absorbed by SMEs. The Zimbabwean economy is dominated by SMEs, which constitute approximately 90 % of all

businesses (Zindiye *et al.*, 2012) and provide about 80 % of employment (Musanzikwa, 2014; World Bank, 2013a). Therefore, most of the UZ graduates secure employment in the SME sector. All the skills acquired by the graduates are used in the SMEs. Employment of skilled graduates improves the quality of products and services leading to the competitiveness of the sector.

*“Support for small-scale commercial farmers managed to increased production in their farms.”*

The statement indicates that the support given to small-scale commercial farmers has managed to improve production. Farmers have become informed on the latest and most effective methods of farming. The transfer of technology to farmers has improved their approaches to farming. Therefore, UZ has played a pivotal role in improving small-scale commercial agricultural production.

### **(iii) Activities which have been ineffective**

This heading was extracted from the third item under Section 2 of the interview schedule. The purpose of the section is to present the university strategies that have been ineffective in promoting SME growth. The section addresses the third objective of the study, which seeks to assess the effectiveness of the policies and strategies in addressing the challenges facing the SME sector. The following was a statement provided by the key informant during data collection.

*“The establishment of the social club, Enactus-Boost Fellowship, has not been effective in promoting the growth of SMEs as most of the SMEs were unwilling to interact with students from UZ.”*

The statement implies that the university has not been effective in promoting SMEs through the social club because most of the SMEs showed an unwillingness to interact with students from the university. SMEs were interested in graduates being employed in their businesses and not just interacting with students. To the SMEs, interacting with students was a waste of time. Little did the entrepreneurs know that their interaction with UZ students in the social club would provide important information for their businesses.

#### **(iv) The response of SMEs to the initiatives of the university**

This heading was extracted from the fourth item under Section 2 of the interview schedule. The purpose of the item is to understand how SMEs have responded to the programmes run by UZ. The respondent indicated that the response from SMEs has been encouraging, as the programmes had proved to be helpful to their businesses. SMEs are always seeking knowledge that improves their businesses. The following was a statement made by the key informant from the university.

*“The response of the SMEs to the university programmes has been encouraging. Many SMEs attended training programmes in entrepreneurship, financial management, marketing management and agricultural programmes.”*

The respondent notes that the response from SMEs to the programmes has been encouraging, as many SMEs have attended the programmes, and have understood the importance of knowledge in the management of their businesses. SMEs that are involved with small-scale commercial farming have realised the importance of advisory services, technical expertise, field support, marketing training, and research information in their farming businesses. Therefore, the university programmes have been critically important for them.

#### **(v) Suggested future programmes for supporting SMEs**

This heading was extracted from the fifth item under Section 2 of the interview schedule. The purpose of the section is to outline the future programmes of the university to promote SME development. The intended future programmes inform the researcher on the development of the policy and strategy framework for the development of SMEs in Harare, Zimbabwe. The following was a statement from the respondent.

*“The business studies department intends to cultivate and grow links with the currently established Zimbabwe National Chamber of SMEs to work out other ways and areas of co-operation.”*

The statement implies that the university intends to establish and develop a working relationship with the Zimbabwe National Chamber of SMEs with a view to identifying the key areas where SMEs need assistance from the institution. This would enable the university to design additional programmes that are tailor-made for the sector. Such a move would lead to the development of the SME sector.

#### **(vi) Suggestions from the key stakeholders (SMEs)**

This heading has been extracted from the sixth item under Section 2 of the interview schedule. The purpose of the question was to capture data on suggestions from the SMEs regarding their expectations of the university's programmes for entrepreneurs. Responses to the question inform the research in terms of designing a policy and strategy framework for addressing the challenges confronting SMEs, in order to promote the development of the sector. The following was a statement from the respondent during the in-depth interview.

*“The university should provide training programmes for SMEs in all sectors of the economy in order to promote the development of all economic activities. Such programmes must be tailor-made for those sectors.”*

The statement indicates that the university should design programmes that are sector-specific. For example, the university should present training programmes for SMEs specifically in the tourism, construction, manufacturing, and transport sectors. Certain SME challenges, training needs and expectations are sector-specific.

*“There is a need for the university to establish a centre for entrepreneurship like what the University of Witwatersrand, University of Pretoria and University of Cape Town have done.”*

The respondent indicates the need for a centre of entrepreneurship for meeting the information needs of start-ups and established businesses. Such a centre would tackle issues particularly in the field of entrepreneurship. Researchers in the centre would conduct studies that focus particularly on SMEs and entrepreneurship. The centre would gather and disseminate important information for the establishment and development of SMEs.

#### ***6.7.3.3 Analysis of the in-depth interview with a key informant from the Zimbabwe Open University (ZOU)***

The Zimbabwe Open University (ZOU) is a public university established in 1993 for the purpose of providing Open and Distance Learning to citizens, youth and adults, in all parts of the country. The university has regional offices in the ten provinces of the country. The ZOU offers degree and non-degree programmes through distance teaching and open learning. The university has played a role in the establishment and development of SMEs. The university is regarded as the seedbed for SME development, because it offers programmes in business

studies where students acquire skills to start and run businesses, are equipped with business management and entrepreneurship skills, and provide skilled labour for SMEs. The university also provides training workshops in the areas of entrepreneurship, financial management, business management and marketing. Furthermore, the university also conducts research and makes critical business information available online for the benefit of SMEs. Therefore, the university promotes the development of SMEs for the benefit of the economy.

**(a) Information about the respondent**

This heading was extracted from Section 1 of the interview schedule, which presents information about the key informant. The purpose of gathering information about the respondent was to ensure that the respondent was a suitable candidate from whom to collect data. The interviewed respondent was a lecturer in the Department of Business Studies in the Faculty of Commerce and Law of the university. The main responsibilities of the key informant were teaching, research, and carrying out community outreach programmes. The academic had spent seven years working for the university and interacting with businesses, including SMEs. The period spent working for the university and interacting with businesses indicates that the respondent had valuable information acquired through experience. Being in the field of business studies meant that he understood SMEs and entrepreneurship.

**(b) Institution's activities in promoting the development of SMEs in Harare, Zimbabwe**

This heading is extracted from Section 2 of the interview schedule. The purpose of the section is to identify the activities or strategies adopted by the ZOU to promote the development of SMEs. This section also assesses the effectiveness of the activities or strategies to address the challenges of SMEs in order to effect SME development. This section addresses the second and third research objectives. The second research objective seeks to identify the existing policies and strategies to address SME challenges, while the third objective focuses on assessing the effectiveness of the policies and strategies in dealing with SME obstacles to promote the development of the sector.

**(i) Activities the institution has been engaged with to promote SME development in Harare, Zimbabwe**

This heading was extracted from the first item under Section 2 of the interview schedule. The purpose of the item is to present the activities of the ZOU in the promotion of SME development. As indicated earlier, the university is regarded as a seedbed for SME development, as it offers diploma and degree programmes in business studies, in which students acquire skills to start and run businesses, are equipped with business management and entrepreneurship skills, and provide skilled labour for SMEs. The university also provides training workshops in the areas of entrepreneurship, financial management, business management, and marketing. The university has also partnered with the MYDIEE in providing finance for the youth to start their own businesses. In addition, the ZOU also conducts research and makes critical business information available online for the benefit of SMEs. The following were statements provided by the informant during the in-depth interviews.

*“The university provides training in the areas of finance, entrepreneurial skills, business and marketing.”*

The statement implies that the university was actively involved in imparting knowledge and skills that are essential for the growth of the SME sector. The failure of SMEs in Zimbabwe is partly attributed to the lack of business management skills, so equipping businesspeople with these skills enhances the success of SMEs.

*“ZOU has partnered with the Ministry of Youth, Indigenisation and Economic Empowerment in the provision of finance to university graduate youth so that they can start small businesses.”*

The respondent indicates that the university has provided the knowledge and skills, while the MYDIEE has provided the funding for the ZOU graduates to start their own businesses in the SME sector. One of the challenges the Zimbabwean economy faces is the high rate of unemployment among university graduates (Institute of Environmental Studies (UZ) (IES), 2010; Chipangura & Kaseke, 2012). Therefore, SME startups provide the graduate youth with employment (Chipangura & Kaseke, 2012).

*“ZOU provides skilled labour for the SME sector.”*

The statement indicates that the university has been providing skilled personnel for the SME sector. The skills acquired through studying finance, entrepreneurship, human resource

management, marketing, and general management enhance the capabilities of graduates to manage businesses successfully. Since SMEs constitute 90 % of all businesses in the country, most of the graduates are absorbed by the SME sector. Most of the skills acquired are therefore employed in the SME sector.

*“The university carries out research and avails research results to SMEs through online and printed journals.”*

The statement indicates that the ZOU conducts research and makes these results available to SME through online and printed journals. The core business of the university includes research, in order for new ideas, methods and principles to be generated. In the process of fulfilling its mandate, the university generates information critical for the development of SMEs. The SMEs have been given access to the latest information regarding entrepreneurship and small business management. Such information is critical for the development of the sector.

#### **(ii) Activities that have been effective**

This heading was extracted from the second item under Section 2 of the interview schedule. The purpose of this section is to identify the activities that have been effective in addressing SME challenges and promoting SME growth. Therefore, this section is linked to the third research objective, which seeks to assess the effectiveness of the university’s policies and strategies in addressing SME challenges. The university is part of the government’s broader strategy to address SME obstacles and promote the growth of the sector. The key informant indicated that the training workshops have been effective, as more SMEs have developed an interest in the programmes. The partnership with the MYDIEE has led to the creation of businesses owned by the youth. In addition, the ZOU has provided skilled labour that has improved the productivity and management of SMEs. The following were some of the statements made by the respondent during the in-depth interviews.

*“We hope training workshops have been effective as more and more SMEs are becoming interested in the programmes. The training imparted critical skills for the proper management of SMEs.”*

The respondent indicates that the training programmes run by the university have been a success, as they have improved the level of skill of the entrepreneurs. Equipping entrepreneurs with these relevant skills has improved their efficiency and productivity, as well

as the management of SMEs. Such a scenario might have contributed to the development of the SME sector.

*“Partnering with the Ministry of Youth, Indigenisation and Economic Empowerment led to creation of many small businesses owned by the youth.”*

The key informant notes that the ZOU realised that it could not effectively support SME growth alone, and therefore a partnership was sought with the MYDIEE. Such a partnership led to the establishment of many businesses owned by the youth. Therefore, this move reduced the level of youth unemployment. One can conclude that the ZOU has been successful in this activity in supporting the growth of the SME sector.

*“SMEs have benefited much from the skilled labour provided by the university.”*

The statement shows that the graduates released by the university have obtained jobs in SME businesses, as the sector constitutes the majority of businesses in the country. Since these graduates have knowledge of business management, entrepreneurship, accounting or finance, SMEs benefit from these skills, as they improve the management of the businesses. Therefore, one can conclude that SMEs have benefited much from the university’s degree programmes, and the ZOU has been effective in providing skilled manpower for the SME sector.

### **(iii) Activities that have been ineffective**

This heading was extracted from the third item under Section 2 of the interview schedule. This section presents the university activities that have been ineffective in promoting the development of SMEs. The section is linked to the third research objective, which focuses on assessing the effectiveness of the government policies and strategies in addressing the challenges confronting the SME sector. The provision of researched data to SMEs through online journals has not been effective, as most of the SMEs lack access to the Internet, so only those with Internet access are able to access the information. The following was a statement given by the respondent during the in-depth interviews.

*“The access of the SMEs to online journals has been difficult as most of the entrepreneurs lack access to the Internet.”*

The statement implies that SMEs have limited access to Internet. Extant literature indicates that SMEs lack access to information communication technology (Dube *et al.*, 2010). Such a

challenge prevents SMEs from having access to online journals that have critical research information about SMEs and entrepreneurship.

**(iv) The response of SMEs to the initiatives of the university**

This heading was extracted from the fourth item under Section 2 of the interview schedule. The purpose of this section is to present the responses of the SMEs to the activities undertaken by the university to promote SME development. The key informant indicated that the SME owners and managers were interested in being trained because of the perceived benefits of training, and that most of the entrepreneurs were not able to receive a formal tertiary education. The following was a statement made by the respondent during the in-depth interview.

*“It seems SMEs are keen on being trained on how to manage their businesses. This is probably because most of the people who start their businesses in Zimbabwe lack formal tertiary education. Most of them start businesses after failing to secure employment.”*

The respondent indicates that SME owners and managers have been keen on being trained to acquire the skills necessary for the success of their businesses. Most of the entrepreneurs start businesses without having had access to tertiary education. Therefore, they lack the requisite skills and knowledge for business success. It is against this backdrop that the entrepreneurs have shown interest in the training programmes offered by the university. The interest in the programmes shows that the ZOU has been successful in offering the training programmes as well as workshops.

**(v) Suggested future programmes for supporting SMEs**

This heading is extracted from the fifth item under Section 2 of the interview schedule. The purpose of the item is to present the suggested future programmes of the university to address the challenges of SMEs and promote SME development. This section is linked to the fourth research objective, which seeks to develop a policy and strategy framework for addressing the challenges of SMEs and promoting the growth of the sector. Therefore, this section informs the researcher in crafting a policy and strategy framework for addressing the obstacles confronting SMEs in Harare, Zimbabwe. The respondent indicated that the university intends to establish an entrepreneurship centre for training small business owners or would-be

entrepreneurs. Furthermore, there was also a suggestion to introduce entrepreneurship courses or modules to all programmes offered in the university. The following were the statements made by the key informant of the university.

*“The university intends to establish an entrepreneurship centre for offering programmes in entrepreneurship, training small business and would-be entrepreneurs.”*

The statement implies that the university intends to set up an entrepreneurship centre like that of the University of Witwatersrand, University of Cape Town and the University of Pretoria. The purpose of the centre would be to offer programmes in entrepreneurship, to train SMEs and would-be entrepreneurs, and to conduct research on SMEs and entrepreneurship in order to generate information that is important for the growth of the sector.

*“ZOU intends to introduce entrepreneurship courses or modules to all degree programmes offered by the university.”*

The statement indicates that the university intends to ensure that every graduate from the university has knowledge of entrepreneurship and SMEs before leaving the university. SMEs operate in every sector of the economy. Since graduates would work in all sectors of the economy, it is essential that they be equipped with entrepreneurship skills in their fields of specialisation. For example, graduates in the field of agriculture need to have knowledge of entrepreneurship, so that even if they do not secure employment, they will still be able to make a living through starting a small business using the knowledge acquired from the university.

#### **(vi) Suggestions from the SMEs regarding the university’s programmes**

This heading was extracted from the sixth item under Section 2 of the interview schedule. The purpose of the question was to enable the researcher to collect data regarding suggestions from the SMEs about the university’s programmes intended to support entrepreneurs. The respondent indicated the SMEs expect a university curriculum that produces graduates who are innovative and skilled, and who have an entrepreneurial mindset. The graduates would be employers rather than employees. For the SMEs who have no access to online journals with information on entrepreneurship, the ZOU should produce printed material for entrepreneurs to read. Like UKZN, the DUT and Tshwane University of Technology (TUT) in South Africa, the ZOU should establish incubation centres that facilitate technology transfer and

increase the chances of business success. The following were some of the statements made by the key informant during data collection.

*“The university should review its curriculum to produce graduates who are innovative, skilled and with an entrepreneurial mindset. Such graduates become employers rather than employees.”*

The statement implies that the university should redesign its curriculum to ensure that the graduates become assets rather than liabilities in society, by creating employment rather than being employment seekers. Tertiary education at university level must seek to address societal challenges such as unemployment, poverty, and poor economic development. One of the ways of dealing with national challenges is through imparting entrepreneurial skills to the citizens.

*“ZOU should print some material and make it available to SMEs.”*

The respondent indicates that the university should print material for SMEs who might not have access to online journals and articles. Not all SMEs have access to information communication technology. Therefore, that challenge would be addressed by ensuring that some material is printed and distributed to SMEs.

*“The university should establish an incubation centre for the purpose of enhancing business success and reducing the risk of failure.”*

The statement indicates that the university should establish an incubation centre where SMEs are trained, groomed, and supported through technology transfer, financing, and business advisory services, and which would promote access to markets and suppliers. This arrangement reduces the risk of failure and enhances the chances of business success. Successful incubation centres have been established at UKZN, the DUT, TUT and the University of Pretoria in South Africa.

#### **6.7.4 Summary of the results of the in-depth interviews with public universities in Harare**

This section presents a summary of the results of the in-depth interviews conducted with the key informants from the universities. The interviewed respondents were from HIT, UZ and the ZOU in Harare, Zimbabwe. The purpose of interviewing key informants from the universities was to collect data on what the universities have done to promote SME

development in Harare and to assess the extent to which their activities or strategies have been effective. Universities constitute part of the government's strategy of addressing the challenges facing SMEs to promote the growth of the sector.

HIT, a university of technology, promotes the development of SMEs through training programmes, technology transfer, and promoting SME access to machinery. Through its diploma and degree programmes, the university teaches technology, bio-technology, engineering and technopreneurship. Students and SMEs undergo training in the formalisation of businesses. Furthermore, the university is involved in the research and commercialisation of innovative ideas for the benefit of SMEs and large companies. Activities or strategies that have been effective include technology transfer that has improved the quality of SME products and services, the commercialisation of the research and development of products, and training in business-plan writing to facilitate SME access to credit finance from commercial banks. Strategies that have been ineffective were the training of SMEs in how to formalise their businesses, and the fact that very few SMEs have been trained in management, marketing and technical skills. The response of SMEs to HIT's programmes has been encouraging, as entrepreneurs have been attracted by the technology-transfer programmes and business-plan writing workshops. In the future, HIT intends to establish an incubation centre to enhance business success and reduce the risk of failure. SMEs have suggested that the university should provide sector-specific training programmes to effectively promote the growth of SMEs in different sectors of the economy.

