

**THE IMPACT OF GOVERNMENT SUPPORT SCHEMES
ON SMALL TO MEDIUM ENTERPRISES (SMES) GROWTH
AND SURVIVAL IN THE MIDLANDS PROVINCE OF
ZIMBABWE**

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Abstract

This paper evaluates the impact of government support schemes towards SMEs growth, making references to the Midlands Province, one of the ten (10) provinces of Zimbabwe. This research has been carried out against the background of sluggish growth rate among the majority of the SMEs inspite of various government support schemes. The research results are based on the data collected by way of questionnaires and some secondary data. Convenience sampling was used on flea markets, manufacturing and mining sectors. The findings indicate that benefits for SMEs were rather fairly encouraging though below expectation. Most benefits come through loans, training and operating premises. The major benefits are in the form of increased employment opportunities. SMEs encourage self reliance among job seekers. Government's non-intervention in the pricing of goods currently has motivated SMEs entrepreneurs to bring more foreign goods which are not easily accessible in the country. Numerous challenges still exist which include collateral security, equipment, workspace, markets and untimely disbursement of support schemes. Given the right environment SMEs would be productive. The government could ease the plight of SMEs if it observes the following; follow up on projects initiated, increased skills training, uplifting the image of the relevant ministry, encourage export trade, encourage marketing or products and services and provide incentives to encourage competition. The government should address the issues of corruption, transparency, accountability,

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mismanagement and organizational politics. The nation stands to benefit if the private sector gets involved in resourcing materially and technically to meet the needs of SMEs which are under-capitalised.

Key words – *SMEs, Government support schemes, employment opportunities ,entrepreneurs, collateral security.*

1. Introduction

The Government's drive to black economic empowerment is based on the realisation that small to medium enterprises (SMEs) are recognized worldwide as engines for economic growth and potentially the future giants for both local and international markets (RBZ, 2007). In 2002, the Government launched the small, micro and medium Enterprises Policy and strategy framework. The ministry of SMEs was mandated in the same year to be the nerve centre for sustainable economic growth through the development of SMEs. The growth for SMEs is crucial for poverty alleviation, employment creation, development of rural areas, improving the situation of women, youth and other disadvantaged groups (Ibid : 2007). With the given mindset, various support schemes were put in place by the government to foster the growth and survival of SMEs.

Key words – *black economic empowerment, poverty alleviation.*

2. Background

At independence, Zimbabwe inherited on unbalanced economy, namely the urban industrial economy and the undeveloped rural economy where 80% of the population lived. With such a dilemma, the ministry of SMEs was established to create and maintain an enabling environment that promotes vibrant micro, small and medium enterprises and cooperatives. The ministry hosts one parastatal, the Small Enterprise Development Corporation (SEDCO) responsible for providing loans, infrastructure development and capacity building. The parastatal covers ten provinces with 73 districts. The funding is centrally controlled by the ministry of Small to Medium Enterprise Development. The ministry's budget for 2010 – 2011 stands at \$6 million

(Ministry of Finance 2010). This vote allocation for the ministry is far below expectation realizing the mammoth task the ministry has to achieve. Minister Sithembiso Nyoni said, “we can not continue to say that SMEs are the engine for growth without giving statistics on their contribution to the growth of the economy”. The minister argued that the government was committed to pioneering development in marginalised areas to ensure that people enjoy total independence. (Ministry of Small to medium Enterprise Development 2010)

The minister reiterated that total freedom is manifested in economic empowerment of indigenous citizens regardless of tribe or colour. In 2006 the International Labour Organisation (ILO) and Zimbabwe Economic Policy Research funded US\$2 000 towards launching a research study on SMEs statistics country wide and challenges faced. Minister Nyoni said “it will also reveal explicitly the challenges faced by this sector for purposes of crafting policies that address the specific challenges of SMEs”. (Chappell 2006). However up to date, the ministry still can not account for registered SMEs hence the researcher relies on extrapolation.

Generally, SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions which include cumbersome official procedures, poor infrastructures, dubious legal systems, inadequate financial systems and unattractive tax regimes. (Jones 2004). Minister Nyoni at the Shanghai World expo in October 2010, Lamented that cooperation between Zimbabwe and Chinese SMEs was very small and called for increased collaboration in the future.