UZ, the oldest academic institution in Zimbabwe, has also been involved in the promotion of SME growth in Harare, Zimbabwe. The university offers courses in entrepreneurship, starting new businesses, financial management, and computer literacy. UZ has provided skilled labour for SMEs in the form of skilled graduating students. Small-scale commercial farmers have been assisted with advisory services, technical expertise, training in marketing their products, and with the provision of the latest research information in farming, business management, and entrepreneurship. Effective strategies or activities have included the training of students and SMEs in financial management, marketing and computer literacy; the provision of trained or skilled graduates for SMEs, and support for small-scale commercial farmers, which has led to an increase in production on the farms. An ineffective strategy has been the establishment of the Enactus-Boost Fellowship, due to the unwillingness of most SMEs to interact with UZ students. The response of SMEs to the university's programmes has been encouraging, as many entrepreneurs have been interested in the programmes offered by the institution. UZ intends to establish links with the National Chamber of SMEs to identify areas of co-operation to promote the growth of the sector. SMEs have suggested that the university

provide training for SMEs in all sectors of the economy. The programmes should be tailor-made for those sectors. In addition, entrepreneurs stated that UZ should establish a centre for entrepreneurship.

The ZOU, an open and distance-learning institution, has also been active in supporting SMEs. The university offers programmes in business studies where students acquire the skills to start and run businesses. Moreover, the institution has also provided skilled labour for the SME sector. Furthermore, the ZOU has equipped SMEs with skills through training workshops in financial management, entrepreneurship, and business management. A partnership was created with the MYDIEE to financially support graduate youth in establishing small businesses. The university also conducts research and makes research results available to SMEs through online open-access journals. Effective strategies or activities have included training workshops, partnership with the MYDIEE and the provision of skilled personnel for SMEs. The provision of information to entrepreneurs through online journals has been ineffective, as not all SMEs have access to Internet facilities. Therefore, very few SMEs have benefited from the service. In terms of the responses of SMEs to the ZOU's programmes, the entrepreneurs have showed a great deal of interest in the university's programmes due to the perceived benefits of such training. The ZOU intends to establish a centre for entrepreneurship and introduce entrepreneurial courses or modules in all diploma and degree programmes. SMEs have suggested that the ZOU should establish a curriculum to meet current societal needs, such as the need for entrepreneurship. In addition to providing information online, the institution should provide printed material and make it available to SMEs. Furthermore, the ZOU should establish a business incubation centre.

### **6.7.5 Analysis of documents**

This section presents the results of an analysis of the government policies, pieces of legislation and published academic articles reviewed and analysed. The government documents analysed included the SME policy, the infrastructure policy of the MSMECD, the RBZ monetary policy statements, the National Budget statements, surveys conducted by the government and NGOs, like the FinScope Survey, government publications, the Indigenisation and Economic Empowerment Act, the SME Act and the Indigenisation Policy and the Companies Act, as well as Statutory Instrument 171 of 2002. Published academic articles from different journals were analysed in relation to the key themes covered in the analysis. The analysis of the documents covers the period from 1980 to 2015. This was done in order to establish a comprehensive understanding of the challenges faced by SMEs, the

policies and strategies adopted to address these challenges, and the effectiveness of the policies and strategies. Such an understanding would inform the researcher in the development of a policy and strategy framework for addressing SME challenges and promoting the development of the sector.

The documents were collected from the public domain — the Internet, libraries and government offices. The review and analysis of the documents was conducted in relation to three themes that were critical and relevant to the study: 1) the challenges confronting SMEs, 2) the existing government policies and strategies to address these obstacles to SME growth, and 3) the effectiveness of the policies and strategies in addressing the challenges confronting the SME sector.

#### ***6.7.5.1 Results of the document analysis***

The following sections present the results of the document analysis in relation to the three themes described above. An understanding of the effectiveness of the policies and strategies guides the researcher in suggesting relevant and effective policies and strategies for dealing with SME obstacles.

##### **(a) Challenges confronting SMEs**

This section addresses the first research objective, which seeks to identify the challenges facing SMEs in Harare, Zimbabwe. The extant literature reveals that financial obstacles limit the growth of the SME sector. In addition, management and administrative challenges account for the high failure rate among businesses in the SME sector, and the lack of technical skills and access to the appropriate technology also stifles the development of SMEs. Furthermore, poor and inadequate infrastructure has been cited as one of the key obstacles to the growth of the sector, and increasing competition in the market has reduced their sales and income. The high costs of machinery and equipment have made it difficult for SMEs to access the latest technology, which has led to low-quality products and services that compromise the competitiveness of the businesses in the market. Stringent government laws and regulations have also hampered the growth of SMEs in Harare, Zimbabwe, and high tax rates and the high costs incurred in registering businesses and securing operating permits and licenses, and the long process of formalising businesses, all hamper the development of the

sector. Limited access to markets due to lack of adequate information about the local and international markets has also been a challenges for new and established SMEs.

**(b) Government policies and strategies to address SME challenges**

This section presents the government policies and strategies that have been employed to address the challenges confronting the SME sector in Harare, Zimbabwe, and is thus linked to the second research objective, which focuses on identifying these policies and strategies. The document analysis shows that the GoZ has implemented a multiplicity of policies and strategies. The GoZ provides funding to SMEs through SMEDCO and the commercial banks, on the condition that SMEs meet certain stringent requirements. In addition, the GoZ has partnered with the private sector, NGOs and other countries to provide funding, training and technology transfer for SMEs. In order to promote SME access to markets, the government has conducted research and trade missions, and has sponsored the participation of SMEs in local and international trade fairs, business expos, and exhibitions. Furthermore, the government has encouraged SMEs to participate in public procurement. This decision was taken by the government to provide a market for SMEs and to improve the cash flow of the businesses. Moreover, the government has provided land and shelter for SMEs. In an attempt to reduce competition in the local market as a result of imports, the government has introduced import duties to protect domestic industries from foreign competition. The government has also involved HEIs in its overall strategy to address the challenges faced by SMEs. To facilitate technology transfer, training, and the provision of services such as electricity and water, as well as the dissemination of government information, SMEs have been clustered.

**( c) The success of the government policies and strategies**

This section consists of an assessment of the effectiveness of the policies and strategies in addressing the obstacles facing SMEs. It therefore addresses the third research objective, which seeks to assess the effectiveness of the government policies and strategies in addressing the challenges facing SMEs in Harare, Zimbabwe. Some of the policies and strategies have been effective, while others have proved to be ineffective. The provision of land and shelter for SMEs has been effective, as most of the SMEs in Harare have managed to secure land and shelter from the government. Technology transfer by HEIs, NGOs and SMEDCO was successful as it has improved the quality of SME products and services. The involvement of

HEIs has improved the level of skills and knowledge among SMEs. SME clustering has been effective, as most of the SMEs are located within a cluster. Government partnerships with NGOs like Empretec, with other countries and with the private sector have been effective in providing funding, training, and technology transfer.

The provision of funding to SMEs through SMEDCO and the commercial banks has been ineffective, as most of the SMEs have not been able to access credit finance due to the strict collateral requirements and the many documents and administrative procedures, such as financial statements and proof of formal registration of the businesses. The MSMECD and SMEDCO need adequate funding from the National Budget. The participation of SMEs in public procurement has been ineffective, as very few SMEs have been able to secure government tenders. Most of the SMEs could not apply for or be awarded government tenders due to the stringent tendering requirements, the lack of adequate information about the tendering process, inadequate capital, and the lack of technical and managerial competencies to fulfil government contracts. Furthermore, corruption has been rampant in the awarding of government tenders. The promotion of SMEs' access to local and international markets has also been unsuccessful in addressing the market access challenges of SMEs. The MSMECD and SMEDCO have not been able to conduct adequate research on local and international markets due to their limited funding. Information dissemination by the government to SMEs has also not been adequately conducted due to limited financial resources. Very few SMEs have participated in the domestic and international trade fairs, business expos, and exhibitions. Training programmes conducted by SMEDCO and the MSMECD have been ineffective, as very few SMEs have participated. The government has also sought to formalise SMEs in order to enhance their access to funding, but most of the SMEs remain informal, indicating that the government has failed in this regard. SMEs do not formalise their businesses as there are no incentives for such formalisation, and formalisation is simply a long and expensive process for entrepreneurs. The government has also introduced import duties to protect local businesses from foreign competition. The government has been effective in this regard, as competition has been reduced.

The document analysis indicates that, to a large extent, the government has been ineffective in addressing the key challenges confronting the SME sector in Harare, Zimbabwe. Therefore, the government should redesign its policies and strategies, and improve the implementation thereof.

#### **(d) Suggested alternative policies and strategies**

The document analysis revealed some alternative policies and strategies to promote the development of SMEs. This section is linked to the fourth research objective, which seeks to develop a policy and strategy framework for addressing the challenges facing the SME sector in Harare. According to the documents analysed, the government should provide funding without such strict collateral requirements attached. The process of formalising businesses should be simplified, and should not be so long and expensive. SMEs that are professional and that operate ethically by complying with formal business requirements should have access to government training programmes. In addition, additional technology transfer to SMEs should be facilitated. Furthermore, more SMEs should be clustered to facilitate such technology transfer, as well as the dissemination and provision of critical services such as water and electricity. The government should explain to SMEs the benefits of formalisation and should provide incentives for formalising business operations, as well as providing more shelter and land to support and develop the SME sector in Harare. The universities should design more programmes to support the development of SMEs.

### **6.8 COMPARISON OF QUALITATIVE AND QUANTITATIVE DATA**

This section presents a comparison of the quantitative and qualitative results in this study. The purpose of utilising quantitative and qualitative data sets in this study was to satisfy the methodological triangulation with a view to generating detailed data that would produce a comprehensive understanding of the SMEs in Harare. Four critical areas were revealed as a result of the presentation, analysis, and interpretation of quantitative and qualitative data, and are presented in the following sections.

#### **6.8.1 Challenges confronting SMEs in Harare, Zimbabwe**

The analysis of both the qualitative and quantitative results reveals that access to credit finance is a challenge for SMEs in Harare, and that funding provided by the government has been inadequate. Both sets of data indicate that government funding has been unavailable to many entrepreneurs. They are not able to access it due to the strict collateral requirements and the lack of adequate information about the process of securing funding from government. Another reason is that the MSMECD and SMEDCO do not receive adequate funding from the National Budget and therefore less funding is available from them for SMEs. Furthermore,

too many SMEs require funding from the government, so most of the entrepreneurs who apply for funding are unable to receive it. The quantitative and the qualitative data sets also indicate that SMEs lack access to machinery and equipment due to the high costs thereof. As a result, entrepreneurs often use antiquated machinery that compromises the quality of their products and services, leading to their decreased competitiveness in the market.

Both the qualitative and quantitative data analysis shows that there has been a low demand for SME products in the market due to competition from local and cheaper imported products. Therefore, the pricing system in the market has been poor. SMEs also lack information on the domestic and international markets, and do not understand the consumer or customer needs and preferences.

The analysis of both the qualitative and quantitative data sets indicates that SMEs also suffer from high tax rates and import duties. Such challenges increase the costs of operating their businesses. SMEs also lack technical, management and marketing skills. The lack of land, shelter and other forms of infrastructure has also stifled the development of the SME sector.

These results have satisfied the objective of employing the mixed-methods approach in this study to avoid the weaknesses of the mono methods (Saunders *et al.*, 2009).

### **6.8.2 Government policies and strategies to address the obstacles facing SMEs**

The analysis of the qualitative and quantitative data sets shows that the government has employed a multiplicity of policies and strategies to address the challenges confronting SMEs in Harare, Zimbabwe. According to the data sets, the government has attempted to address the financial challenges by providing funding through SMEDCO and commercial banks like Agribank, the NMB, and the Commercial Bank of Zimbabwe. The government has also facilitated the participation of SMEs in public procurement, as required by the Indigenisation and Economic Empowerment Act. Land and shelter have also been allocated to SMEs in Harare. Market development strategies for SMEs have been adopted by the government through conducting market research, organising trade missions, facilitating the participation of SMEs in local and international exhibitions, and providing information about the markets. Import duties have been introduced to protect local industries from foreign competition. The qualitative data provides further detailed information on government partnerships with NGOs, other countries, and the private sector, in the provision of funding, training, and technology transfer. More information has been provided by the qualitative data on the role of HEIs in the

promotion of SME development through addressing SME challenges in Harare. The above information indicates the importance of triangulation as a method for this study.

### **6.8.3 The success of the government policies and strategies to deal with SME challenges**

Both data sets show that the government to a large extent has been ineffective in addressing the key challenges confronting the SME sector in Harare. Both the qualitative and quantitative results indicate that the government has been ineffective in providing funding, due to its inadequate financial resources. Training has also been ineffective due to the limited funding, and the fact that too many SMEs require training. SME participation in public procurement has not been successful, as indicated by both the qualitative and quantitative data. This has mainly been due to the strict requirements for tendering, and to corruption in the awarding of tenders. The promotion of SME access to markets, as indicated in the qualitative and quantitative data, has been ineffective due to inadequate funding from the National Budget. The government has not been able to disseminate important information about the local and international markets. However, the government has been successful in providing land and shelter for SMEs, as well as in introducing import duties to protect domestic businesses from foreign competition. The qualitative data indicates that the government partnerships with NGOs, private companies and other countries have been successful in providing funding, training and technology transfer. Furthermore, the qualitative data also shows that HEIs have been effective in providing training, technology transfer, and research.

### **6.8.4 Suggested alternative policies and strategies to deal with SME challenges**

The quantitative data covers the challenges faced by SMEs, the government policies and strategies to address these challenges, and the assessment of the effectiveness of these policies and strategies. Suggestions for alternative policies and strategies are covered in the qualitative data. Therefore, the quantitative data is complemented by the qualitative data in providing data on these suggested policies and strategies. Such suggestions include the establishment of an SME bank to provide credit finance and related services that are tailor-made for the sector. In addition, the government should continue to establish more partnerships to promote the growth of the SME sector through credit finance, training, and technology transfer. Furthermore, the funding made available to SMEs should not be subject to such stringent

requirements. Loans advanced to SMEs should be guaranteed by the government through the CGCZ. More land and shelter should be allocated to SMEs, as there are still some businesses without it. The government should be actively involved in the mobilisation of resources for supporting the SME sector through conducting market research and trade missions, and funding the participation of a greater number of SMEs in local and international trade fairs, business expos, and exhibitions. Currently, SMEs struggle to access state-of-the-art equipment and machinery. The government should, according to the qualitative data, reduce import duties on capital equipment entering the country. The corruption that is rampant in the awarding of tenders and in the office of the Registrar of Companies should be dealt with by the government. Stringent requirements that stifle SME participation in public procurement should be revised. Furthermore, the government should revise the laws and regulations that discourage the formal development of SMEs, such as those that govern the long and expensive process of business registration. In-depth interviews with the key informants from universities further indicate that the HEIs should provide sector-specific programmes that accommodate all sectors of the economy. HEIs should transform their curricula to ensure that they include courses or modules on entrepreneurship and on starting new businesses.

## **6.9 THE USE OF THE TRIANGULATION METHOD AND ITS RESULTS**

The researcher has used questionnaires, in-depth interviews and document analysis to achieve triangulation in the collection and analysis of data. The primary data was collected simultaneously, but separately. Document analysis was conducted prior to the collection of the empirical data. The purpose of triangulation was to gather detailed data about the SME challenges, the government policies and strategies to address these challenges, and the effectiveness of these policies and strategies.

The results of the triangulation method indicate that SMEs in Harare face challenges such as limited access to credit finance, difficulties in penetrating local and international markets and antiquated equipment and machinery. Furthermore, SMEs lack land and shelter from which to operate their businesses, and lack the skills required for SME growth. Strong competition in the markets, stringent government regulations, and the high costs of equipment and machinery are some of the challenges confronting SMEs in Harare.

The GoZ has employed policies and strategies to address the obstacles to SME development. Funding was provided through SMEDCO and the commercial banks. The government has further provided land and shelter to SMEs as well as encouraging them to participate in

public procurement to facilitate their access to the market and improve their cash flow. The government has also attempted to promote SMEs through conducting market research and trade missions, and through funding the participation of SMEs in domestic and international trade fairs, business expos, and exhibitions. The government has also introduced import duties to protect domestic businesses from foreign competition. Furthermore, it has partnered with local businesses, NGOs and other countries to provide funding, training, and technology transfer. HEIs have been involved in providing training, in offering degree and diploma programmes that are business and entrepreneurship-related, in technology transfer, and in research for the benefit of SMEs. SMEs in Harare have been clustered to facilitate technology transfer, the provision of facilities such as water and electricity, the provision of funding, and the dissemination of information.

The triangulation results also indicate that the government has been effective in the provision of land and shelter for SMEs in Harare, as most of the registered entrepreneurs have workspace or land. Furthermore, the partnerships created by the government have been effective in training SMEs, in transferring technology, and in providing funding for SMEs. In addition, the clustering of SMEs has been successful, as most of the businesses have been clustered. HEIs have been effective in training SMEs, transferring technology, conducting research on SMEs and providing critical information, and releasing skilled labour to SMEs.