There is a myriad of micro-enterprises and SMEs support programmes. The Ministry of Industry and International Trade in collaboration with the Ministry of Small to Medium Enterprises Development (MSMED) are advocating for better coordination of small firms policies within government, rationalisation and improved delivery of support and improved access to technology that support SMEs sector. In 2010, the Ministry of Mines and energy through its Rural Electrification Programme (REP) set aside a Rural Institutions Electrification Revolving Fund (RIERF) to assist SMEs in the Rural Growth Points where energy was accessible. After all these endeavours, to assist SMEs growth, not much has been realised.

The SMEs sector has become of such economic and social significance internationally that the development can no longer be left to chance. In support of this assertion SMEs are recognized world over as engines for economic growth and are potentially the future giants for both local and international markets (RBZ 2007). Realising the importance of the sector, many governments world over including Zimbabwe established various support scheme towards SMEs. The key programmes for Zimbabwe are; Small Enterprise Development Corporation (SEDCO) Act (Chapter 24:12) responsible for providing loans, infrastructure development and capacity building to SMEs. Within the 2010 – 2011 budget allocation SEDCO expects to use US\$5 million towards its operations. (Ministry of Finance 2010). Export promotion exercise through Zim Trade whereby the Ministry of Small to Medium Enterprises exhibit and market their products to local, regional and international markets. Influenced by the ‘Look East Policy’, Zimbabwe SMEs took part at the Shanghai World Expo October 2010 adopting the theme “transforming out communities for a better life”. Collaboration with multiple literal regional organizations such as SADC and COMESA resulting in the introduction of the Simplified Trade Regime between Zimbabwe and Zambia (MSME Policy and strategy framework 2010).

Zimbabwe Entrepreneurial Development Association (2008) carried a survey in the Midlands Province of Zimbabwe and collected the following statistics:

Table 1 Types of registered SMEs in the Midlands

Province	Types of SMES			
	District	Mining	Flea Market	Manufacturing
Gweru	100	1842	600	2542
Gokwe South	10	150	400	560
Gokwe North	5	300	200	505
Mvuma	230	350	100	680
Shurugwi	58	150	60	268
Kwekwe	200	500	200	900
Zvishavane	120	160	140	420
Mberengwa	15	100	10	125
Total	738	3552	1710	6000

Source: ZEDA (2008)

Basing on extrapolation, the study indicates that the country is likely to be a flea market economy rather than manufacturing economy. Activities are mainly buying and selling which cannot return the country to the normal production capacity.

The use of multiple-currencies in Zimbabwe seems to have brought sanity to the economy that had been negatively affected by hyper inflation and black market. However the effects of inflation are still evident and thus many people do not have much disposable income. Most SMEs are operating as informal traders since they do not have the cash to involve themselves into serious entrepreneurship. Collateral security and equipment is beyond reach. Another contributor to poor business environment is the issue of “sanctions” and bad country image that has seen investors shunning the country thus directly affecting business activities generally.

Over a decade, the government has put in place various support schemes towards SMEs growth. Despite all these efforts, most SMEs seem not to be growing at all. Some are folding and others have remained stagnant. Unemployment is at its worst and the economy is shattered. The study therefore seeks to ascertain whether the government misplaced its support towards SMEs or the beneficiaries are responsible.

The paper presents literature review that covers; definitions of SMEs, importance of SMEs, inhibitors to SMEs growth and survival, methodology, results, conclusions and recommendations.

Key words – *SEDCO, Ministry of Small to Medium Enterprise Development, Extrapolation, unemployment.*

3. Literature Review

3.1 Definitions of SMEs

There is no universally accepted definition of SMEs. The points of agreement are that of the independence of the entrepreneur, financial opportunities, innovativeness, creativity, community

service and job security. SMEs definition vary from country to country depending on the level of economic development. Internationally, SMEs are defined according to the following parameters; legal status, level of capital invested, rate of turnover, level of employment and economic sector.(MSME Policy and Strategy Framework 2010). In Zimbabwe, an SME is a legal business entity defined by the following variables; autonomy, number of permanent workers, registration/licensing, capitalisation excluding fixed assets, turnover and economic sector. For example, for manufacturing, employs up to 100 people with an asset base of US\$ 2 million in 2010. The same trends seem to cover agriculture, mining and quarrying, construction, retail, Tourism and Fisheries (SME Policy and Strategy Framework, 2010).