However, the government has failed to provide adequate funding, to train most of the SMEs, and to promote access to markets. The government has not been able to disseminate adequate information about local and international markets. The participation of SMEs in public procurement has been ineffective, as very few entrepreneurs are awarded tenders. This is due to a lack of adequate information about the tender process, a lack of capital and technical capabilities to fulfil government contracts, and stringent tendering requirements. Market development strategies for SMEs have failed because the government has not been able to conduct research due to limited funding. SMEs do not receive adequate information about the local and international markets, and very few SMEs participate in domestic and international trade fairs, business expos, and exhibitions. The triangulation results, therefore, show that to a large extent the government has failed to adequately address the challenges confronting the SME sector in Harare, Zimbabwe.

The results also contain suggestions made by the respondents and indicated in the document analysis. Suggestions include the establishment of an SME bank; the provision of more land and shelter to SMEs; the creation of more partnerships to facilitate training, funding and technology transfer; the revision of the legal and regulatory framework that stifles the development of the SME sector; and the provision of funding without strict collateral

requirements. The government should guarantee loans advanced to SMEs, and should establish an effective monitoring system to ensure that the loans advanced to SMEs are used for their intended purpose. HEIs should provide sector-specific training programmes which include entrepreneurship courses in all diplomas and degree programmes, training more SMEs, and making printed material available to SMEs.

## **6.10 CONCLUSION**

This chapter has presented the analysis and interpretation of the research results based on a quantitative and qualitative analysis of the data. The quantitative analysis was composed of the descriptive and the inferential statistics. The descriptive statistics covered the percentages, tables, graphs, pie charts, the mean and the standard deviation. Inferential statistics employed in the analysis and interpretation of the quantitative data were the chi-square test, the Mann-Whitney U test, the Kruskal-Wallis test and the Spearman's correlation coefficient. Content analysis was used in the analysis of qualitative data from in-depth interviews and documents.

The results of the analysis indicate that the challenges facing SMEs in Harare include limited access to credit finance; a lack of technical, financial management and marketing skills; strong competition in the market; difficulties in accessing the local and international market; poor and inadequate infrastructure; stringent government regulations; and the high costs of equipment and machinery.

The government has responded to these challenges by implementing policies and strategies to promote the development of the SME sector. The government has provided funding through SMEDCO and the commercial banks. In addition, the government has provided land and shelter for SMEs. Moreover, SMEs are able to participate in public procurement to increase their access to the market and to improve their cash flow. The government has conducted market development for SMEs through market research, trade missions, and the participation of SMEs in domestic and international trade fairs, business expos, and exhibitions. Import duties have been introduced to protect domestic businesses from foreign competition. Furthermore, the government has created partnerships with local businesses, NGOs, and other countries to effectively assist SMEs with funding, training and technology transfer. HEIs, which constitute part of the government's overall strategy of promoting the development of SMEs, have been actively involved in training, in offering degree programmes that are business and entrepreneurship-related, in transferring technology, and in conducting research for the benefit of SMEs. SMEs in Harare have been clustered to facilitate technology transfer,

the provision of facilities such as water and electricity, the provision of funding, and the dissemination of information.

The government has been effective in providing land and shelter to SMEs in Harare, as most of the registered entrepreneurs have workspace or land. The partnerships created by the government have been effective in training SMEs, in transferring technology, and in providing funding to SMEs. Clustering of SMEs has been successful, as most of the businesses are located in clusters. HEIs have been effective in training SMEs, in transferring technology, in conducting research on SMEs and providing critical information, and in releasing skilled labour to SMEs.

However, the government has failed to provide adequate funding, to train most of the SMEs and to promote access to markets. The government has not been able to disseminate adequate information about local and international markets. The participation of SMEs in public procurement has been ineffective, as very few entrepreneurs have been awarded tenders. This has been due to a lack of adequate information about the tender process, a lack of capital and technical capabilities to fulfil government contracts, and stringent tendering requirements. Market development strategies for SMEs have failed because the government has not been able to conduct research due to limited funding. SMEs have therefore not received adequate information about the local and international markets, and very few SMEs have participated in the domestic and international trade fairs, business expos, and exhibitions. The results show that, to a large extent, the government has failed to adequately address the challenges confronting the SME sector in Harare, Zimbabwe.

The questionnaires, in-depth interviews, and document analysis generated suggestions about the alternative policies and strategies that could be adopted by the government to effectively address the challenges of the SME sector. Such suggestions include the establishment of an SME bank; the provision of more land and shelter for SMEs; the creation of more partnerships for providing training, funding and technology transfer; the revision of the legal and the regulatory framework that stifles the development of the sector; and the provision of funding without such strict collateral requirements. Loans should be guaranteed by the government, and the government should establish an effective monitoring system to ensure that loans advanced to SMEs are used for the intended purpose. HEIs should provide sector-specific training programmes and entrepreneurship courses in all diplomas and degree programmes. They should also train more SMEs and make printed material available to SMEs.

Chapter 7 presents a discussion of the results presented in this chapter in relation to the study's objectives, as well as the research questions. The chapter also presents a discussion on the extent to which the results refer to previous literature. A further discussion is also presented on the findings in relation to the theoretical framework that has guided the study.

## **CHAPTER 7: DISCUSSION OF RESULTS**

### **7.1 INTRODUCTION**

The previous chapter presented a detailed analysis and interpretation of the results of the study. The purpose of this chapter is to present a discussion of the results presented in the data analysis chapter in relation to the research objectives. A detailed discussion is also presented on the extent to which the results link to the existing literature or theories on the challenges confronting SMEs, the government policies and strategies to address the SME obstacles, and the effectiveness of these policies and strategies.

This chapter seeks to establish whether the research objectives have been accomplished and the study questions answered, based on the analysis and interpretation of the qualitative and quantitative data. The discussion focuses on the key research objectives and the theoretical framework, in order to develop a policy and strategy framework for addressing the challenges confronting SMEs in Harare. Suggested policies and strategies in the qualitative data informed the researcher in the development of this framework.

### **7.2 DISCUSSIONS IN RELATION TO THE RESEARCH QUESTIONS AND OBJECTIVES**

The research objectives and research questions employed in this study have been linked to each other in such a way that when the objectives are accomplished, the research questions are also answered. Discussions on the results related to the research questions and objectives are presented in the following sections

#### **7.2.1 Challenges confronting SMEs in Harare, Zimbabwe**

The quantitative data analysis revealed that SMEs are confronted with a multiplicity of challenges. Descriptive statistics, the Mann-Whitney U test results and the Kruskal-Wallis test results were employed to analyse the findings on the challenges facing SMEs in Harare. This section fulfils the first research objective, which seeks to identify the challenges confronting SMEs in Harare, Zimbabwe.

Among the obstacles facing SMEs are financial challenges. Over 86 % of the respondents indicated that government funding has been inadequate, and more than 88 % of the participants could not access credit finance due to strict collateral requirements. Furthermore, more than 76 % of the respondents showed that they lacked adequate information about how to access credit finance from the government. Over 77 % of the respondents indicated that they were not successful in accessing funding even if they were permitted to apply for it. In addition, over 85 % of the participants indicated that the high costs of equipment and machinery negatively affected their businesses. A binomial test indicated significant agreement that the high cost of equipment and machinery negatively affected their businesses ( $p < 0.0005$ ). These results were confirmed by the analysis of qualitative data collected through in-depth interviews with officials from the MSMECD and SMEDCO. All the interviewed respondents indicated that access to credit finance was a major challenge for SMEs due to the need for collateral, the limited funding available from the National Budget, and the lack of sufficient information about the process of securing funding. High interest rates on loans also deter SMEs from securing credit finance. This is confirmed by Ligthelm and Cant (2003, cited in Manyani, 2014) who note that Zimbabwean SMEs incur higher transaction costs than bigger companies when getting loans from financial institutions. This is also confirmed by a study conducted by Mudavanhu *et al.* (2011), which reveals that the availability and the cost of credit are the most important factors affecting SMEs in Zimbabwe. Furthermore, too many SMEs require funding from SMEDCO, and the demand for funding far exceeds the financial resources available. Chipangura and Kaseke (2012) and Chadamoyo and Dumbu (2012) observe that access to finance is one of the major challenges confronting SMEs. Most SMEs fall short of most or all of the requirements for credit finance (Chadamoyo & Dumbu, 2012), and as result securing funding becomes difficult.

The quantitative data analysis also revealed that SMEs are confronted with challenges in the market. More than 82 % of the participants indicated that there has been a low demand for their products and services. A binomial test indicated significant agreement that there has been a low demand for the product ( $p < 0.0005$ ). In addition, more than 89 % of the respondents indicated that they faced competition from locally manufactured products. A binomial test showed significant agreement that there has been stiff competition from locally manufactured products in the market ( $p < 0.0005$ ). Furthermore, 53 % of the participants indicated that imports create a great deal of competition in the market. A binomial test showed significant agreement that imports have been posing much competition and have flooded the market ( $p = 0.015$ ). Moreover, over 69 % of the respondents lacked adequate information about the market. A binomial test showed significant disagreement that the business had adequate information about the market ( $p < 0.0005$ ). Furthermore, more than

84 % of the participants indicated that the pricing system in the market has been poor, and a binomial test showed significant agreement with the statement ( $p < 0.0005$ ). The cost of advertising has been too high for SMEs, as indicated by over 62 % of the respondents. A binomial test indicated significant agreement with this.

The results of the quantitative data analysis were confirmed by the qualitative data, which indicated that SMEs have limited access to local and international markets due to a lack of adequate information about the markets. In the domestic market, according to the qualitative data, there has been strong competition from local and imported products, leading to low demand for SME products. The decreasing demand has led to low sales and income, thereby negatively affecting the viability of the businesses. Due to strong competition, the pricing system in the market has been poor. The results concur with Mudavanhu *et al.* (2011), who note that the SMEs are affected negatively by competition from imports. Imports from neighbouring countries such as South Africa, Botswana and Mozambique have flooded the Zimbabwean market, exposing locally produced commodities to a high level of competition (Chirisa *et al.*, 2012; CZI, 2010, cited in Chipangura & Kaseke, 2012). The results are further confirmed by Mapaure (2014), who observes that the pricing system in the markets has been poor, as exemplified by the Chinese clothes or furniture that are sold at a quarter of the price charged in market departmental stores or SME shops. Existing literature also concurs with the results that indicate that SMEs lack adequate information about markets. Dube (2013) notes that information about markets is not accessible to SMEs, and as a result it is difficult for businesses to compete in the domestic and international markets.

SMEs are also confronted with a restrictive legal and regulatory framework. More than 81 % of the respondent entrepreneurs indicated that tax rates for SMEs have been too high. Binomial test results showed significant agreement that the tax rates have been too high ( $p < 0.0005$ ). In addition, over 78 % of the participants showed that the import duty was too high and unsustainable. The binomial test indicated that there was significant agreement that the import duty had been too high and unsustainable ( $p < 0.0005$ ). The qualitative data analysis of the in-depth interviews with MSMECD and SMEDCO officials, as well as the document analysis, concurred with the findings of the quantitative data analysis. Most of the respondents and the documents analysed indicated that the tax rate was too high for SMEs, and that was the reason why many entrepreneurs were unwilling to formalise their business operations. The import duties have also been too high for SMEs. The results from the qualitative analysis of the data further indicated that the procedure for business registration was too long and expensive. SMEs are required to register their businesses at a cost of about US\$780 and it takes approximately 106 days (World Bank, 2014b). These results concur with

Chipangura and Kaseke (2012), who note that high taxation has been cited as one of the challenges that stifle SME growth in Zimbabwe, as these high taxes discourage SMEs from formalising their businesses. These taxes include stamp duties, property tax, business permits and licenses, according to Maseko (2014), and all these taxes increase business costs.

The quantitative data analysis indicates that SMEs suffer from a lack of administrative and management skills. More than 75 % of the respondents indicated that businesses suffered due to a lack of technical skills in production. The binomial test results showed significant agreement that companies suffer from a lack of technical skills in production ( $p < 0.0005$ ). Furthermore, over 75 % of the participants believed that there was a lack of financial management skills among staff and management. The binomial test results indicated that there was significant agreement with this. In addition, over 71 % of the respondents showed that there is a lack of marketing skills within their businesses. The binomial test results indicated significant agreement that the lack of marketing skills has been a challenge for SMEs ( $p < 0.0005$ ). Over 72 % of the respondents indicated that management lacked training and experience. The binomial test shows significant agreement that management lacked training and experience ( $p < 0.0005$ ). These results are also confirmed by the qualitative data analysis. Most of the respondents and documents analysed indicated that SMEs lacked technical, financial, management and marketing skills. These deficiencies in skills are caused by a lack of training among SMEs. These findings concur with FinScope (2012), Karedza *et al.* (2014), Musanzikwa (2014) and RBZ (2014a), who note that Zimbabwean SMEs lack human resources skills, financial management skills, marketing skills, and general management skills. The lack of these skills accounts for the high failure rates among SMEs (Derera *et al.*, 2013; Mbizi *et al.*, 2013). Therefore, the lack of administrative and management skills stifles the development of the SME sector in Harare, Zimbabwe.

A further investigation into the skills challenges of SMEs was conducted using the Mann-Whitney U test, and the results indicated that those respondents whose qualifications were not in line with their type of business suffered more from a lack of technical, management and marketing skills ( $Z = -2.428$ ,  $p = 0.015$ ). The results indicated that the qualifications of the entrepreneurs were misaligned with the skills requirements for their businesses. These results are confirmed by Musanzikwa (2014), who observes that entrepreneurs lack skills as they are not trained in the businesses they operate in.

The Kruskal-Wallis test was also conducted. Responses to the statement *The company has suffered from a lack of technical skills in production* were significantly different depending on the level of skill of employees ( $\chi^2 = 33.049$ ,  $p = 0.00$ ). Specifically, those SMEs with unskilled employees agreed more than those with skilled and semi-skilled employees. Responses to the

statement *There has been a lack of financial management skills among staff and management* were significantly different depending on the level of skill of employees ( $\chi^2=9.807$ ,  $p=0.007$ ). Those respondents with unskilled employees agreed more than those with semi-skilled and skilled employees. Those with semi-skilled employees agreed more than those with skilled employees. Responses to the item *The lack of marketing skills has been a challenge to the business* were significantly different depending on the level of skill of employees ( $\chi^2=7.453$ ,  $p=0.024$ ). Those SMEs with unskilled employees agreed more than those with semi-skilled and skilled employees. Those with semi-skilled employees agreed more than those with skilled employees. These results indicate that the level of skill of employees has a great impact on the ability of employees and SMEs to market their products, produce their products, and properly handle the financial resources of a business. These results concur with Karedza *et al.* (2014), who observe that the lack of technical knowledge and poor quality control compromises the quality of products and services, leading to a negative impact on the competitive position of a business. Gombarume and Mavhundutse (2014) and Mbizi *et al.* (2013) note that successful SMEs have the requisite knowledge and management skills. Therefore, the level of skill in a business is important for business success.

The qualitative data analysis indicated that the shortage of land and infrastructure was a challenge for SMEs. Most the respondents from the MSMECD and SMEDCO, as well as the document analysis, revealed that SMEs lack land and the necessary infrastructure to conduct their businesses effectively. Infrastructure such as buildings, electricity and water were specifically lacking for SMEs. These qualitative results concur with Karedza *et al.* (2014), RBZ (2012), and ZEPARU (2014), who note that SMEs are confronted with infrastructural challenges such as a lack of shelter or sufficient workspace (Karedza *et al.*, 2014), electricity shortages (Fjose *et al.*, 2010), and a shortage of water. The results indicate that the shortage of land and infrastructure has been a challenge for SMEs in Harare, Zimbabwe. The additional data and explanations provided by the qualitative data in sections 6.6 and 6.7 of Chapter 6 clearly indicate the usefulness of the mixed-methods approach in this study. The successful identification of the challenges facing SMEs through the analysis of qualitative and quantitative data in sections 6.6 and 6.7 shows that the first research objective has been achieved.

## **7.2.2 Government policies and strategies to address the challenges faced by SMEs**

The government responded to the challenges faced by SMEs by implementing various policies and strategies to deal with them. This section addresses the second research question, which seeks to identify the government policies and strategies that have been implemented to handle the obstacles facing the SME sector in Harare, Zimbabwe.

In order to deal with the financial challenges, the government has provided funding to some SMEs through SMEDCO and the commercial banks. This is demonstrated by the 7.9 % of respondents who indicated that government funding was available. In addition to that, 2.4 % of the participants had applied for funding and managed to secure it. Therefore, the quantitative data analysis indicates that the government had provided credit finance to some SMEs. These results are supported by the qualitative data analysis of responses from virtually all the officials from the MSMECD and SMEDCO, as well the analysed documents, which indicated that the government had provided funding to some SMEs. This concurs with the existing literature. Agribank, a government-owned commercial bank, has provided government funding to SMEs in the farming sector (Malaba, 2005; Ijeoma & Matarirano, 2011; Mumbengegwi, 2007, cited in Ijeoma & Matarirano, 2011; CPI Financial, 2013). The RBZ has disbursed funds to SMEs through the commercial banks (RBZ, 2005, Ijeoma & Matarirano, 2011; DBSA, 2012). SMEDCO, the financing arm of the MSMECD, has provided credit finance to SMEs in various sectors of the economy (Moyo, 2011; Chivasa, 2014; Manyani, 2014). The results and the existing literature indicate the government's commitment to the provision of funding to the SME sector in Harare.