Australian Bureau of statistics (ABS) applies difference categories for small businesses depending on industry sector. For example, an SME is defined by ABS as fewer than 100 people or employees in the manufacturing sector, fewer than 20 employees in retail, wholesale, construction and service (Jones 2004)

Multilateral institutions such as the World Bank define an SME as all businesses with less than 250 employees in the formal and informal sector. (CFED, 2007). American Committee for Economic Development (ACED 2001) quoted by Longenecker (2002) defines an SME as characterised by at least two of the following key features; management is independent, capital supplied and ownership held by an individual/small group, area of operation mainly local and business small when compared to the biggest units in its field.

Key words – *SMEs definition, Innovativeness, autonomy.*

3.2 Importance of SMEs

Many researchers such as Longenecker and Broom (2000), Hodgetts and Kuratko (2001), Breebaart (1998) and Stokes (1997) agree that the importance of SMEs hinge on innovativeness, new product development, flexibility, competition, job creation, creativity and independence. SMEs are seen as playing an important role in the innovation of new products and processes. Empirical literature has indicated that the increase in employment in Small to Medium Enterprises has been a common feature of the economies of many industrialized countries in the 1980s

particularly France, Germany, Italy, Japan, UK and USA (Stokes:1997). SMEs provide around 50% of productive employment in developed countries, (UK:45%, EU:66%, Japan 72%, Australia 70%.) (Stokes 1997). Japanese SMEs are actively cultivated by the “Keiretsu” who maintain a strategy of contracting out. Experiences of other countries show that SMEs are a major force in economic growth hence need funding. The SIDBI of India set up in 1990 as the principal financing institution for promoting, financing and development of SMEs. SMEs in India account for 40% share in industrial output and producing over 8 000 different types of value added products, Indian SMEs sector is the second largest employer after agriculture providing employment to 28 million people (RBZ 2007). Malaysia established the national SMEs development council to spearhead enterprise development. For example, SMEs account for 80% of all goods sold within the economy (Ibid 2007). Japan established a Small Business Innovative Research System (SBIR) for SMEs support.

In China, SMEs account for 68% of Chinese exports and a major contributor to Chinese economic growth (Hall; 2007) The key success story to SMEs growth is the huge Chinese diaspora well-educated and highly entrepreneurs who have invested in successful businesses back home. For South Africa, statistics show that SMEs in 2005 absorbed nearly 57% of the people employed in the private sector and contributed 42% of formal total Gross Domestic Product. South Africa boasts of between one million to three million SMEs. The Small Business Project (SBP) aimed at fostering partnerships between large companies and small firms. The greatest achievements of the SBP has been its ability to leverage funding from private sector through donor funding at a ratio 3:1 (private sector: donor funding) and its ability to bring together the collective support of corporate for small business development (Motsa 2000).

Switzerland has one of the most flourishing SMEs supported by a small Government and lowest taxes in all of Europe. In terms of Gross Domestic Product contribution, SMEs account for an average of 51% in high income countries, 39% in medium income countries and 16% in low income countries. (LEDIS:2005). This compares well with the COMESA region where informal cross border trade accounts for 30% of total trade within the region.

In Australia, nearly 70% of exporting firms and over 60% of importing firms are SMEs. Studies have shown that SMEs have embraced E-commerce to strengthen their competitive position. In the case of SMEs engaging in export activities, the internet is supposed to be useful in reaching out to international markets (Hornby et al 2002).

In the Zimbabwean context, SMEs are a major player in the economy contributing an estimated 60% of GDP and 50% of total employment. Recently SMEs have gained greater prominence through its absorption of retrenches and as a source of sustainable Livelihoods. Furthermore, SMEs in Zimbabwe are valued among others; transitioning an agricultural dependent economy to an industrial and export oriented economy, community development and poverty reduction, addressing local and regional imbalances and wide economic base and creation of wealth etc. (MSME Policy 2010).

Breebaart, Klerk, Old and Vandermerwe (1998) acknowledge that an SME is normally the natural habitat of entrepreneurs. The SME provides the ideal environment for entrepreneurs to test their talents, hence SMEs are regarded as necessary for entrepreneurship growth, job creation and social progress.

According to Longenecker et al (2000) smallness of SMEs give them a number of competitive strengths when skillfully exploited. These strengths enable them to “carry the attack” to large firms. Such strengths include, automatic availability of information, close acquaintance with customers and markets product and geographic specialization and flexibility in management (Broom et al, 2000). Schumacher (1973) in his slogan “small is beautiful” cited by Stokes (1997) argued for small scale enterprise as a solution for many of today’s problems. As conditions change, SMEs are in a much better position to make decisions quickly. Their smallness also protects them from legal proceedings (since they have few assets to source on bankruptcy) so they can be more flexible in uncertain business conditions.