In an attempt to reduce the tax burden, the government introduced a tax holiday for SMEs for a period of five years. According to the quantitative data analysis, 80 % of the respondents indicated that their businesses had been given a tax holiday. The binomial test results show significant agreement that the businesses were given a tax holiday ( $p < 0.0005$ ). The government also introduced tax rebates for SMEs. About 14.8 % of the questionnaire respondents indicated that they had received tax rebates. The analysis of documents shows that SMEs were granted a tax holiday as a way of reducing the tax burden. The GoZ (2011) notes that SMEs were given a tax holiday for a period of five years.

The government also introduced import duties to reduce the competition created by cheap imports and to protect domestic businesses, including SMEs. Over 57 % of the respondents indicated that their businesses were being protected from foreign competition through the import duty. The binomial test results indicate that there was significant agreement that the

businesses were being protected from foreign competition ( $p < 0.0005$ ). In the 2011 Mid-year Fiscal Policy Review, the Zimbabwe Ministry of Finance increased the import duties from 10 % to 25 % for basic goods such as cooking oil, mealie-meal (maize meal), jam and baked beans (GoZ, 2011; Ndlovu, 2011). Zimbabwe has relied heavily on imports (RBZ, 2013) and this was a move to protect local industries from foreign competition (GoZ, 2014).

Marketing and distribution support were provided by the government to deal with the marketing obstacles confronting SMEs. The government was involved in the provision of information about local and international markets. This is shown by the 16 % of the respondents who indicated that the government had provided adequate information about the local market. Furthermore, 18 % of the participants indicated that the government had provided adequate information about the international markets. These results are evidence that the government has embarked on a programme of providing market information. The government also provided SMEs with exposure to local and international markets. This is shown by the 7.2 % of the respondents who stated that the government had exposed them to the markets. Supporting exporting SMEs through creating distribution channels was a strategy adopted by the government. Though very few SMEs (9.6 %) benefited from the programme, it is a sign that the government had done something to support exporting SMEs. The qualitative data analysis revealed that the government has conducted research on local and international markets, has conducted trade missions, and has facilitated the participation of SMEs in domestic and international trade fairs, business expos, and exhibitions, in an attempt to develop markets for SMEs. The research is intended to provide up-to-date information on the local and international markets. The purpose of the trade missions is to create links and networks for exporting products. Trade fairs, business expos and exhibitions create opportunities for SMEs to gather information about markets, to establish networks with other businesspeople, and to showcase their products and services. The government has promoted exports through trade missions, trade fairs and exhibitions, through facilitating trade, through the use of advertising, through training SMEs for export, and through certifying products that meet international standards (Mudzonga, 2009; ZITF, 2014). The ZITF is an annual exhibition that affords SMEs and other businesses the opportunity to display their products and services, and to have a chance to establish ties with local and international companies (ZITF, 2014). SMEs also have an opportunity to identify markets locally and abroad (ZITF, 2014). ZimTrade, a national trade development and promotion organisation, assists SMEs through providing training for export, providing information about foreign markets, and developing new markets for SMEs (ZimTrade, 2011, 2015; ZMIC, 2014).

Land and infrastructure have been provided to SMEs to promote the development of the sector. The quantitative data analysis showed that over 86 % of the participants had indicated that the government had provided SMEs with land and the necessary infrastructure. The binomial test results indicated significant agreement that the government had provided land to SMEs. The government had also provided buildings with the necessary facilities such as water, electricity and toilets. Although most of the SMEs had access to land and buildings, they were still inadequate for some SMEs. More than 91 % of the questionnaire respondents indicated that the government had provided buildings for SMEs. These buildings were used as storage space, workshops, offices, and shops for marketing products or services. In the qualitative data analysis, most of the in-depth interview respondents from the MSMECD and SMEDCO, and the document analysis, indicated that the government had provided land and buildings to SMEs to support the growth of the sector. SMEs need land and space to work from, therefore the government had to provide these assets for businesses. Bohwasi and Mukove (2008), Mhuka (2011), and SMEDCO (2015) note that the government managed to construct factory shells in Gazaland. The MSMECD managed to construct shelter for 6 363 SMEs (GoZ, 2014; Makoshori, 2014). SMEs in Glen View were provided with space for operating their businesses. At the High Glen Shopping Complex, the government negotiated with Old Mutual to provide SMEs with offices and shops. SME stalls have been constructed in almost all high-density and low-density suburbs, and in the city centre.

In the response to the lack of skills in financial management, technical know-how, marketing and general management the government has offered training and development programmes through the MSMECD and SMEDCO. This is evident in the 21.8 % of questionnaire respondents who indicated that they had attended training programmes organised by the government. In the qualitative data analysis most of the respondents from the MSMECD and SMEDCO, as well the document analysis, indicated that government had embarked on the provision of training and technology transfer to SMEs. Chirisa *et al.* (2012), FinScope (2012) and GoZ (2015a) note that SMEDCO has provided training to SMEs.

Furthermore, 6 % of the respondent entrepreneurs had received some form of business incubation, by means of which they were assisted in starting their formal businesses. About 7.8 % of the participants indicated that they had been given expert advice by the government. While in incubation, some businesses were linked to other entrepreneurs in order to learn from them. Approximately 13 % of the questionnaire respondents indicated that they had been linked to other entrepreneurs in order to acquire some skills from them. In addition, 7 % of the respondent entrepreneurs indicated that they had been linked to suppliers while in incubation. This constitutes evidence that the government, through SMEDCO, has been involved in

business incubation. Chirisa *et al.* (2012) observe that the government, through SMEDCO, has provided business incubation for SMEs, in which a suitable environment required to develop and grow their businesses was created with the aim of enhancing enterprise success. The qualitative data analysis indicates that the government has been involved in business incubation through the Indo-Zimbabwe Project, where there was a transfer of technology related to carpentry and metal fabrication. According to the MSMECD (ZMIC, 2011), the Indo-Zimbabwe Project was intended to transfer technology to SMEs in order to improve the quality of their products and thus improve their competitiveness in the market.

According to the SME Act (2011), the Indigenisation Policy, the Indigenisation and Economic Empowerment Act (2011), and the Statutory Instrument 171 of 2002, SMEs should participate in the public procurement process. This was decided by the government in order to provide a market for SMEs, and to attempt to address the financial challenges the sector is facing. The quantitative data analysis indicated that 10.8 % of the respondent entrepreneurs had been assisted by the government through participation in the public procurement process. Some respondents (9 %) had applied for tenders and had managed to get them. The analysis of qualitative data collected through in-depth interviews with the participants from the MSMECD and SMEDCO, as well as the document analysis, indicated that the government had facilitated the participation of SMEs in the tendering for government contracts. According to Chingwaru (2014), the government, through its various policies and statutory instruments, has encouraged SMEs to participate in public procurement. Such a strategy was adopted by the government to promote SME growth by providing a market for entrepreneurs and therefore improving their cash flow (Mandiyambira, 2013).

The qualitative data provided additional information and explanations critical for this study. Hence, the mixed-methods approach was necessary. The analysis of qualitative data collected through in-depth interviews with the officials from the MSMECD and SMEDCO, as well as the document analysis, provided additional information about the government partnerships with the NGOs, private companies and other countries. Most of the respondents and the documents analysed indicated that the government partnered with other countries, NGOs and private companies in order to provide credit finance, training and the transfer of technology. The government had realised that it could not effectively address SME challenges alone. These results concur with the existing literature. India partnered with the Zimbabwean government in the Indo-Zimbabwe Project to facilitate technology transfer to SMEs in the areas of carpentry and metal fabrication (ZMIC, 2011; Kangondo, 2012). The government, through the MSMECD, entered into an agreement with India's NSIC to establish the India-Zimbabwe Africa Incubation Centre to facilitate technology transfer to the manufacturing

SMEs (Mandizha, 2014; Maromo, 2015). Such an arrangement reduces business failure as they are provided with advice and are exposed to world-class technology. The government has also entered into a partnership with Empretec in the training of entrepreneurs to develop an entrepreneurial culture among Zimbabweans (Empretec, 2011; UNCTD, 2012). Another partnership was created with a French development finance institution. In 2014 the institution provided loan facilities to the NMB and CABS worth US\$20 million for the support of SMEs (GoZ, 2015b). The government was also assisted by the BADEA to provide funding to SMEs (GoZ, 2015b).

The qualitative data analysis also provided important information on the role of HEIs in addressing SME challenges and promoting SME development in Harare, Zimbabwe. The HEIs are part of the government's overall strategy for promoting SME development. In the content analysis of qualitative data the respondents indicated that the universities were involved in training students and SMEs in entrepreneurship; in financial management, marketing and general management skills; and in how to establish formal SMEs. Such skills are regarded as critical in the success of the SME sector. All state universities in Harare have been involved in conducting research and availing the information to SMEs through online journals and printed material as well as business expos, trade fairs and business conferences that SMEs attend.

HEIs in Harare provide SMEs with skilled personnel in the areas of business management, entrepreneurship, financial management and general management. The universities provide diploma and degree programmes in business studies, entrepreneurship, marketing, human resources management, and financial intelligence. The Harare Institute of Technology (HIT) also has a Technopreneurship Development Centre where technical students and SMEs are taught entrepreneurial skills. These skills have assisted manufacturing SMEs (GoZ, 2008; Kangondo, 2012; Rwafa, 2006, cited in Zindiye *et al.*, 2012).

HIT has been involved in the transfer of technology to SMEs through the university's Technology Centre. The Indo-Zimbabwe Project is housed at the university, and has been heavily involved in the transfer of technology to SMEs.

At UZ, the Enactus-Boost Fellowship was established by Enactus university students in conjunction with Enactus international, to mould students into entrepreneurs in order for them to establish their own formal businesses. The university has also been involved in the provision of advisory services, technical expertise and marketing training for small-scale commercial farmers. Therefore, universities are important in the promotion of the growth of the SME sector in Harare. Higher education is an indispensable element in the growth of the

sector (EC, 2013). HEIs established by the GoZ have played a significant role in the establishment and development of SMEs in Zimbabwe through training, technology transfer, and the provision of research information (Technopolis Review, 2011). Bukaliya and Hama (2012) observe that universities, through their community service programmes, assist in addressing societal challenges such as unemployment. Universities teach students skills that enable them to be employers rather than employees.

The discussion of the qualitative and quantitative results clearly indicates that the second research objective has been accomplished.

### **7.2.3 The success of the government policies and strategies in addressing the obstacles faced by SMEs**

This section presents a discussion on the success of the government policies and strategies in addressing the challenges confronting the SME sector. The section seeks to assess the third research objective.

The quantitative data analysis indicates that government funding has been ineffective in the provision of funding to SMEs in Harare. Over 91 % of the questionnaire respondents indicated that government funding had been inadequate for their businesses. The binomial test results indicated significant disagreement with the statement that *Funding was adequate for my business* ( $p < 0.0005$ ). More than 93 % of the participants held the opinion that government funding had been ineffective in their businesses. The binomial test results show significant disagreement that the government funding had been effective in their businesses ( $p < 0.0005$ ). Over 91 % of the respondents showed that government funding had been unavailable. The binomial test indicated significant disagreement that government funding has been available ( $p < 0.0005$ ).

Further statistical tests were conducted. The Spearman's correlation showed a significant negative correlation between funding challenges and the adequacy of government financial support for SMEs ( $\rho = -0.106$ ,  $p = 0.49$ ). The results indicated that though the government provided funding, it was inadequate for SMEs that needed financial support. There was a statistically significant positive correlation between access to funding and the effectiveness of financial support in the businesses ( $\rho = 0.108$ ,  $p = 0.46$ ). The results indicate that less access to funding led to the ineffectiveness of government financial support for SMEs. The Spearman's correlation also showed a statistically significant correlation between access to funding and the availability of funding ( $\rho = 0.132$ ,  $p = 0.46$ ). The results indicated that the lack of

availability of funding limited SME access to funding. There was also a significant negative correlation between access to funding despite strict collateral requirements and the awareness of government funding ( $\rho = -0.142$ ,  $p = 0.008$ ). The results showed that even if SMEs were aware of government funding, they could not access it due to strict collateral requirements.

These results are also supported by the qualitative data. Virtually all the respondents from the MSMECD and SMEDCO, as well as the document analysis, indicated that the government funding had been ineffective in addressing the financial challenges of the SME sector. Credit finance from SMEDCO required collateral that SMEs did not have. The high interest rates on loans deterred SMEs from securing credit finance. The process of securing funding, according to the in-depth interview respondents and the document analysis, is long and discouraging. The MSMECD and SMEDCO do not receive adequate funding from the National Budget to effectively support SMEs. In addition, too many SMEs require funding (Nyangara, 2013; Manyani, 2014). Therefore, the demand for funding far exceeds the financial resources available. As a result, the government funding programmes for SMEs have been ineffective. These findings concur with the existing literature.

Manyani (2014) and Nyangara (2013) observe that where the credit is available, it is insufficient to fund the operations of the SMEs. Therefore, funding has always been inadequate for SMEs. SMEs fall short of most or all of the requirements for credit finance (Chadamoyo & Dumbu, 2012), such as collateral, business plans, financial statements, and trade references. Financial institutions charge high interest rates on loans to SMEs (RBZ, 2013), making it difficult for SMEs to access credit. Maunganidze (2013) further notes that the interest rates charged by SMEDCO on loans have been too high for SMEs. In 2012, SMEDCO did not receive adequate funding from the National Budget and could not effectively support SMEs (Maunganidze, 2013). In 2013, the budget allocation for SMEDCO decreased by 3.6% (GoZ, 2014). The MSMECD also received a much reduced budget allocation from the National Budget in 2014 (GoZ, 2014; Makoshori, 2014). Such a situation cripples the operations of the ministry and SMEDCO, leading to less funding available for SMEs.

The government has also been ineffective in addressing the marketing challenges confronted by SMEs in Harare. The quantitative data analysis revealed that 84% of the respondents were of the opinion that the government had not provided adequate information about the local market. The binomial test showed that there was significant disagreement that the government had provided adequate information about the local market ( $p < 0.0005$ ). The results indicate that the government has not adequately addressed the SMEs' need for information on the local market. The quantitative data analysis results also indicate that 80% of the respondents

were of the opinion that the government had not been able to provide adequate information about the international market. The binomial test results show that there was a significant disagreement that the government had been able to provide enough information about the international market ( $p < 0.0005$ ). The results show that the government efforts to provide information about the international market have benefited very few SMEs, and the majority of SMEs have not been able to access the information. In this way the government has clearly not been effective in addressing the marketing challenges confronted by SMEs in Harare. Over 92 % of the respondents did not concur with the statement that the government had successfully regulated the prices of goods in the market. The binomial test indicated that there was a significant disagreement that the government had successfully regulated the prices of goods in the market ( $p < 0.0005$ ). The results showed that the government had failed to regulate the prices of goods to counter the effect of the poor pricing system in the market. More than 90 % of the participants were of the opinion that the government had not successfully created distribution networks to support SME exports. The binomial test results indicate significant disagreement that the government has successfully created distribution networks to support SME exports ( $p < 0.0005$ ). The results indicate that the government efforts to create distribution networks to support exporting SMEs have not been a success.

The results also indicated that more than 92 % of the respondents did not concur with the statement that the government had provided SMEs with exposure to the international market. The binomial test showed that there was significant disagreement that the government has given SMEs exposure to the international market ( $p < 0.0005$ ). Thus, the government has not adequately met the SMEs' need for exposure to the international market. Over 86 % of the respondents were of the opinion that the government had provided land to SMEs. The binomial test indicated significant agreement that the government has provided land for SMEs ( $p < 0.0005$ ). Therefore, the government has, with a fair degree of success, provided land to SMEs. More than 77 % of the participants concurred with the statement that the provision of land was of assistance to SMEs in Harare. The binomial test results show that there is significant agreement that the provision of land has assisted SMEs ( $p < 0.0005$ ). According to the results, the provision of land to SMEs has been of significant help to SMEs, and the government has been effective in addressing the land issue among SMEs. Over 91 % of the respondents were of the opinion that buildings have been made available to SMEs. Binomial test results indicate that there is a significant agreement that buildings have been made available to SMEs ( $p < 0.0005$ ). The results show that the government has been effective in providing buildings as shelter for SMEs. However, some SMEs still require land and buildings as shelter for their business operations.

The Spearman's correlation indicated that there was a positive significant correlation between the low demand for the products and the protection of SMEs against foreign competition through tariffs on imports ( $\rho=0.107$ ,  $p=0.048$ ). The results indicate that the government has been effective in addressing the low demand for the products caused by foreign competition. A statistically significant positive correlation existed between *Imports have been posing a lot of competition and have flooded the market* and *Our businesses are being protected from foreign competition through tariffs on imports* ( $\rho=0.115$ ,  $p=0.033$ ). These results indicate that the government has been effective in addressing the competition created by imported products. The Zimbabwe Ministry of Finance introduced import duties of 25 % on basic goods such as cooking oil, mealie-meal (maize meal), jam and baked beans (GoZ, 2011; Ndlovu, 2011). Zimbabwe has relied heavily on imports (RBZ, 2013) and this was a move to protect local industries from foreign competition (GoZ, 2014). Import tariffs were also imposed on clothes. The clothing industry has faced stiff competition from cheap imports, especially from the Asian countries (Zimbabwe Broadcasting Corporation (ZBC), 2012), South Africa, Botswana and Mozambique (GoZ, 2014).

There was a significant negative correlation between *The pricing system in the market has been poor* and *The government has successfully regulated the prices of goods and services in the market* ( $\rho=-0.170$ ,  $p=0.002$ ). Agreement that the pricing system in the market has been poor was associated with disagreement that the government has successfully regulated the prices of goods and services in the market. The results indicated that the government has been ineffective in addressing the poor pricing system in the market. A two-tailed test of significance indicated that there was a significant negative correlation between the high cost of advertising and government's success in regulating prices in the market ( $\rho=-0.205$ ,  $p=0.000$ ). The results show that the government has not been successful in regulating the prices of goods and services in the market. Therefore, the poor pricing system continues to be dominant in the market. Yang (n.d.) observes that the price controls have been ineffective. When the government introduced price controls they had a negative impact on the viability of businesses (Cross, 2014). Thus, the government has had to abandon price controls.

These results concur with the qualitative data, which also provided additional information. The qualitative data analysis indicated that the government has not been effective in promoting access to markets. The government has not been able to distribute information about the local and international markets to SMEs due to inadequate financial resources. Therefore, SMEs do not have adequate information about the markets. According to the qualitative data analysis, the MSMECD and SMEDCO have not been able to undertake many trade missions or to conduct adequate research due to the limited funding they receive from

the National Budget (GoZ, 2014). The government has facilitated the participation of some SMEs in domestic and international trade fairs, business expos, and exhibitions. However, very few SMEs have been involved due to limited funding, indicating that most of the SMEs could not be exposed to the local and international markets. The government has also introduced import duties to protect domestic industries from foreign competition.

The government has also provided training and development programmes for SMEs, but these have been largely ineffective. Over 79 % of the respondents did not concur with the statement that they had attended training and that it was beneficial for their businesses. The binomial test indicates significant disagreement with *I attended training, it did work in my business* ( $p < 0.0005$ ). This indicates that government training programmes have not been effective for SMEs. These results are also supported by the qualitative data analysis, which indicates that the training programmes have been ineffective because very few SMEs have been involved in the programmes. Most of the SMEs have been left out due to limited funding (GoZ, 2014). The demand for training has far exceeded the funding and the facilities available. The results indicate that all those who attended training programmes organised by the government benefited. However, those who could not attend the training programmes could in no way benefit. Only a handful of the respondents, according to the results, benefited from the training programmes run by the government.

Tests for correlations indicated that there was a significant negative correlation between the items *The company has suffered from the lack of technical skills in production* and *I was given expert advice and training* ( $\rho = -0.209$ ,  $p = 0.000$ ). Agreement that the company has suffered from the lack of technical skills in production was associated with disagreement that the SMEs were given expert advice and training. The results indicate that the advice and training has been effective for the few SMEs who had access to it. However, it did not work for the majority of SMEs who had no access to it. Lack of training for most of the SMEs has been caused by inadequate funding (GoZ, 2014) and the fact that too many entrepreneurs have needed training.

There was a statistically significant negative correlation between the items *There has been a lack of financial management skills among staff and management* and *I attended training organised by the government and it was helpful in my business* ( $\rho = -0.118$ ,  $p = 0.028$ ). Agreement that there is a lack of financial management skills among staff and management was associated with disagreement that the SMEs attended training and it was helpful in their businesses. The results indicate that the training provided by the government has not been effective in addressing the lack of financial management skills among SMEs.

There was a significant negative correlation between the items *The lack of marketing skills has been a challenge to the business* and *I attended training and it did work in my business* ( $\rho=-0.143$ ,  $p=0.008$ ). Agreement that the lack of marketing skills has been a challenge to the business was associated with disagreement that the SMEs attended training and it did work in their businesses. The results indicate that the training provided by the government has not been effective in addressing marketing challenges among SMEs in Harare, Zimbabwe.

Tests for correlations indicated that there was a significant negative correlation between the items *There has been lack of financial management skills among the staff and management* and *I was invited to attend training and could afford the cost of training* ( $\rho=-0.120$ ,  $p=0.025$ ). Agreement that there has been lack of financial management skills among the staff and management was associated with disagreement that the SMEs were invited to attend training and could afford the cost of training. The results indicate that whilst the SMEs had a lack of financial management skills, the government was not able to invite most of them to attend training, and the SMEs could not meet the costs of training. Such a scenario has created an environment where the lack of financial management skills continues to be a challenge for SMEs in Harare, Zimbabwe.

There was a statistically significant negative correlation between the statements *The lack of marketing skills has been a challenge to the business* and *I was invited to attend training and could afford the cost of training* ( $\rho=-0.114$ ,  $p=0.035$ ). Agreement that the lack of marketing skills has been a challenge to the business was associated with disagreement that SMEs were invited to attend training and could afford the cost of training. The results indicate that lack of training opportunities and unaffordable training have restricted SMEs from receiving training, and that SMEs continue to experience challenges related to their marketing skills.

These results concur with the qualitative data analysis results. Most of the respondents in the in-depth interviews, and the document analysis, indicated that the training programmes provided by the government could not adequately address the skills challenges among SMEs. Very few SMEs have been involved in training programmes, because the MSMECD and SMEDCO are grossly underfunded (Makoshori, 2014).

There was a significant positive correlation between the items *The location of our business is poor such that it has negatively impacted on the business* and *Buildings have been made available to SMEs* ( $\rho=0.139$ ,  $p=0.010$ ). Agreement that the location of the businesses was poor such that it negatively impacted on the SMEs was associated with agreement that buildings have been made available to SMEs. The results indicate that the government has been successful in addressing the challenge of business premises and poor business location

through the provision of shelter for SMEs. This was supported by the qualitative data analysis. The government was effective in the allocation of land and buildings to SMEs. Most of the entrepreneurs in Harare had access to land and shelter (Mhuka, 2011; GoZ, 2014). The government, through the MSMECD and SMEDCO, have provided shelter for SMEs (Mhuka, 2011).

The government has also provided business incubation services for the purpose of reducing the risk of failure among SMEs (Chirisa *et al.*, 2012). More than 93 % of the respondents indicated that the government had not assisted them in starting their businesses. The binomial test shows significant disagreement with *The government assisted me in the starting up of the business* ( $p < 0.0005$ ). Therefore, the government has not been effective in assisting entrepreneurs in the starting up of their businesses. Over 92 % of the respondents were of the opinion that no expert advice was given to them by the government. The binomial test results show that there is significant disagreement with *I was given expert advice* ( $p < 0.0005$ ). The results showed that in terms of giving SMEs expert advice, the government has not been successful. Over 87 % of the respondents indicated that they were not linked to other experienced entrepreneurs in order to learn from them. The binomial test results showed that there was significant disagreement with *I was linked to other entrepreneurs so that I could learn from them* ( $p < 0.0005$ ). As much as the government tried to link SMEs to experienced entrepreneurs, there was limited success, as demonstrated clearly in the results. Very few SMEs (12.5 %) indicated that they were linked to experienced entrepreneurs. The descriptive statistics indicated that 93 % of the respondents did not concur with the statement that their businesses were given access to suppliers. The binomial test indicates significant disagreement with *The business was given access to suppliers* ( $p < 0.0005$ ). Therefore, the government's efforts to give SMEs access to suppliers have been ineffective. All these results show that the government has been ineffective in terms of providing business incubation. These results concur with the qualitative data, which indicates that the government has not been effective in the provision of training and incubation services. This has mainly been due to limited funding from the National Budget (Mhuka, 2011; GoZ, 2014) and the fact that there are too many SMEs that require training and incubation support from the government.

The participation of SMEs in public procurement has been a strategy adopted by the government to promote the development of the sector. However, the strategy has not effectively provided the SMEs with access to the market or improved their cash flow as planned. Over 89 % of the respondents were of the opinion that the government has not assisted their businesses through participation in the tender process. The binomial test results indicated significant disagreement with *The government assisted my business through*

*participation in the tender process* ( $p < 0.0005$ ). The results show that the government has not effectively supported SMEs through participation in public procurement. More than 89 % of the respondents were of the opinion that they had not applied for and been awarded government tenders. The binomial test results indicated that there was significant disagreement with *I applied and got a tender* ( $p < 0.0005$ ). The results indicated that the government has not adequately afforded SMEs the opportunity to take part in public procurement. SMEs are not able to effectively participate in tendering for government contracts due to having only limited information about the tender process and not meeting the tender requirements. These results concur with the qualitative data results, which indicate that the participation of SMEs in public procurement has been a failure, as very few SMEs have been able to secure tenders from the government. Tendering for government contracts requires SMEs to have adequate capital, to have the necessary technical and managerial competencies to fulfil government contracts, to pay tender fees, and to submit all the required documentation. The requirements for tendering have been too stringent for SMEs. SMEs lack adequate information about the tender processes and procedures. According to the qualitative data analysis results, there has been too much corruption in the awarding of government tenders and there is too much competition in bidding for tenders. Therefore, most of the SMEs are not able to be awarded government tenders. Therefore, the government has not been effective in supporting SMEs through participation in public procurement. Musanzikwa (2014) notes that SMEs lack the capital, managerial and technical competencies to fulfil government contracts. Local SMEs are faced with too much competition from established Chinese and South African companies in tendering for government contracts (Nyoni, 2014; Tsabora, 2014). The government procurement process is flawed, with many irregularities, such as corruption (Zinyama, 2014). Approximately 27 % of all the tenders that pass through the SPB have an element of corruption in them (Bwititi & Towindo, 2014). SMEs lack adequate information about the tendering process (Uromi, 2014).

The qualitative data provided additional information about the role of HEIs in the facilitation of SME development in Harare. According to the qualitative data analysis, the institutions have been effective in providing training, facilitating technology transfer, and providing research information. Training has been provided in financial management, computer science, general management, and entrepreneurship. Universities such as UZ have established social clubs where students acquire entrepreneurial skills. Universities of technology, for example HIT, transfer technology to SMEs, which leads to improvements in the quality of SME products and services. Business advisory services and technical support have also been provided to SMEs by the institutions. HIT houses the Indo-Zimbabwe project, which has facilitated SME access to technology, equipment, and machinery. The Indo-Zimbabwe

Project has improved the quality of SME products. The institutions have also been effective in the provision of skilled personnel for SMEs in Zimbabwe. These results concur with the existing literature.

Technopolis Review (2011) notes that the tertiary institutions have been successful in the provision of training, the facilitation of technology transfer, and the provision of research information important for SME growth. HIT and Chinhoyi University of Technology (CUT) have become centres of technical training and technology transfer for SMEs (Technopolis Review, 2011). HIT has a technology centre where students and SMEs are trained in order to understand the stages of product development, from invention to commercialisation (Technopolis Review, 2011). The university also has a Technopreneurship Development Centre where technical students and SMEs are taught entrepreneurial skills. These skills have assisted manufacturing SMEs (Kangondo, 2012). For example, the quality of furniture manufactured by SMEs has improved. The Indo-Zimbabwe Project is housed within the technology center of HIT. Manufacturing SMEs approach the Indo-Zimbabwe Project at HIT for spare parts for their machinery (ZMIC, 2011). This illustrates the commitment of Zimbabwean HEIs in promoting SME development. HEIs also create a high-calibre workforce for the SMEs. Large companies are closing due to the unstable macroeconomic environment, leading to an increase in the number of unemployed people. Therefore, university graduates are being absorbed by SMEs (Rwafa, 2006, cited in Zindiye *et al.*, 2012). HEIs have also made their research findings available through free access on the Internet (Gibb *et al.*, 2013). The number of online academic journals and the academics who publish their work online has increased (Gibb *et al.*, 2013). These published research findings provide an important source of valuable information for SMEs. Zimbabwean academics are thus an important part of SME growth in Zimbabwe.

The third research objective sought to assess the effectiveness of government policies and strategies in addressing the challenges confronting SMEs in Harare, Zimbabwe. The results presented above clearly indicate that the third research objective has been achieved by this study.

### **7.2.3 Suggested policies and strategies for dealing with the challenges faced by SMEs**

The respondents to the questionnaire, the participants in the in-depth interviews, and the documents analysed, suggested alternative policies and strategies that could effectively

address the challenges faced by SMEs in Harare, Zimbabwe. The purpose of this section is to assist the researcher in designing a policy and strategy framework for the 'Recommendations' section of the study in Chapter 8. Therefore, this section attempts to address the fourth research objective, which seeks to propose a policy and strategy framework for addressing the challenges faced by SMEs.

SMEs do not always have access to government funding or credit finance due to the stringent requirements. There was a suggestion from the respondents, and in the documents analysed, that the government should provide funding without too many stringent requirements, such as collateral. The loans advanced to SMEs must be guaranteed by the government through the CGCZ.

Another obstacle to SME funding has been inadequate funding of the MSMECD and SMEDCO from the National Budget. The government should mobilise more resources through creating more partnerships with NGOs, private companies and other countries. Such partnerships could promote SME development through funding, training, and technology transfer. The government alone cannot adequately address the challenges confronting SMEs in Harare.

Closely related to the above is the establishment of an effective monitoring mechanism to ensure that the resources in the form of equipment, machinery, and credit finance advanced to SMEs are used for their intended purpose. Some SMEs misuse or misappropriate resources provided to them by the government (Bomani *et al.*, 2015). Such a misuse of resources stifles the growth of the SME sector. In addition, SMEs should augment government support by ensuring the proper management of their resources and their businesses to promote their own growth. The government makes an effort to promote the development of SMEs, but entrepreneurs sometimes do not make reciprocal efforts to support the government in its endeavours to develop the SME sector.

The government should establish an SME bank to provide credit finance and other related services specifically for the sector. Countries like Malaysia and Russia have established successful SME banks that have facilitated the development of their SME sectors (SMEBM, 2010; Russian Agency, 2012; EIB, 2013; SMEBM, 2013). SME banks in these countries provide training services and advisory services in addition to credit finance (EIB, 2013; SMEBM, 2014).

It has been appreciated that the government has provided land and shelter for SMEs. However, more entrepreneurs require land and shelter for their businesses. Every business

needs a workspace from which to operate. Provision of land and shelter to entrepreneurs enables SMEs to have a permanent place of location, and customers therefore know where to find them when in need of their products or services. As buildings are provided to SMEs, businesses should be clustered to facilitate technology transfer. This can also assist in providing facilities such as water and electricity, and ensuring the adequate dissemination of important information from the government.

SMEs' access to government support schemes has been limited by the lack of adequate information on where and how to get government assistance (Chipangura & Kaseke, 2012; Uromi, 2014). Therefore, the respondents and the documents analysed suggested that the government should disseminate critical information to SMEs regarding the government support programmes. SMEs need to have information about how to access government funding and how to tender for government contracts. When the government collects information about the local and international markets, the government should make that information available online and in printed form to the SMEs.

SMEs should be encouraged to participate in the local and international trade fairs, business expos, and exhibitions. The government should mobilise resources from the private sector, NGOs and other countries to fund SMEs' participation in these events.

The way in which resources are allocated from the National Budget to the MSMECD and SMEDCO shows that the MSMECD is not regarded as a critical sector of government. The government should change its attitude towards the Ministry. Currently the SME sector employs more than 80 % of the population (World Bank, 2013a; Musanzikwa, 2014) and contributes over 50 % of the GDP (Zindiye *et al.*, 2012). SEDCO (2010) notes that approximately 80 % of the country's economic activities are controlled by SMEs. Therefore, the SME sector constitutes the mainstay of the economy. Given such a situation, the sector needs to be accorded the attention that it deserves in the economic development of Zimbabwe, and should be allocated more resources.

The existing laws and regulations have stifled the growth of the sector. Such regulations include the long and expensive registration process (World Bank, 2014b), and the unsustainably high tax rates for SMEs (Chipangura & Kaseke, 2012). Therefore, it is imperative that the government revises such stringent regulations in order to promote the establishment and formalisation of SMEs. In the U.S. it takes six days or less to register a business, at a cost of US\$80 (WBG, 2015), while in Zimbabwe it takes 106 or more days, at a cost of US\$780 (WBG, 2014a). Such an environment in Zimbabwe stifles the growth of the SME sector.

Though the government has set up technology centres in some parts of the country and in the city of Harare, there was a suggestion that more technology centres should be established to encourage technology transfer. India has established many technology centres to promote the transfer of technology to manufacturing and technology-oriented SMEs (Kushalakshi & Raghurama, 2014). These technology centres facilitate SME access to equipment and machinery, and also provide consultancy, information, and technical skills development services for SMEs (Kushalakshi & Raghurama, 2014). Therefore, the establishment of more technology centres in Harare specifically, and Zimbabwe in general, would promote the transfer of technology to many more SMEs, leading to the development of the sector. The provision of consultancy services, information and skills, would reduce the risk of failure of the businesses.

Like South Africa, Zimbabwe should establish an SME development agency. South Africa has SEDA, which supports SMEs through business incubation, training, technology transfer, and advisory services (SEDA, 2012a; Stephen, 2012). The establishment of an SME development agency could promote the development of the sector, as services specifically for the sector would be provided.