SMEs provide unique benefits for entrepreneurs. For example, freedom of opportunity, innovation, risk taking, job creation, economic competition, flexibility and independence. The presence of many SMEs tend to stimulate progress by providing centres of initiative and sources

of innovation. Opportunities for creativity, self expression, self-respect and self reliance are strengthened. (Longenecker et al, 2000).

Key words – *Keiretsu, economic growth, poverty reduction.*

3.3 Inhibitors to SMEs growth and survival

All businesses, be it big or small need to adapt to changing environments and changing customer needs hence marketing facilitates this process. Among inhibitors to SMEs growth and survival are; lack of marketing strategies, severe resource constraints, customer orientation, product strategy, shortage of ability of international management and human capital, communication strategy and marketing planning.(Hogarth-Scott 1996). Due to severe resource constraints marketing may seem an unnecessary luxury. Customer orientation is key to the survival and growth of SMEs. Feather et al, (1994) said that business were in this state because of product orientation rather than customer orientation.

Key words – *Customer orientation, marketing strategies*

4. Methodology

A descriptive design was used resulting in the collection of all relevant data on the impact of government support on SMEs growth thus avoiding irrelevant and unnecessary data. Questionnaires and interview were used as research tools to get the necessary information. Data from questionnaires was analysed according to the various themes emerging from the findings of the study. Tables, bars, pie chats were used to analyse data as it offered greater flexibility in data analysis.

5. Results

The use of multiple-currencies in Zimbabwe has brought light at the end of the tunnel. However, disposable incomes are very minimal such that refocusing SMEs towards making them more productive is a mammoth task. The results from the research indicate that service industry seems to be more popular among the SMEs irregardless gender. The localised position of SMEs show

that SMEs are far away from being exporters, a recipe for foreign currency generation and economic stability. The major benefits observed from SMEs was employment creation capacity. SMEs also encourage self reliance among job seekers. It has been observed that some retail sector are enjoying brisk business as a result of increased sales volume, government non intervention in the pricing of goods has motivated SMEs entrepreneurs to bring foreign goods not easily available in Zimbabwe. Government policies such as indigenisation and the 'Look East Policy' have all helped in empowering SMEs. However, results indicate that some SMEs have become survivalist entrepreneurs or informal sector persons forced through circumstances into self employment and retrenchment.

Key words – service delivery, employment creation, indigenisation

6. Conclusions and Recommendations

The Zimbabwean SMEs are operating in a unique, unfamiliar environment that can not be compared to any other country globally. To assert the Zimbabwean scenario empirical studies tend to indicate some common similarities in the challenging facing SMEs. Broom et al (2000) bemoan lack of management skills and depth, lack of skills training, record keeping, lack of marketing and follow ups, accounting and finance and entrepreneurial skills. The Government should come up with strategies to ease the challenges affecting the SMEs operations. Registration formalities should be relaxed so that those without collateral security can register if potential is seen. Existing and prospective SMEs should be exposed to skills training, management and record keeping to enhance efficiency and proficiency. Monitoring and follow-ups should be conducted to see how SMEs are operating and functioning. It is disheartening to note that the ministry can not account for how many SMEs are in Zimbabwe.

Poor corporate Governance and lack of best business practices can not be left alone. This practice must be nabbed so that accountability and transparency prevails in all sectors of the economy. If sanity prevails, Zimbabwe gains the confidence of foreign investors, employment generated, partnership and networking promoted.

Since awareness is very minimal, the Ministry of Small to Medium Enterprise should design mechanism to make SMEs aware that Government is interested in their survival. The support schemes should be exposed so that SMEs can make choices on schemes applicable to their businesses. Disbursement of loans should be decentralized further to reach far remote areas.

SMEs tend to benefit if private sector gets involved in resourcing under capitalised SMEs. It is suggested that co-operation, networking, collaboration, merging and franchising with private sector be encouraged to help overcome some of the resource disadvantages. The idea of networked innovation is becoming increasingly popular.

SMEs need to embrace new technology such as the use of e-commerce, e-business, e-retail, internet and mobile phones etc. Technology is useful in reaching out to local and international markets. Research suggests that the internet is the only cost effective way in which many SMEs can engage in trade across borders.

The culture of entrepreneurship be inculcated among the various SMEs without segregation. The culture of innovativeness, creativity, new product development, employment creation, self-reliance, independence and wealth creation need to be supported fully by the government through relevant ministries.

Key words – *entrepreneurship, collateral security, decentralisation*

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