Universities are an important component of the economic development of every nation. Therefore, they should continue to play a key role in the growth of the SME sector. Like UKZN, UCT, DUT, TUT, Wits Business School, and the University of Johannesburg in South Africa, universities in Zimbabwe should establish entrepreneurship centres to conduct research in entrepreneurship, teach entrepreneurship programmes to students and members of the surrounding community, develop user-friendly reading material, and involve themselves in new venture creation and growth (University of Cape Town, 2009; University of Pretoria, 2014).

Universities in Zimbabwe should partner with government agencies in the establishment of incubation centres in order to reduce the chances of business failure. South African universities have been instrumental in the development of South African SMMEs through business incubation (Dubihlela & Van Schaikwyk, 2014). The South African Chemical Technology Incubator (Chemin) established its Durban incubation centre on the UKZN Westville campus (DTI & SEDA, 2014a). A compact fluorescent light bulb (CFL) pilot plant is stationed at Howard College campus of the same university (DTI & SEDA, 2014a; UKZN, 2014). The centre manufactures CFL light bulbs through the use of patented technology (South Africa-Info, 2014). The incubated SMMEs on Westville campus have access to market information in the chemical industry and to clients. While in incubation, SMMEs use modern, high-quality laboratories with specialised analytical equipment (DTI & SEDA, 2014b). On

Westville campus, the SMMEs concentrate on the manufacture of chemical detergents, cosmetics, and health care products (South Africa-Info, 2014). Such facilities promote the development of the SMME sector in South Africa.

At the DUT incubation centre, the business support received by the incubatees is in the form of access to national and international business networks, assistance and guidance in business planning, support in formulating and submitting tenders and proposals, assistance in the management of financial records, and access to consultants and technical expertise (DUT & SEDA, 2011). If Zimbabwean universities had programmes like these, the SME landscape would change for the better.

Universities in Zimbabwe should also develop links with government agencies, ministries and industry associations to identify areas of co-operation in order to effectively promote the development of the SME sector. The universities should also include entrepreneurship courses or modules in all their diploma and degree programmes. This would ensure that university graduates are equipped with entrepreneurship skills that would assist them in the establishment of their own businesses or in supporting the development of existing SMEs.

Corruption has been cited as an obstacle to SME participation in public procurement and in the formalisation of business operations. The government needs to take a tough stance against corrupt government officials involved in the awarding of government tenders and in the registration of businesses in the office of the Registrar of Companies.

The government support programmes should emphasise all sectors of the economy, as they are all important in the economic development of Zimbabwe. Respondents from the MSMECD and SMEDCO indicated that the government support programmes focus mainly on the manufacturing, agricultural, and retail sectors of the economy. Other sectors of the economy are assisted, but little attention is given to them.

The uniqueness or originality of this study lies in its assessment of the success of the policies and strategies implemented to address the key challenges confronting the SME sector in Harare, Zimbabwe. Furthermore, the originality of this study also lies in the development of a policy and strategy framework for addressing the key challenges confronting the SME sector in Harare.

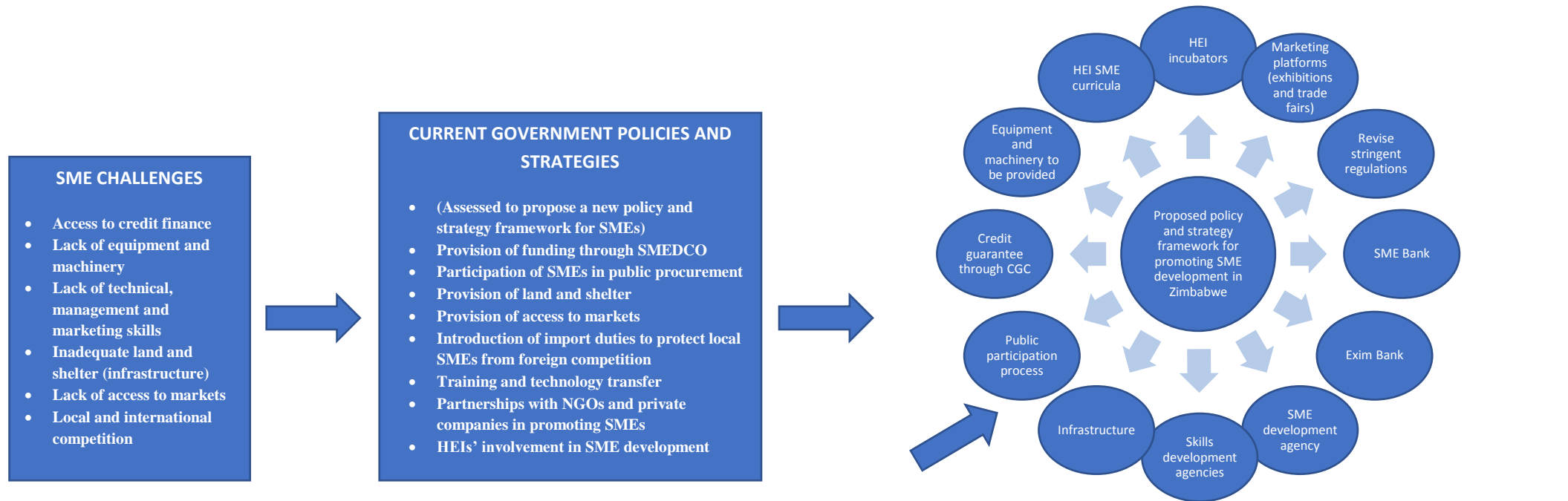
#### **7.4 THE PROPOSED POLICY AND STRATEGY FRAMEWORK FOR PROMOTING THE DEVELOPMENT OF SMEs IN HARARE, ZIMBABWE**

It is also critical for the government to mobilise more resources to effectively promote the growth of the SME sector. The mobilisation of resources could be conducted through more partnerships with NGOs, local companies, and other countries. SMEs should augment government efforts by contributing tax. However, their tax rate need not be too high and should be sustainable. Financial resources are required for training, information dissemination, technology transfer, the provision of buildings for SMEs, and the funding of SME participation in domestic and international business expos, trade fairs, and exhibitions. The operations of the MSMECD and SMEDCO have been hampered by inadequate funding from the National Budget.

Even though the government has provided buildings for SMEs, more need be constructed, as there is not yet sufficient shelter for all entrepreneurs. In every low and high-density suburb, the government should establish a large complex for accommodating SMEs. In the city centre, there should be a large complex as well, where SMEs could market their products. Such an arrangement would expose SMEs to the local market, and would lead to the growth of the sector. The construction of complexes for SMEs would facilitate the further clustering of SMEs, which creates an efficient context for the dissemination of information, the transfer of technology, and the administration of funding.

Governments worldwide have attempted to promote the growth of SMEs through participation in public procurement. SMEs could supply goods and services directly to the government or be subcontracted by large companies. As in the UK, U.S., Russia, India, Malaysia and South Africa, the GoZ may need to establish a website to enable SMEs to access detailed information about the government tendering processes and procedures. It is also important for the government to revise the current stringent tender requirements, such as capital requirements and high tender fees. The government may need to train SMEs in the processes and procedures followed in tendering for government contracts. As in India, the government could make tender documents available to SMEs free of charge in order to reduce their tendering costs. The rampant corruption in the awarding of tenders needs to be dealt with by the GoZ. Figure 77 presents the proposed policy and strategy framework for promoting SME development in Zimbabwe.

**FIGURE 77. THE PROPOSED POLICY AND STRATEGY FRAMEWORK FOR PROMOTING THE DEVELOPMENT OF SMES IN HARARE, ZIMBABWE**



**POLICIES AND STRATEGIES OF OTHER COUNTRIES (from which insights were drawn by the researcher in proposing a policy and strategy framework)**

USA	UK	RUSSIA	INDIA	MALAYSIA	SOUTH AFRICA
<ul style="list-style-type: none"> <li>• Credit guarantee</li> <li>• SMEs involved in public procurement</li> <li>• Tax relief for SMEs</li> <li>• Supportive government regulations</li> <li>• Support for exporting SMEs through trade missions, funding and exhibitions</li> <li>• EXIM bank</li> <li>• SBA – specialised agency for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Credit guarantee</li> <li>• Many SMEs have access to funding</li> <li>• Tax relief for SMEs</li> <li>• SMEs have access to government contracts</li> <li>• Business advice through Business Link</li> <li>• Supportive laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Supportive laws and public institutions</li> <li>• SME bank</li> <li>• EXIM bank</li> <li>• Supportive infrastructure</li> <li>• Promotion of access to markets</li> <li>• Russian Agency to support SMEs</li> <li>• Special tax for SMEs</li> <li>• SMEs in public procurement</li> <li>• Renting and acquiring property under favourable conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Technology transfer</li> <li>• Collateral-free loans guaranteed by government</li> <li>• Promotion of financial literacy among SMEs</li> <li>• Market development assistance scheme</li> <li>• SMEs involved in public procurement</li> <li>• Business incubation</li> <li>• Clustering of SMEs</li> <li>• Co-operation with other countries to promote SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• SME bank</li> <li>• Technology transfer</li> <li>• Credit guarantee</li> <li>• Training and development</li> <li>• HEIs involved in SME development</li> <li>• Business incubation</li> <li>• Promotion of access to markets through trade fairs, exhibitions and trade missions</li> <li>• Recognition award programme to motivate entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>• Credit guarantee scheme</li> <li>• Exhibitions</li> <li>• Export support scheme</li> <li>• Business incubation and technology transfer</li> <li>• Mentorship programme</li> <li>• Training and technical assistance</li> <li>• Infrastructure support</li> <li>• Linkages and partnerships</li> <li>• HEIs involved in SME development</li> <li>• SEDA – for business development services</li> <li>• Skills development</li> </ul>

In addition to the above, the government also needs to revisit the stringent laws and regulations that stifle the growth of the SME sector. The legal and regulatory frameworks in the U.S., UK and Russia are such that they promote the development of SMEs. The process of registering businesses is too long and discourages entrepreneurs from formalising their businesses. Furthermore, the process is too expensive, as entrepreneurs are required to pay US\$780 (World Bank, 2014b). Therefore, the process of formalising business operations needs to be reduced to six days or less, as is the case with the U.S. The amount paid by SMEs as registration fees need to be reduced to less than US\$40. Taxes for SMEs could also be reduced to enhance the growth of the sector, as high taxes increase business costs and hamper the development of SMEs.

HEIs are encouraged to establish incubation centres to reduce the risk of business failure. Like DUT, UKZN, UCT and Wits Business School in South Africa, Zimbabwean universities could establish incubation centres to enhance the growth of SMEs in the manufacturing sector where technology transfer is required. While the government, in partnership with The GoI, has established an incubation centre in Harare for SMEs in the manufacturing sector, more of these centres could be established to cater for other types of SMEs. These centres need to equip entrepreneurs with the relevant skills and knowledge they need, as well as expose businesses to the markets and suppliers. It is critical that every degree and diploma programme offered by Zimbabwean universities contains modules or courses in entrepreneurship and business management. The training programmes provided by the universities need to cater for all sectors of the economy.

It is also advisable for the government to establish skills development agencies that focus on imparting relevant entrepreneurial and technical skills to new and established entrepreneurs. Such skills are critical for the development of the SME sector. The Indian government has established many skills development agencies and centres for the purpose of facilitating technology transfer to SMEs. The government of Zimbabwe should draw lessons from India by establishing similar skills agencies.

## **7.5 CONCLUSION**

This chapter has presented a discussion on the major findings of the study in relation to the research questions and study objectives. The results revealed that SMEs have limited access to funding. In addition, land and shelter are still insufficient, even though most of the SMEs now have access to these facilities. Furthermore, SMEs have been using antiquated equipment

and machinery, which has compromised the quality of their products and services, leading to their reduced competitiveness in the market. The cost of equipment and machinery has been too high for SMEs. Closely related to this are the high import duties for inputs in SMEs. The amount of tax paid by SMEs is also too high and is unsustainable, as it leads to an increase in operational costs. Moreover, access to markets is a challenge due to inadequate information about the local and international markets, the high costs of advertising, and the fact that the government is not able to disseminate information about markets to the SMEs. There is strong competition in the markets from local and imported products and services. Furthermore, limited access to credit finance has been cited as a major obstacle by virtually all the respondents and the documents analysed. This could be due to the high costs of credit finance in the form of interest rates, to limited information about the funding procedures, and to the fact that the MSMECD and SMEDCO receive inadequate funding from the National Budget to effectively support SMEs financially. Most SMEs are not able to meet the stringent funding requirements, such as providing collateral, financial statements, and trade references. SMEs in Harare also lack the technical, general management, marketing and financial management skills necessary to operate their businesses effectively.

In response to these challenges the GoZ has implemented various policies and strategies. The government has provided funding through SMEDCO and commercial banks. The government has also endeavoured to formalise the SME sector in order to facilitate SMEs' access to funding and to other government support services. SMEs have been encouraged to participate in public procurement. Moreover, the government has provided land and buildings as shelter to SMEs. To support and develop the SME sector, the government has entered into a partnership with NGOs, private companies and other countries in order to facilitate the provision of funding, training, and technology transfer. Some training has been provided by the government through the MSMECD and SMEDCO. Furthermore, SMEs have been clustered in order to facilitate technology transfer, training, the provision of buildings with water and electricity, and the dissemination of information by the government. In addition, the government has designed policies and strategies to promote SME access to markets. Finally, HEIs have been involved in the provision of training, skilled graduates, technology, and research information to SMEs.

The government policies and strategies have been effective in terms of the provision of land and buildings as shelter to SMEs. Technology transfer through the Indo-Zimbabwe Project has been effective as it has improved the quality of SME products. In addition, the clustering of SMEs has been a success, as most of the SMEs in Harare have been clustered. Partnerships between the government and NGOs, private companies and other countries have been

effective in facilitating the provision of funding, training, and technology transfer. However, the government has failed to effectively address the financial obstacles faced by entrepreneurs, due to limited funding from the National Budget. SMEs struggle to meet the requirements for government funding, and the demand for funding far exceeds the available finance. The cost of credit finance is also too high for entrepreneurs. Government has also failed to promote SME access to markets, the participation of SMEs in public procurement, and the provision of training. The government has not yet acted on the current stringent legal and regulatory environment that stifles the development of SMEs. Government efforts to formalise SMEs have failed due to the long and expensive procedures for registering businesses.

Suggested or alternative policies and strategies have included the provision of more land and shelter for SMEs, and funding without stringent requirements. In addition, more clustering of SMEs should be planned, as some businesses are not yet part of a cluster. The government should revise the restrictive laws and regulations that hamper the development of SMEs. Moreover, more partnerships should be created, as they have proved to be effective in promoting SME growth in Harare. A bank for SMEs should be established to provide services specifically for the sector. More technology centres should be established in Harare to facilitate the transfer of technology to many SMEs. The current stringent requirements for tendering should be revised to facilitate SME participation in public procurement. The rampant corruption in the awarding of tenders also needs to be dealt with. Mobilisation of resources should be conducted to provide funding, machinery and equipment to SMEs, as well as to fund training programmes, market research, trade missions, and the participation of entrepreneurs in domestic and international trade fairs, business expos, and exhibitions. An SME development agency should be established to provide incubation services, assistance with the development of business plans, advisory services, and to organise exhibitions for entrepreneurs.

The following chapter presents the recommendations of this study and the conclusion based on the analysis of the qualitative and quantitative data. The limitations of this study, suggestions for further research, and the contribution of this study to existing knowledge are also addressed in this last chapter.

## **CHAPTER 8: RECOMMENDATIONS AND CONCLUSIONS**

### **8.1 INTRODUCTION**

The previous chapter presented a detailed discussion on the results of the study. These results were discussed in relation to the research questions and objectives of the study. The main objective of the study was to establish the effectiveness of the government policies and strategies in addressing the challenges faced by the SME sector in Harare, Zimbabwe. To this end a holistic view of the SME challenges in Harare, and the government policies and strategies that have been adopted to deal with the challenges, has been provided.

The purpose of this chapter is to present a summary of the findings, and recommendations and conclusions based on the research objectives. A summary of the major findings from the literature review, the quantitative and qualitative data analysis, and the document analysis is presented. The informed recommendations for future policy and for strategic planning and implementation designed to lead to the growth and development of SMEs in Harare, Zimbabwe are then discussed. The implications of the results for the GoZ are also presented, and the limitations of this study and the suggestions for further research are briefly discussed. The contribution of this study to current knowledge is also presented.

The conclusions of the study are based on the four research objectives as outlined below:

- To identify the challenges facing SMEs in Harare, Zimbabwe in terms of start-up and development.
- To identify existing government policies and strategies to deal with the challenges confronting SMEs.
- To determine the success of the government's SME policies and strategies in addressing the challenges confronting the SME sector in Harare, Zimbabwe; and
- To develop a policy and strategy framework for addressing the challenges confronting the SME sector in order to promote the development of the sector in Harare, Zimbabwe.

The overall conclusion of this chapter based on the results of the study indicates that all the research objectives were adequately addressed.

## **8.2 SUMMARY OF THE MAJOR FINDINGS FROM THE LITERATURE AND THE CONTRIBUTION OF THIS STUDY TO THE DEVELOPMENT OF SMEs IN HARARE**

The literature review (Chapter 2 and Chapter 3) and the theoretical framework (Chapter 4) of this study reveal that a great deal of research has been conducted on the challenges faced by SMEs, on government policies and strategies to address these challenges, and on the effectiveness of such policies and strategies. However, these studies have largely been conducted in other countries, which have their own unique socio-economic, cultural and political environments. This study has extended current knowledge by undertaking a specific comprehensive assessment of the Zimbabwean government's policies and strategies in addressing the challenges faced by SMEs in Harare. In addition, this study suggests a policy and strategy framework for effectively addressing the challenges faced by SMEs in Harare, Zimbabwe.

Studies conducted in the past two decades on government business support programmes in Zimbabwe have not conducted an adequate assessment of the government policies and strategies employed to address the challenges faced by SMEs. Furthermore, these studies have not developed a comprehensive policy and strategy framework for addressing the challenges of SMEs in Harare in particular. The current study provides a comprehensive assessment of the effectiveness of the government of Zimbabwe's policies and strategies in dealing with the obstacles faced by SMEs in Harare. The study has shown that the GoZ has implemented a plethora of policies and strategies, but on the whole has failed to adequately address the challenges confronting the SME sector in Harare. This study suggests specific policies and strategies for addressing challenges related to finance, marketing, skills, infrastructure, equipment and machinery, and the stringent legal and regulatory environment.

The contribution of this study, as mentioned previously, is its assessment of the effectiveness of the policies and strategies implemented to address the key challenges confronting the SME sector in Harare, Zimbabwe. The GoZ has been effective in providing land and buildings for SMEs and in transferring technology to SMEs through the Indo-Zimbabwe Project, which has resulted in the quality of SME products improving. However, the government has failed to provide adequate funding for SMEs, to effectively assist SMEs through involving them in public procurement, and to provide effective training for more than only a few SMEs. The GoZ's efforts to promote SMEs' access to markets have also proved to be ineffective, as have its efforts to formalise SMEs. These empirical outcomes advance knowledge in the field of management and entrepreneurship.

Furthermore, the study also advances knowledge on the policy and strategy framework for addressing the key challenges to SME development confronting entrepreneurs in Harare. Suggested policies and strategies include the establishment of an SME bank to provide funding and related services specifically intended for the sector. Funding advanced to SMEs should not have stringent requirements such as collateral. Loans should be guaranteed by the government. Resources such as equipment, machinery and credit finance advanced to SMEs should be monitored to ensure that they are used for the intended purpose. The GoZ should establish an SME agency to provide business incubation, advisory services, and assistance with developing business plans. Revising the stringent legal and regulatory framework is also necessary to enhance the growth of the SME sector. There is a need to encourage SMEs to attend local and international business expos, trade fairs and exhibitions, and for them to be provided with funding to do so. These types of events could also be organised at local municipal level to allow local SMEs to participate actively in the programmes. Local municipalities could organise 'SME business weeks' intended to promote SMEs by disseminating information, showcasing their products and services, and creating linkages with other entrepreneurs, suppliers and customers.

Universities may need to create centres of entrepreneurship to conduct research and provide critical information on entrepreneurship. Centres of entrepreneurship would provide development programmes for SMEs. Entrepreneurship courses or modules should be included in all diploma and degree programmes so that graduates have knowledge about entrepreneurship and SMEs. Such knowledge would assist graduates in creating their own businesses, and would equip them to become employers rather than employees.

Responses from the questionnaires and interviews on the challenges faced by SMEs, and the government's policies and strategies to address these challenges, were measured with factors revealed through statistical reliability (Cronbach's alpha) and validity. These factors included financial, marketing and management challenges, the tax import duty and other obstacles, and the government policies and strategies employed in addressing SME challenges. Therefore, a constructive and comprehensive explanation could be provided on the SME challenges and the effectiveness of the GoZ's responses to them. This explanation was used as the basis for developing the policy and strategy framework for addressing the challenges.

### **8.3 LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY**

The study was conducted in the form of a case study. Data collection was restricted to SMEs in Harare, the capital city of Zimbabwe. Therefore, the empirical evidence from the study cannot be generalised to small towns and rural areas in Zimbabwe, but may be generalised to cities like Bulawayo, Mutare and other cities that share a similar context and status with Harare. The empirical evidence of this study is limited to the challenges faced by SMEs in Harare, the government policies and strategies employed to address these challenges, the effectiveness of these policies and strategies, and the suggested or alternative policies and strategies to address SME obstacles. Targeted SMEs were registered businesses with specific business premises from which they trade in Harare. For more conclusive results, future studies could cover more towns and cities in Zimbabwe. Due to busy work schedules and time constraints, this study adopted a mixed-methods approach that involved concurrent triangulation, in which a cross-sectional approach to data collection was employed. Future researchers could employ a longitudinal study, which involves the collection of data over a long period (Saunders & Tosey, 2013), in studying the effectiveness of government policies and strategies in addressing the challenges confronting the SME sector in Zimbabwe.

The current study has offered explanations for the challenges facing SMEs, the government policies and strategies employed in addressing these challenges, the effectiveness of these policies and strategies, and the suggested policy and strategy framework. Studies in the future could focus on the key challenges facing the government in promoting the development of the SME sector, or on how SMEs themselves have also failed the government in not augmenting government's attempts to develop the sector. Such studies could provide a deeper understanding of the interaction between the SMEs and the government. Furthermore, future studies could focus on the effectiveness of private companies in supporting the development of the SME sector. The studies may provide a comprehensive understanding of the role of other players in the economy in developing SMEs in Zimbabwe.

### **8.4 CONCLUSIONS**

The research objectives of the current study were achieved through the analysis of qualitative and quantitative data. The importance of the results of this study is shown in the recommendations as follows.

### **Conclusion 1**

The first conclusion relates to the first research objective which focused on the challenges facing SMEs in Harare, Zimbabwe. SMEs in Harare face financial challenges which have limited the growth of the sector. In addition, SMEs have limited access to markets due to limited information about local and international markets. The cost of advertising SME products has been too high for entrepreneurs. Furthermore, entrepreneurs are faced with strong competition from large companies and international competitors. SMEs in Harare often use antiquated equipment and machinery, which compromises the quality of their products and leads to their decreased competitiveness in the market. Stringent government laws and regulations have stifled the development of the sector, and the tax and import duties for SMEs have been excessive. The process of registering a business is long and expensive for entrepreneurs. The study also revealed that SMEs in the capital city lack the technical, marketing, general management, and financial management skills essential for SME success. Finally, some SMEs struggle to find infrastructure and land from which they can operate their businesses. Even though the government has provided these facilities, they are inadequate, as some SMEs still need land and shelter.

### **Conclusion 2**

The second conclusion is linked to the second research objective which sought to identify the existing government policies and strategies employed to address the challenges faced by SMEs. To address the financial obstacles, the government has provided funding through SMEDCO and the commercial banks. The SME formalisation programme was introduced to further enhance SMEs' access to funding and other government support schemes. The government has been involved in international market research, in trade missions, and in facilitating SME participation in domestic and international business expos, trade fairs, and exhibitions to promote SME access to markets. Training and technology transfer have been facilitated to improve the technical, marketing, financial management, and general management skills of the entrepreneurs. In order to reduce competition in the domestic market, the government has introduced import duties. Having realised that the government could not effectively support the development of the SME sector alone, a partnership with NGOs, private companies, and other countries was created in order to facilitate the funding of SMEs, the transfer of technology and the training of entrepreneurs. The Indigenisation Policy, the Indigenisation and Economic Empowerment Act (2007), and the SME Act (2011) were some of the instruments employed to facilitate SME participation in public procurement. The move was adopted in order to expose SMEs to the market and to improve their cash flow.

Limited access to infrastructure and land was addressed by providing buildings and land. SMEs have been clustered to facilitate the provision of buildings with facilities such as electricity and water, land, technology transfer, training and funding. HEIs have been involved in the training of SMEs, in technology transfer, and in research on SMEs and business management. Technical expertise, marketing support and business advisory services have been provided to SMEs by the HEIs.

### **Conclusion 3**

The third conclusion links with the third study objective, which intended to assess the success of the policies and strategies employed by the GoZ in addressing the key challenges of the SME sector in Harare, Zimbabwe. The government has been successful in providing land and shelter, as many SMEs in Harare have access to these resources. Import duties have been successfully introduced to deal with competition from imported products. The GoZ's partnerships with NGOs, private companies, and other countries have been a success in terms of the transfer of technology to SMEs, and this has improved the quality of items such as furniture and metal products. HEIs have also been successful in the provision of training, in technology transfer, and in providing technical expertise and marketing support for SMEs. The clustering of SMEs has been successful, as most SMEs in Harare have been clustered.

However, the provision of funding to SMEs has not been successful, as very few SMEs have had access to funding due to strict collateral requirements, the high interest rates on loans, and the fact that entrepreneurs lack adequate information on procedures and processes. Too many SMEs require funding from the government, and therefore the demand for funding far exceeds the available financial resources. SMEDCO lacks adequate funding from the National Budget. In the past two and a half years, SMEDCO has not received any funding from the National Budget. The government has been unsuccessful in the provision of marketing and distribution support, and it has not been able to provide enough information on the local and international markets. The government has attempted to regulate prices to deal with poor pricing in the market but it has been unsuccessful. The empirical evidence from the study also shows that the GoZ has not been able to provide SMEs with exposure to international markets. The participation of SMEs in public procurement has been stifled by the stringent requirements for tendering. Entrepreneurs also often lack the capital, technical and managerial competencies to fulfil government contracts. Furthermore, corruption is rampant in the awarding of tenders. Facilitating SME access to markets has been unsuccessful, as the government has been unable to disseminate information about the local

and international markets. Very few SMEs have participated in the domestic and international business expos, trade fairs and exhibitions due to inadequate funding. The formalisation of SMEs has been difficult because of a lack of incentives for formalisation. The formalisation of SMEs is perceived to be an expensive and long process. The training of SMEs by the MSMECD and SMEDCO has been a failure, as many SMEs have not been able to be trained due to the lack of funding. Too many SMEs require training, and thus the demand for training far exceeds the capacity of the government institutions. Therefore, these institutions have not been able to adequately address the lack of technical, general management, marketing, and financial management skills. The empirical evidence from the study indicates that, on the whole, the government has been a failure in addressing the challenges facing the SME sector in Harare.

#### **Conclusion 4**

The fourth conclusion is related to the fourth research objective, which was to develop a policy and strategy framework for addressing the challenges confronting the SME sector in order to promote the development of the sector in Harare, Zimbabwe. The study has suggested alternative policies and strategies to further enhance the growth of the SME sector. The suggestions from the study were incorporated into the recommendations of the study.

The establishment of an SME bank to provide credit finance and related services specifically for the SME sector could be an appropriate step towards the development of SMEs. Funding for SMEs should not require stringent requirements. The government, through the CGCZ, needs to guarantee the loans. A further suggestion to the GoZ would be to advance loans, equipment and machinery to entrepreneurs who are serious businesspeople who have formalised their operations.

To enhance SMEs' access to state-of-the-art equipment and machinery, the government should import such equipment and machinery and provide it on credit to SMEs. Such credit should be guaranteed by the CGCZ. This is necessary because the competitiveness of SMEs' products and services has been compromised by the antiquated equipment and machinery they often use.

Closely related to the idea of an SME bank are financial institutions that support importing and exporting SMEs. Russia, the UK and the U.S. have export and import banks established for the purpose of funding importing and exporting SMEs. Importing and exporting SMEs in

Zimbabwe fail due to inadequate funding. Therefore, the Zimbabwean government could establish an export and import bank to fund SMEs involved in international trade.

There is a need for the government to establish an SME agency like SEDA in South Africa, which would provide services such as business incubation, business advisory services, and assistance with the development of business plans. Though these services have been provided by SMEDCO, it is advisable for the corporation to operate as a financing arm without providing too many other services. Specialisation of service provision creates excellence.

The government may need to revise the restrictive legal and regulatory framework in order to create a more conducive environment for SME growth. Unnecessary and onerous restrictions should be removed from the business registration process, from the requirements for funding, and from the requirements, processes and procedures for participating in public procurement. The government should provide more land and infrastructure for SMEs, as many SMEs are still in need of these assets for their business operations. To further enhance technology transfer, the respondents suggested that more technology centres, like the one at HIT, should be established. More partnerships with NGOs, private companies, and other countries need be created to further support SMEs. Such partnerships have proved to be effective in the past. The government, through its various agencies, needs to be actively involved in the dissemination of information about its support programmes for SMEs. SMEs should have adequate information about the processes and procedures involved in securing funding and participating in public procurement. To enhance SME access to markets, it is critical for the government to disseminate information to SMEs about the local and international markets.

It is important for the GoZ to mobilise much greater resources for funding SMEs to participate in local and international trade fairs and exhibitions, for training programmes, for the dissemination of information, for technology transfer, and for the establishment of infrastructure to support SME development. Furthermore, business incubation, advisory services and reading material for SMEs require funding. More SMEs require clustering to further facilitate funding, technology transfer, the dissemination of information, and the provision of infrastructure and services.

There is a need for the HEIs to continue playing an active role in promoting the development of SMEs. Establishing entrepreneurship centres for conducting research on entrepreneurship and SMEs, and for providing information on SMEs is an important step in further enhancing the growth of the sector. Furthermore, incubation centres need to be established at HEIs to facilitate technology transfer and training. In providing training, HEIs may be required to provide sector-specific programmes so that every sector in the economy is covered.

Furthermore, the universities may need to include entrepreneurship modules or courses in all diploma and degree programmes so that every graduate will have an understanding of SMEs and entrepreneurship. Researched information need be made available online as well in printed form to cater for SMEs who have limited access to the Internet. It is important that the HEIs establish and maintain links with the MSMECD, SMEDCO and the National Chamber of SMEs in order to identify areas of co-operation in promoting SME development.

## **8.5 RECOMMENDATIONS**

Based on the empirical evidence from the study the researcher makes the following recommendations to the GoZ for addressing the challenges facing SMEs in order to facilitate the development of the SME sector.

### **Recommendation 1**

The GoZ may need to be actively involved in the mobilisation of resources through partnerships with the private sector, NGOs, and other countries. The purpose of these partnerships would be to fund SME programmes such as training, technology transfer, market research, trade missions, and SME participation in local and international business expos, trade fairs, and exhibitions. Training is a challenge for the MSMECD and SMEDCO due to inadequate funding. The availability of increased financial resources would facilitate the proper training of SMEs. The MSMECD also requires increased financial resources to construct more business premises and to build infrastructure to enhance the growth of the SME sector. Very few SMEs currently participate in business expos, trade fairs and exhibitions because of limited financial resources. Therefore, the availability of resources would enable SMEs to participate and derive the benefits thereof. The MSMECD has also failed to disseminate critical information about its support programmes, the public procurement process, and procedures and information about the local and international markets due to the lack of adequate funding from the National Budget. It is the responsibility of government, through its agencies, to disseminate such information to SMEs. The clustering of SMEs would further facilitate the dissemination of information. One of the reasons for SMEs' failure to secure funding is the lack of enough information on how and where to access credit finance. Therefore, information dissemination should be funded through resource mobilisation.

## **Recommendation 2**

There is need for the GoZ to establish an SME bank that would provide credit finance and other related services that are tailor-made for the SME sector. The success of the SMEs in Malaysia and India is partly attributed to the establishment of SME banks and financial institutions specifically intended to promote the growth of the sector in those countries. In addition to funding, the bank should provide business advisory services and tailor-made training for financial literacy among SMEs. The bank would fund the purchase of equipment and machinery for SMEs, and credit finance advanced to SMEs should be provided without stringent requirements such as collateral security. Loans may be guaranteed by the government through the CGCZ. Formal businesses could be assisted; however, too much documentation, for example trade references, should be removed to facilitate SME access to funding. After providing credit finance and funding the purchase of equipment and machinery for SMEs, there is a need for the bank to set up an effective monitoring mechanism to ensure that the resources are used for their intended purpose. Such a move would reduce the misappropriation or misuse of resources, which stifles the development of the sector.

## **Recommendation 3**

There is an urgent need for the government to establish an SME agency that would operate in a similar way to SEDA in South Africa, by providing non-financial assistance to SMEs. Like SEDA, the SME agency in Zimbabwe would facilitate SME growth through business incubation, business advisory services, and assistance in the development of business plans for SMEs. Under the new agency, proper business incubation could be conducted in order to promote technology transfer, especially to manufacturing and technology-oriented SMEs. Mentoring, coaching, skills development, and the creation of linkages with other businesses, suppliers and customers are the main services provided by incubators. Incubated businesses would create employment for Zimbabweans. The incubating agency should assist SMEs in marketing their products and services at trade fairs, showrooms and through linking production with the needs of customers locally and internationally. Such a scenario would promote the growth of the SME sector in Harare.

## **Recommendation 4**

The growth and the formalisation of the SME sector have been hampered by the stringent legal and regulatory environment. Therefore, the government could revise the laws and

regulations in order to facilitate the development of the SME sector. SMEs should perceive incentives rather than costs in the formalisation of their business operations. The process of registering a business needs to be shortened to less than ten days. In the U.S. the entire process of registering a business takes less than six days because some of the processes and procedures are completed online. The same systems could be adopted by the Zimbabwean government. The cost of registering a business is also too high. An entrepreneur in Zimbabwe pays US\$780 to formalise business operations, but in the U.S. it costs only US\$80. Thus, the cost of formalising a business need to be revised downwards. It might also be necessary to reduce the tax paid by SMEs with the aim of encouraging the formalisation of SMEs. Relaxing the stringent requirements for tendering for government contracts is important for enhancing SME participation in public procurement. For example, the capital requirements are too high for SMEs. Restrictive requirements for securing funding from government need to be revisited to facilitate SME access to funding. The GoZ needs to reconsider its legal and regulatory framework if it is to promote the growth of the SME sector.

#### **Recommendation 5**

The provision of access to markets for SMEs is one of the key requirements for entrepreneurial growth. The government could facilitate access to local and international markets through conducting research and disseminating information about the markets to SMEs. More SMEs should participate in domestic and international trade fairs, business expos, and exhibitions. Such platforms would enable SMEs to create linkages with other entrepreneurs, suppliers, and customers. Entrepreneurs would have an opportunity to showcase their products and services. Such exhibitions should be extended to local municipalities so that every local entrepreneur is able to participate in such events. At municipality level, the government could conduct programmes like ‘SME Week’ where SMEs have an opportunity to showcase and advertise their products and services.

#### **Recommendation 6**

Higher education institutions (HEIs), which constitute part of the government’s overall strategy to promote the growth of SMEs, should establish incubation centres to facilitate technology transfer and training. In providing training, HEIs should provide sector-specific programmes so that every sector in the economy is covered. Furthermore, it is critical for HEIs to include entrepreneurship modules or courses in all diploma and degree programmes

so that every graduate leaves with an understanding of SMEs and entrepreneurship. Researched information should be made available online as well as in printed form to cater for SMEs who have limited access to the Internet. The establishment of entrepreneurship centres is important for promoting entrepreneurial education and research. It is important that the HEIs establish and maintain links with the MSMECD, SMEDCO and the National Chamber of SMEs for identifying areas of co-operation in promoting SME development.

## **8.6 OVERALL CONCLUSION**

The study has provided explanations leading to a greater understanding of the challenges confronting SMEs, of the government policies and strategies employed to address these challenges, and of the effectiveness of these policies and strategies. Furthermore, the study has provided a comprehensive policy and strategy framework for addressing the obstacles facing SMEs in Harare. This is the distinctive contribution of the study which will add value to the policy and strategy design and implementation in Zimbabwe, in particular, and in other developing economies in general. All the objectives of the study have been achieved through an analysis of the qualitative and quantitative data. The study has revealed that the SME sector is confronted with a plethora of challenges. The government policies and strategies, on the whole, have been ineffective in dealing with these challenges. The empirical evidence from the study has been used to develop a policy and strategy framework for addressing SME challenges in Harare, Zimbabwe.

The study has suggested that the GoZ should establish institutions such as an SME bank and SME agency to enhance the growth of the SME sector. The loans provided to SMEs must be guaranteed by the government. More land and shelter should be provided to SMEs. The number of technology centres should be increased to enhance training and technology transfer. The government should be actively involved in the mobilisation of resources to fund SMEs, training programmes, and SME participation in local and international business expos, trade fairs, and exhibitions. Stringent government laws and regulations hindering the growth of the SME sector should be revised to create a more favourable environment for SME growth. Information on government support programmes, markets and the public procurement procedures and processes should be properly disseminated to benefit the SME sector. More partnerships should be created to further promote the development of the SME sector. HEIs should continue to play a pivotal role in the development of SMEs. Incubation and entrepreneurship centres should be established in the HEIs to support the development of the SME sector.

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## Appendix A: Permission Letter from the Ministry of Small and Medium Enterprises (MSMECD) (Zimbabwe)

Correspondence should not be addressed to individuals

Telephone No's 731003/6  
252529  
250714

Fax No 731879  
Email. [info@smecd.gov.zw](mailto:info@smecd.gov.zw)  
Website. [www.smecd.gov.zw](http://www.smecd.gov.zw)



**Ministry of Small and Medium Enterprises  
and Cooperative Development**  
Linquenda House  
58 Nelson Mandela Avenue  
Private Bag 7740  
Causeway, Harare  
Zimbabwe

Reference:

03 July 2014



### TO WHOM IT MAY CONCERN

This letter serves to introduce Bomani Mapeto National Identity 70 -111883 S 70 studying for a PHD in Management Studies with the University of KwaZulu Natal South Africa student number 213568371

He is conducting a research on "**Government Strategies in dealing with challenges confronting small and medium enterprises in Zimbabwe**". The study is targeting Harare District

As a Ministry, we have looked at his documentation and are satisfied of his credentials. We believe the study will help in the provision of information in terms of policy formulation and in coming up with strategies to assist the small and medium enterprises in the country.

We are therefore calling upon all those approached to assist with information as he may require.

Thanking you for your cooperation and assistance.

T. Shoko (Mr.)   
**Acting Director – Research and Policy Development  
FOR SECRETARY FOR SMALL AND MEDIUM ENTERPRISES AND COOPERATIVE  
DEVELOPMENT**

## Appendix B: Questionnaire



School of Management, IT and Governance  
Pietermaritzburg Campus, Pietermaritzburg  
South Africa

### Informed Consent Document for Questionnaire Participants

I, Mapeto Bomani, am currently registered for studies leading to PhD Degree in Management Studies. One of the requirements to be met for the awarding of the degree is that I should undertake an approved research project leading to the submission of a thesis. The approved topic which I have chosen is: *Government strategies in dealing with challenges confronting Small and Medium Enterprises (SMEs) in Zimbabwe.*

Please note that this research is being conducted in my personal capacity. Should you need to contact me regarding any aspect of this research, you can do so either by e-mail on [mapetob@yahoo.com](mailto:mapetob@yahoo.com) or telephonically on +2778 140 7183.

My academic supervisors are: Dr P. Chitakunye and Dr. Z. Fields in the School of Management, IT and Governance, University of KwaZulu-Natal. Dr. Chitakunye can be contacted on [Chitakunye@ukzn.ac.za](mailto:Chitakunye@ukzn.ac.za) or telephonically on +27 33 260 5736, Pietermaritzburg Campus, Pietermaritzburg. Dr. Z. Fields can be contacted on [Fields@ukzn.ac.za](mailto:Fields@ukzn.ac.za) or telephonically on +27 31 260 8103, Westville Campus, Durban.

Information gathered in this study will include data retrieved from the questionnaire that I kindly request you to complete. Please note that only summary data will be included in the report and that your name will not be included. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study.

Your participation in the completing of the questionnaire is completely voluntary. You also have the right to withdraw at any time during the study.

I appreciate your time and effort to participate in this study. Your participation in this study is highly appreciated as it will assist in the completion of this research project.

#### **Please complete the section below:**

I..... (Full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Signature of participant.....

Date.....

## QUESTIONNAIRE: SME challenges and government strategies to address challenges

### SECTION A: Demographic Data

This section requires you to put an 'X' in the appropriate box.

1. Gender

<b>Male</b>	1
<b>Female</b>	2

2. Position in the Company

<b>Owner</b>	1
<b>Manager</b>	2

3. Educational Qualifications

<b>Grade 7 certificate</b>	<b>O' level/ A' level Certificate</b>	<b>National Diploma</b>	<b>Higher National Diploma/ Bachelor's Degree</b>	<b>Master's Degree</b>	<b>PhD</b>
1	2	3	4	5	6

4. Are your qualifications in line with the business that you are doing?

<b>Yes</b>	1
<b>No</b>	2

5. For how long have you been in this business sector?

<b>1-5 years</b>	<b>6-10 years</b>	<b>11-15 years</b>	<b>12 or more</b>
------------------	-------------------	--------------------	-------------------

			<b>years</b>
1	2	3	4

**SECTION B: Information about the business**

**This section requires you to put an 'X' in the appropriate box**

1. Business ownership

<b>Sole proprietorship</b>	1
<b>Partnership</b>	2
<b>Private Limited Company</b>	3

2. Business sector

<b>Primary</b>	1
<b>Secondary</b>	2
<b>Tertiary</b>	3

3. Business location

<b>City</b>	1
<b>High Density Suburbs</b>	2
<b>Low Density Suburbs</b>	3
<b>Light Industrial Area</b>	4

4. For how long has the business been operating?

<b>1-5 years</b>	<b>6-10 years</b>	<b>11 years or more</b>
1	2	3

5. Number of permanent employees

<b>6-20</b>	<b>21-50</b>	<b>51-100</b>
1	2	3

6. Level of skill of the employees

<b>Unskilled</b>	1
<b>Semi-skilled</b>	2
<b>Skilled</b>	3

### SECTION C: Challenges confronting SMEs

In this section you put an 'X' on the option that suits you according to the scale provided.

#### 1. Financial Challenges

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
The business has limited access to foreign currency	1	2	3	4
Government funding been inadequate though available	1	2	3	4
I had access to funding despite strict collateral requirements	1	2	3	4
I was aware that there was government funding	1	2	3	4
I needed funding and I did have enough information about how to access it	1	2	3	4
The high cost of machinery, equipment and other resources has negatively affected the business	1	2	3	4
I applied for funding and I got it	1	2	3	4

#### 2. Marketing Challenges

Statements	Strongly disagree	Disagree	Agree	Strongly agree
There has been low demand for the product	1	2	3	4
The company has been facing stiff competition from local producers	1	2	3	4
Imports have been posing a lot of competition and have flooded the market	1	2	3	4
The business has adequate information about the market	1	2	3	4
The pricing system in the market has been poor	1	2	3	4
The cost of advertising has been too high.	1	2	3	4

### 3. Tax and import duty challenges

Statements	Strongly disagree	Disagree	Agree	Strongly agree
The tax rate has been too high	1	2	3	4
Import duty is high and unsustainable	1	2	3	4

### 4. Administrative and management challenges

Statements	Strongly disagree	Disagree	Agree	Strongly agree
The company has suffered from the lack of technical skills in production	1	2	3	4
There has been lack of financial management skill among the staff and management	1	2	3	4
The lack of marketing skills has been a	1	2	3	4

<b>challenge to the business</b>				
<b>Management lacks experience and training</b>	1	2	3	4
<b>There has been an unreliable supply of inputs to the business</b>	1	2	3	4

#### 5. Other challenges

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>Poor roads, lack of business shelter, lack of land and other communication infrastructure have affected my business</b>	1	2	3	4
<b>The location of our business is poor such that it has negatively impacted on the business</b>	1	2	3	4
<b>The business lacks transport for its inputs and outputs</b>	1	2	3	4
<b>Burdensome government regulations have been a challenge for my business</b>	1	2	3	4

### SECTION D: Government strategies to deal with the challenges

#### 1. Government funding

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>Government funding has been adequate for my business</b>	1	2	3	4
<b>Government funding has been effective in my business</b>	1	2	3	4
<b>Government funding has been available</b>	1	2	3	4
<b>I was aware that there was</b>	1	2	3	4

<b>funding from government</b>				
<b>I did meet the requirements for funding</b>	1	2	3	4

## 2. Fiscal incentives

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>The business was given a tax holiday</b>	1	2	3	4
<b>The business received a tax rebate</b>	1	2	3	4
<b>There is a duty exemption on capital equipment and that has helped my business</b>	1	2	3	4
<b>Our businesses are being protected from foreign competition through tariffs on imports</b>	1	2	3	4

## 3. Marketing and distribution support

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>The government has provided adequate information about local market</b>	1	2	3	4
<b>The government has been able to provide enough information about the international market</b>	1	2	3	4
<b>The government has successfully regulated prices of goods in the market</b>	1	2	3	4
<b>The government has successfully created distribution networks to support SMEs exports</b>	1	2	3	4
<b>The government has given SMEs an exposure to the international market</b>	1	2	3	4
<b>The government has provided land for the SMEs</b>	1	2	3	4
<b>Buildings have been made available to the</b>	1	2	3	4

<b>SMES</b>				
<b>The provision of land has assisted SMEs</b>	1	2	3	4

#### 4. Training and Development

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>I attended the training organized by the government</b>	1	2	3	4
<b>The training did work in my business</b>	1	2	3	4
<b>I am aware that government assists with training and development</b>	1	2	3	4
<b>I was invited to attend the training sessions organized by government</b>	1	2	3	4
<b>I was invited and could afford the cost of training</b>	1	2	3	4

#### 5. Business incubation

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>The government assisted me in the starting up of the business</b>	1	2	3	4
<b>I was given expert advice</b>	1	2	3	4
<b>I was linked to other entrepreneurs so that I could learn from them</b>	1	2	3	4
<b>The business was given access to suppliers</b>	1	2	3	4

#### 6. Participation in the public procurement process (Tendering Process)

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>The government assisted my business through participation in the tender process</b>	1	2	3	4

I applied and got a tender	1	2	3	4
I have knowledge about the tender process	1	2	3	4
I could apply for a tender because my business meets the requirements	1	2	3	4

## SECTION E

This section has open-ended questions. Please answer the following questions. Your responses are completely anonymous, confidential and will not be seen by anyone. You can be completely honest in your responses.

1. In your opinion, why do you think it has been difficult for the SMEs to get funding?

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2. Were the government strategies helpful to your business?

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3. What do you think were the problems with government support for SMEs?

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4. What are your suggestions for effectively assisting SMEs in Zimbabwe?

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***Thank you so much for your participation***

## **Appendix C: Interview Guide for Officials from the MSMECD and SMEDCO Interview Guide**

### **Opening**

My name is Mapeto Bomani. I am a registered PhD student at the University of KwaZulu-Natal, South Africa. I am doing a research project leading to the awarding of a PhD in Management Studies. My research topic is "Government strategies in dealing with challenges confronting Small and Medium Enterprises in Zimbabwe." I would like to ask you some questions about challenges facing SMEs, strategies adopted by government to address the challenges, reasons for success or failure of these strategies and the way forward. Your answers will be treated with confidentiality. All responses will remain anonymous. May you allow me about 15-20 minutes of your time to ask you a few questions?

### **Section 1: Information about the respondent**

- What is your position in the organization?
- What are your duties and responsibilities?
- For how long have you been dealing with SMEs?

### **Section 2: Challenges confronting SMEs in Zimbabwe**

- Which challenges have been common among the SMEs in the primary, secondary and tertiary sectors of the economy?
- Which sectors have been affected most? Why?
- Amongst these challenges, which ones have had a major setback on SMEs? Why?

### **Section 3: Policies and Strategies**

- What are the existing policies and strategies to address the challenges bedeviling this sector?
- Which ones among these strategies have been successful and why?
- Which ones failed and why?
- Do you have any criteria for assisting SMEs? (e.g. qualifications, experience, collateral security, bankable business plans/ proposals)
- Have you been able to assist all the SMEs that needed assistance? Why?
- Do you think the SMEs have done enough to augment government support?
- Is there any mechanism in place to check if the resources/ support given to SMEs are put to good use (use in the business)?
- Which sectors did you concentrate on most? And why?
- Do you think all the SMEs are aware of the government support schemes?
- What challenges have you faced in trying to implement the strategies
- What have you done to deal with the challenges in implementation of government strategies?

### **Section 4: The way forward (Alternative strategies)**

- What policies and strategies do you suggest in order to deal with the challenges?
- Have there been any suggestions from the stakeholders/ SMEs? What are they?
- Is there anything else that would be helpful for me to know regarding government strategies on SMEs?

I appreciate the time you took for this interview. Your contributions will assist in the development of a conceptual framework that may assist SMEs in Zimbabwe.

## **Appendix E: Interview Guide for key informants from state universities (Harare) and for Key Informants in Higher Education Institutions (Universities)**

### **Opening**

My name is Mapeto Bomani. I am a registered PhD student at the University of KwaZulu-Natal, South Africa. I am doing a research project leading to the awarding of a PhD in Management Studies. My research topic is “Government strategies in dealing with challenges confronting Small and Medium Enterprises in Zimbabwe.” Higher education institutions are part of the government’s strategy to promote SME development in Zimbabwe. I would like to ask you some questions what your university is doing to promote SME development in Zimbabwe. Your answers will be treated with confidentiality. All responses will remain anonymous. May you allow me about 15-20 minutes of your time to ask you a few questions?

### **Section 1: Information about the respondent**

- What is your position in the organization?
- What are your duties and responsibilities?
- For how long have you been working for this university?

### **Section 2: Institution’s activities in promoting the development of SMEs in Zimbabwe**

- What activities has the institution been doing to promote SME development in Zimbabwe?
- Which of these activities have been effective? Why?
- Which ones have not been effective? Why?
- How have the SMEs responded to your initiatives? Why?
- What other initiatives do you as an institution intends to take in future in order to promote SME development in Zimbabwe?
- Have there been any suggestions from the stakeholders/ SMEs? What are they?
- Is there anything else that would be helpful for me to know regarding your strategies in promoting SMEs development in Zimbabwe?

I appreciate the time you took for this interview. Your contributions will assist in the development of a conceptual framework that may assist SMEs in Zimbabwe.

**Thank you**

## Appendix F: Ethical Clearance



11 September 2015

**Mr Mapeto Bomani (213568371)**  
School of Management, IT & Governance  
Pietermaritzburg Campus

Dear Mr Bomani,

**Protocol reference number: HSS/1114/013D**

**New project title:** Government policies and strategies in dealing with challenges confronting small and medium enterprises: A case of Harare, Zimbabwe

### Approval Notification – Amendment Application

This letter serves to notify you that your application and request for an amendment received on 01 September 2015 has now been approved as follows:

- Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid until October 2016. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully

.....  
**Professor Urmilla Bob (University Dean of Research)**  
On behalf of Dr Shenuka Singh (Chair)

/ms

cc Supervisor: Dr Z Fields  
cc Academic Leader Research: Professor Brian McArthur  
cc School Administrator: Ms Debbie Cunynghame

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Humanities & Social Sciences Research Ethics Committee

Dr Shenuka Singh (Chair)






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